

# ReVista

HARVARD REVIEW OF LATIN AMERICA • FALL 2006

## Social Enterprise

*Making a Difference*

## EDITOR'S LETTER

The red and orange leaves of autumn drift past my window. It's hard to believe that more than two months have gone by since I returned to *ReVista* from a year's sabbatical on a Fulbright Fellowship in Colombia.

The view out my window in my downtown Bogotá apartment was quite a different one. Heavy clouds of early morning mist floated past my window, obscuring my view of the Andes mountains. By midday, the mountains glowed verdant green. The shimmering sunlit intensity of the blue sky reminded me of the technicolor of films from my childhood, turning my view into a picture postcard.

I had lived in my apartment a couple of months before I noticed the poor barrio snuggled next to some high-rise white towers just to the right of the mountains. The neighborhood obviously had been there all along, an integral part of my lush green panorama. I just had never noticed the ramshackle red-brick houses with tin roofs on the mountainside. The barrio, I learned, was called La Paz—peace.

I thought of the quiet irony of looking at poverty and not noticing it. I had lived in Colombia for nearly ten years in the 1970s and 80s as a foreign correspondent. I reported extensively on poor neighborhoods and the variety of ways people were struggling to help overcome poverty, ranging from job skills training, rights-based efforts around poverty and development, agricultural reform, education campaigns, cooperative movements, political conscience-raising, artistic workshops and even revolutionary organizing.

When Roberto Gutiérrez and Diana Trujillo of Bogotá's Universidad de los Andes (see p. 13) invited me to the Usme neighborhood to look at a social enterprise project, I welcomed the opportunity. I was interested in whether businesses can turn market-based initiatives in poor communities to achieve meaningful progress in the struggle against poverty. Already, the idea of a *ReVista* on the theme was in the making.

At Ana Delia Ibarra's day care center, we were greeted with smiles and enthusiasm. A cook was preparing a hot daily lunch, and the children gleefully posed for photos and treated us to welcoming songs. The day care center had been saved from being shut down by the Colcerámica project that allowed Ibarra to meet hygiene standards for the bathroom and kitchen.

As I watched the children, I wondered if this business-based solution was an answer to poverty. What was the role of the government? What was the role of NGOs? Even if this type of poverty alleviation worked in individual projects, could it work on a large scale?

With the invaluable collaboration of Patricia Márquez, who coordinates Harvard Business School's Social Enterprise Knowledge Network research project "Constructing Socially Inclusive Markets in Iberoamerica" (2005-2008), we decided that the goal for this *ReVista* was not only to describe the eight lively projects you will read about in these pages, but to examine in a deep and thoughtful way the assets, challenges and limitations of social enterprise.

As we returned from the Usme project, Diana Trujillo mentioned how she sent her business students out to do fieldwork in local impoverished neighborhoods and how the experience changed their perspective.

On returning to my Bogotá apartment, I glanced up through my window at the distant barrio of La Paz, realizing that projects like that of Colcerámica make poverty visible to those who simply overlooked it. As James E. Austin and Michael Chu indicate in their introduction, "The need for new thinking regarding poverty is as urgent as ever."

As I return to the world of Cambridge, to the world of books and *ReVistas*, and seminars. I can only hope that this issue, dear readers, causes you to reflect and debate. Please remember our Reader Forum is open to your ideas. Write me at <jerlick@fas.harvard.edu>.



# ReVista

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**DRCLAS:** Merilee S. Grindle, *Director*

**EDITORIAL STAFF:** June Carolyn Erlick, *Editor-in-Chief* • Anita Safran, Maria Regan, *Publications Team*  
Frankie Chen, *Chief Editorial Assistant* • Kelly McMurray/2communiqué, *Design* • P & R Publications, *Printer*  
1730 Cambridge Street Cambridge, MA 02138 *Telephone:* (617) 495-3366 *Fax:* (617) 496-2802

**TO SUBSCRIBE:** *Email:* <drpub@fas.harvard.edu> *Website:* <<http://drelas.fas.harvard.edu>>

**READER FORUM:** <jerlick@fas.harvard.edu>

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On the cover: Reaching for Hope

PHOTOGRAPH: FLOR RUIZ/DPM  
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# Business And Low-Income Sectors

## *Finding A New Weapon To Attack Poverty*

BY JAMES E. AUSTIN AND MICHAEL CHU

Poverty has remained an intractable challenge to the world, despite record amounts of time and treasure devoted to its eradication since the end of World War II. Great institutions representing groundbreaking collaborations between the public sectors of the world, the governments of developed and developing nations, the vast resources of private philanthropy and the ingenuity and dedication of civil society organizations have all focused on the problem. These efforts have unfolded in every continent and culture, under democracies and dictatorships, command economies and open markets. Yet poverty endures. And where massive national economic growth sustained for long periods has led to dramatic improvements in overall standards of living, such as in China in the last quarter century or more recently in India, poverty remains the fault line threatening the future. The need for new thinking regarding poverty is as urgent as ever.

### LOOKING AT BUSINESS

In the search for effective solutions, attention has gradually turned to business, which even its detractors characterize by its ability to get things done. In recent years, analysts have started to view the intersection of business and the poor as a new venue to create economic value: a segment of underserved economic opportunities. But from society's perspective, the more important question is whether there is an unrealized potential for business to be a driving force in crafting solutions to society's enduring problems – the creation of social value. Possibilities abound. Can significant market inclusion and income enhancement be achieved by connecting poor farmers to global consumers? Can health and education, still so lacking among poor populations, be effectively delivered through market-based mechanisms? Is transforming illegal consumers of electricity into paying customers a path for social development? Is giving credit cards to the poor an effective way to generate citizenship? Can quality of life be enhanced by management innovations that make goods more affordable and accessible to low-income

consumers? Can productivity and earnings of low-income producers be increased in a sustainable fashion through new access to financial resources and training?

Why this is critical lies in the very essence of the problem. An effective response to global poverty must meet three fundamental characteristics:

■ **Scale:** The world has three billion people that must subsist on two dollars or less a day. Addressing the core of the problem requires the essential ability to ultimately scale an intervention to affect not thousands but millions of people.

■ **Permanence:** Given the intractability of the problem, no intervention is likely to lift families out of poverty in one generation. Success demands initiatives that can be deployed across generations. Accordingly, enduring solutions cannot depend ultimately on resources determined by the finite attention spans of human beings, even when armed with the best of intentions and occupying the most eminent positions in governments, mul-

tilateral development agencies or nonprofit organizations. The vagaries and pressures of bureaucratic or political processes impede permanence. Politicians and political agendas tend to come and go, but the industries created by businesses endure.

bility and dynamics threaten continuity. Empirically, industries and markets have demonstrated an ability to operate massively, permanently and efficiently. When an activity's returns are proven to be equal to or greater than those with similar risk profiles, economic rationale dictates the emergence of players that will seek to provide it to the last potential client. We see this every day. However, markets and market reforms have also not succeeded in eliminating poverty or the growing gap between rich and poor. So the key question is whether businesses can find new approaches to use the demonstrated capabilities of market-based initiatives to engage with the low-income sector in ways that can achieve significant progress in the struggle against poverty.

For the businessperson, the issue may be whether, as the title of C.K. Prahalad's milestone book put it, there is a "fortune at the bottom of the pyramid." But for the social actor, increasingly the question may be whether, in the fight against poverty, the market is a path that has been overlooked. And if business serving low-income populations

*The intersection of business and the poor is a new venue to create economic value. The need for new thinking regarding poverty is as urgent as ever.*

tilateral development agencies or nonprofit organizations. The vagaries and pressures of bureaucratic or political processes impede permanence. Politicians and political agendas tend to come and go, but the industries created by businesses endure.

■ **Efficiency and efficacy:** Given the size of the problem and the scarcity of resources, effective responses must also incorporate the most productive utilization of those means.

Philanthropy, while making important contributions to fostering social innovations, lacks the financial resources and organizational structures to reach and maintain massive scale. Governments do have the resources to scale up, but often falter on efficiency and efficacy, and political insta-

is indeed capable of creating social value, then this practice—beyond management science—is part and parcel of what we term "social enterprise": organizations—whether nonprofit, for-profit or public sector—whose main activities address society's ills.

The study of business from this different perspective—Market-Based Poverty Initiatives (MBPI)—is the latest cycle of research for SEKN, the Social Enterprise Knowledge Network, comprised of nine business schools from Latin America and Spain plus the Harvard Business School (see box on p.5) In the course of its current investigation, SEKN is examining 18 cases, 8 of which are discussed in this issue of *ReVista*, ranging from agribusiness to construction, healthcare, tex-

tiles and retail. Following these case studies, six additional articles address a set of more general MBPI issues that flow out of and build on the case studies. These include the following:

- the challenges of starting and building MBPI, particularly as they relate to dealing with the immersion into the cultural dimensions of LIS;
- the distinctive role that NGOs can play as MBPI protagonists;
- the importance of collaboration between businesses and NGOs in building viable MBPI ecosystems;
- the positive or negative impacts that governments can have on MBPI;
- the different forms of social value that MBPI can generate and the challenge of scaling up; and
- the multilateral agency perspective of the Inter-American Bank for Development in its new initiative, Building Opportunities for the Majority.

**THE ISSUES**

The cases profiled in *ReVista* illustrate SEKN's exploration of key issues along five dimensions:

1. Who are the actors?
2. What are the barriers to effective engagement?
3. Which organizational forms offer particular advantages?
4. What are the dynamics of the ecosystems in market-based initiatives?
5. What is the nature of value destruction and creation?

Who: When looking at the impact of business on the poor, one of the first questions is how to view the population that comes into contact with the commercial enterprises. Recently, the term "bottom" or "base of the pyramid" has gained wide acceptance. While this graphic description has served well to focus attention on the subject, SEKN has chosen to anchor its definition on a narrower, more defined dimension, preferring the term "low-income sectors," or LIS. Although unintentional, a reference starting at the bottom, below everyone else, carries the risk of a pejorative connotation, of being less than others. One of the critical attitudinal precursors to this new business approach is to acknowledge the significant value and contribution of LIS as economic actors. Rather than always being less, they are also more in many dimensions. Thus, the

focus is on the vehicle and the goal, which is captured by the term Market-Based Poverty Initiatives (MBPI).

Low-income sectors are characterized by:

- **Heterogeneity:** Beyond the attribute of earning low incomes and controlling few assets, Low-Income Sectors (LIS) differ greatly all over the world and within each LIS. Differences occur in many forms: education, political and social integration, ability to navigate the formal and informal institutions of the community, social cohesion and familiarity with legal frameworks and processes.
- **Context:** The particular context shapes different opportunities for engagement with distinct LIS segments. The cases discussed in the subsequent articles reveal, for example, the differences of engaging in business with poor agricultural workers in Central America or with the inhabitants of crowded barrios in Caracas or Bogotá.

■ **Broad Economic Agents:** While much of recent work has focused on LIS as consumers of goods and services provided by external enterprises, often multinational corporations, the research done by SEKN indicates that low-income populations must be viewed as participants along the entire value chain. In addition to being consumers—for example, of prepaid health services in Caracas or ceramic products in Bogotá—LIS are also important producers and intermediar-

The new business approach acknowledges the significant contribution of Low-Income Sectors (LIS) as economic actors in the creation of both economic and social values.

ies, such as will be shown in the subsequent cases of palm fruit growers in Peru and Brazil, and butterfly farming and exporting in Costa Rica.

■ **Barriers:** SEKN's work pays particular attention to the obstacles that stand in the way of maximizing the potential of the LIS in the economic value-chain. For example, a tile producer in Colombia did not have a distribution channel to reach LIS and so had to develop one in collaboration with community organizations and residents. Mexico's largest cement company had to develop new marketing methods to service migrants in the United States wishing to support family con-

struction projects back home. A Venezuelan health care provider had to overcome the cash scarcity of LIS in the design of a health care insurance. The Costa Rican butterfly company conquered the market access barrier by linking poor farmers to the export market.

■ **Organizational Forms:** The existence of barriers raises the issue of whether there are particular organizational forms that are better suited than others to overcome them. Most existing research has focused on multinational corporations, but the SEKN research is exploring the role of other types of social enterprises, for example, a cooperative for trash recycling in a low-income barrio in Buenos Aires, a civil society organization in a poor region in Chile organizing a community to gather and market wild produce, a small butterfly exporting enterprise, and a large group of palm oil producers involved in developing small farmer suppliers.

■ **Ecosystems:** The business enterprises in LIS exist within political, economic and social systems that comprise the organizational ecosystem within which they must operate. By examining particular cases, SEKN seeks to understand the key dynamics that affect success. Among these are the intertwining roles of government, civil society organizations and other social actors in the life span of business enterprises in LIS, from their launch to their eventual maturity. This is

the focus of the research on the network of used clothes recyclers in Spain, as well as the collaborative relationships between the palm growers and the processing companies in Peru and Brazil. The role of the public sector is examined with particular reference to public utilities.

■ **Creation and Destruction of Value:** At its most basic, any LIS business must be evaluated in terms of its economic performance. Is it profitable to operate in LIS? Does it meet the normal return criteria for activities of similar risk? Is it a rational economic choice? If the answer to these questions is positive, then the operation will be economi-

cally sustainable, but will it also create high social value? Businesses that exploit LIS might be economically profitable but socially negative. Similarly, other economic activities with LIS might create social value and be unprofitable but subsidized by a corporation as part of their corporate social responsibility activities. In either case, the dual conditions for successful LIS engagement of simultaneous creation of economic and social value would not have been met.

Where new social value takes place, the activity breaks the status quo and hence is likely to also be a disruptive process. Accordingly, a companion to understanding the creation of social value is the analysis of the destruction that may be an integral part of the same process. New distribution networks may be forged, but old ones are rendered obsolete; there may be new opportunities for LIS labor but it may come at the expense of other jobs; goods and services may reach LIS more efficiently but it may put certain LIS producers out of business. LIS consumers may have new access to consumer goods but will these increase their quality of life? Regardless of a product's practical utility, how important is the self-esteem that emanates from its consumption? What ensures that in time successful LIS businesses will continue maintaining a surplus of positive contributions over the negative ones? What will the final net effect be for the LIS community, and for society as a whole? MBPI is not a panacea; it is embedded with complexities and controversy. How is the social value defined and quantified? Who should participate in that process? These questions do not have obvious answers and constitute a key area of inquiry for research in this field.

#### WHAT IS AT STAKE

Beyond intellectual capital, understanding business in LIS has practical ramifications of significant proportions. It is a search to remedy the omissions that have made prior efforts incomplete in their efforts to resolve global poverty. Private and public philanthropy at its best has made signal contributions to the birth of innovative and far-reaching initiatives, but has been unable to guarantee the scaling or the permanence of those efforts. The public sector has been able to mobilize massive efforts for extended periods but has been unable to guarantee the choice of models that incorporate and maintain effi-

## SOCIAL ENTERPRISE KNOWLEDGE NETWORK

The Social Enterprise Knowledge Network (SEKN) is a partnership of 10 leading management schools across the Americas and Spain, with a demonstrated capability to produce high quality, original, field-based research. It was created in 2001 through the leadership of Harvard Business School, with the support of the Avina Foundation.

SEKN's mission is "to advance the frontiers of knowledge and practice in social enterprise through rigorous collaborative research, shared learning, excellence in participant-centered teaching, and strengthening management education institutions' capabilities to serve their communities." SEKN membership is comprised of:

- Escuela de Graduados en Administración y Dirección de Empresas (EGADE), Mexico
- Escuela Superior de Administración y Dirección de Empresas (ESADE), Spain
- Harvard Business School (HBS), United States
- Instituto de Estudios Superiores de Administración (IESA), Venezuela
- Instituto Centroamericano de Administración de Empresas (INCAE), Costa Rica
- Pontificia Universidad Católica de Chile
- Universidad de los Andes, Colombia
- Universidad del Pacífico, Peru
- Universidad de San Andrés, Argentina
- Universidade de São Paulo, Brazil.

SEKN has published two books: *Social Partnering in Latin America* (Austin, Reficco et al., 2003) and *Effective Management of Social Enterprises* (SEKN, 2006) both through Harvard University Press and the David Rockefeller Center for Latin American Studies, Harvard University. SEKN research has also produced dozens of articles, published both in popular and scholarly media (such as the *Harvard Business Review Latin America* and the *Stanford Social Innovation Review*) as well as the most comprehensive collection of teaching cases available in social enterprise focused in Iberoamerica.

ciency and efficacy, without which the long term capability of the effort is compromised. These philanthropic and public sector contributions have been and will remain important but insufficient. Business, if able to provide commercial returns while delivering goods and services that materially rectify society's ills, promises to harness scale, permanence, efficiency and efficacy in the fight against poverty. Along the way, success in this dual value generation approach carries theoretical and practical implications for the very nature, purpose, and means of business and its role in society.

How powerful MBPI can be is demonstrated by commercial microfinance. In thirty years, this MBPI dramatically expanded the access to credit for the LIS population of the world. By 2004 more than \$9 billion in microcredit a year was being delivered to more than 28 million active clients by highly profitable financial institutions. SEKN's research is a contribution to understanding

if such success is a singular phenomenon or the result of processes that can be replicated time and again. In the answer may lie a key that can unlock the transformation of our societies.

The following articles in this issue of *ReVista* will serve as windows onto this emerging area of research and practice. Definitive answers will remain elusive but a deepening of our understanding of the right questions and a beginning grasp of the phenomenon are possible.

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**James E. Austin** is the Elliot I. Snider and Family Professor of Business Administration, Emeritus at the Harvard Business School, where he was co-founder of the Social Enterprise Initiative and one of the co-founders of the Social Enterprise Knowledge Network.

**Michael Chu** is Senior Lecturer of Business Administration at the Harvard Business School and former president & CEO of ACCION International.

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# Palmas del Espino

*Harvesting Hope in the Upper Huallaga*

BY CYNTHIA SANBORN AND ALVARO J. DELGADO

**T**HE PERUVIAN AMAZON HAS LONG BEEN A MAGNET FOR THE desperate and adventurous. The hidden gold of the Incas, the rubber and oil booms, and the promise of free land through government-sponsored colonization programs all lured generations of landless peasants and unemployed youths to the jungle in search of a better future.

By the 1980s, the coca leaf had become king of the Amazon, particularly in the high jungle of the Upper Huallaga Valley (San Martín). Driven by growing international demand for cocaine, Peru became the world's leading producer of coca leaves and the Upper Huallaga Valley became a key supply center for cartels in Colombia and beyond. Abandoned by the state, with no access to credit, and few markets for traditional agricultural products, many poor farmers moved to the region to cultivate coca as a path out of poverty.

The majority of growers (*cocaleros*), however, have remained at the base of the pyramid, both in terms of poverty levels and their role in the drug trade. As drug lords corrupted or replaced local authorities, growers had nowhere to turn for protection from the abuses of the *narcos* and their paid enforcers. In the mid-1980s, Shining Path guerillas (*senderistas*) began to dispute the power of the cartels and defend the *cocaleros*. They imposed their own violent regime. In efforts to regain control of the area, the Peruvian military also committed widespread abuses against the civilian population. According to Antonio Trujillo, president of San Martín Regional Federation of Oil Palm Development (FREDEPALMA) and Vice President of the National Confederation of Palm Growers and Oil Palm Companies (CONAPAL), “You could be killed at any given moment by the police, the narcos or the terrorists.”

The United States government has invested millions of dollars in the “War on Drugs” in Peru, promoting both forced and voluntary eradication and alternative income sources for *cocaleros*. Nevertheless, public sector efforts to replace coca with other sustainable

agricultural activities have been largely unsuccessful because of the lack of financial and technical support, property land titles, seeds and markets for substitute products.

### PALMAS FOR SANTA LUCIA

The history of Santa Lucia began this way, as a small town founded in the early 20th century by rubber extractors, followed by colonizers and migrants hoping to get rich through coca. During much of the 1980s, Santa Lucia was considered a “red zone,” where *senderistas* battled drug lords, counter-insurgency forces and anti-narcotics agents. Residents lived in a permanent climate of fear and insecurity.

Today, however, their story is different. Due to an evolving alliance with the largest private company operating in the Upper Huallaga—Palmas del Espino—Santa Lucia's 3,200 residents and those in neighboring communities are turning voluntarily from coca to the cultivation of oil palm and related activities, offering them a genuine opportunity to climb out of poverty and live in peace. Four out of every five heads of households in Santa Lucia receive direct employment in this fashion. In addition to investing in housing and social services for the community, Palmas del Espino is helping independent farmers obtain land titles, credit and technical assistance for conversion to oil palm, promoting organization of the sector, and offering them a guaranteed market for the palm fruit the company turns into oil and other products. Palmas del Espino is the major philanthropic actor in Santa Lucia.

This alliance is mutually beneficial and market driven. Palmas del Espino developed good relations with its neighbors in a high-risk environment, and gained a chain of quality providers. But

Some years from now, these young plants will become highly profitable palm trees. Workers at Palmas del Espino, a Peruvian palm oil production company, do their best to make it happen. Independent growers in the area are also determined to shift from coca to palm.



*In a search for effective solutions to the problem of poverty, attention has gradually turned to business. Here, SEKN looks at several cases of Market-Based Poverty Initiatives, from agribusiness and health care to construction.*





A palm oil production company, Palmas del Espino has improved the life conditions of workers in an isolated region of the Peruvian Amazon.

company executives did not always see it this way.

Founded 27 years ago by the Romero family, Palmas del Espino SA (“Palmas”) is dedicated to the cultivation of oil palm, palm oil extraction, and the manufacture of derived products, including cooking oil, shortening, soap and chocolate. Today the Palmas plantation and factory occupy nearly 24,000 acres and employ more than 1,500 people directly, including management, employees and agricultural workers. Total income in 2005 was \$37.1 million. Palmas forms part of a conglomerate of companies owned by this family group and referred to as the Grupo Romero.

#### RAISING BARRIERS AND PASSING HURDLES

Getting to this win-win situation was not easy. When the plantation was inaugurated, the owners found it difficult to find enough workers for harvesting, because of competition for labor from the lucrative coca trade.

In 1984, the Shining Path attacked Palmas del Espino, destroying most of its installations and vehicles. This attack forced the company to invest heavily in a large security force. However, in 1987 *senderistas* managed to destroy the company’s convoy trucks, in attempts to close down the operation.

During the same period, about 150 people began to occupy 3,000 acres of Palmas property. The hostile political climate and presence of the Shining Path within the community made it especially difficult for the company to dislodge the squatters, and initial attempts were strongly resisted.

Under the first administration of President Alan García (1985-1990), the company was also hit hard by price subsidies on imported goods such as cooking oil, and nearly went into bankruptcy. It was not until the early 1990s, with the easing of price controls and the military defeat of the Shining Path that Palmas was able to recuperate its losses and develop into a stable and profitable company.

#### BUILDING TRUST

The context of violence and Palmas’ heavy security measures created considerable distance between the company and the community. Since the end of the 1990s, however, company officials decided to remove barriers and improve relations with the surrounding community. As Director and former General Manager (January 2001 – June 2006) Angel Irazola put it, “I don’t want to be closed in within our walls, afraid of the population... I’m interested in having the people beside me as partners, because if they are enemies I’m screwed.”

The first step involved increasing the amount and impact of company philanthropy. Although the Romero family had a history of charity, the management reached out to community leaders to define new priorities. These included investing in local schools and teacher training, equipping the local health post, and creating ways to provide employment to family members of company workers. By 2005, the company was investing about \$110,000 per year, as well as the time of its professional staff, in social programs.

Nevertheless, company executives and community leaders alike realized that philanthropy alone would not lift them out of poverty, or keep them from coca. Thus, Palmas executives and staff stepped up efforts to promote oil palm cultivation among local independent farmers. The company sells them seedlings at cost from its greenhouses, offers technical assistance and training in oil palm management, and provides guaranteed markets at fair prices. Palmas has also promoted social capital through encouraging organization of palm growers at the local, regional and national levels and providing them direct access to market information and technology.

#### FROM SQUATTERS TO ASSOCIATES: THE JOSÉ CARLOS MARIATEGUI ASSOCIATION

Palmas executives took yet another step with the squatters on their plantation, supporting an unprecedented development and credit



Palm oil is bottled at one of Palmas del Espino's production facilities.

program that converted land invaders into property owners and company associates.

In 1990, local authorities awarded legal status to the squatter families, creating the José Carlos Mariategui *caserio* or village (JCM) even while their property dispute with Palmas was unresolved. After a series of conflicts and meetings over the years, the company reached an unprecedented agreement with JCM, offering to give them half of the occupied land, in exchange for leaving the rest. This offer was accepted in 2000, through direct consent from each family involved. In 2001, almost 70 families—including some of the original squatters that remained in the area—were given titles to the land, on which they freely cultivated rice, corn, papaya, beans, bananas and the inevitable coca leaf.

However, by 2003, it became clear that land titles alone would not guarantee a sustained income for JCM families. They were still living at subsistence level, and a number of them began to sell or abandon the land. At that point, company officials decided to promote the cultivation of oil palm among these families.

The main barrier to palm cultivation is that the plants require four years of financing and cultivation to bear fruit and hence generate income, and none of the JCM families had the resources to wait. Nor would any financial institution give credit to such poor peasants. (The independent farmers who did cultivate palm generally cultivated abandoned palm trees or got their start up capital from coca leaf sales). In this case, Palmas took another step forward, helping 54 associated families that wanted to grow palm to negotiate a loan of \$1,090,000 from Peru's largest financial institution, the Banco de Credito, guaranteed by the families' land titles and backed by Palmas itself, which would be responsible for managing the credit.

Starting next year, the families of the JCM association expect to receive at least \$800,000 a year (\$650 per acre), a major income for

a community that had previously lived at subsistence levels. They will use half of that over the first five years of harvest to repay their loan, thus producing a yearly net income of \$400,000. Properly managed, their palm trees can be harvested for at least 25 years, so this is highly profitable.

Although the annual income generated by palm is still less than that of coca leaf, there are major advantages: it is legal, has low risk and low maintenance costs, and provides a constant income over time, with expert technical assistance available and a guaranteed market in Palmas (or elsewhere). However, it does not resolve the broader policy challenge posed by illicit drug trafficking. Without more effective efforts to reduce international demand, and extend this kind of market-linked crop substitution to other areas, coca leaves will still be grown for the drug trade in broad stretches of Peru, Bolivia and Colombia.

Due to the gradual confidence building between Palmas and JCM and the satisfactory resolution of the land invasion, almost all of the JCM families are now optimistic about their prospects for generating income and educating their children through palm cultivation. Their example, in turn, has motivated other peasants in the area to seek a similar path, away from subsistence agriculture or illegal *coca* and toward the profitable palm. As the former president (November 2003 – July 2006) of the José Carlos Mariategui Association, Noe Medina, put it, "We grew coca but we're tired of all the problems linked to terrorism and drug trafficking. Now we have great expectations with this oil palm project. I have children, a family, and we are fine now."

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*Cynthia Sanborn is Professor of Political Science and Chair of the Social and Political Science Department at the Universidad del Pacifico. Alvaro J. Delgado is a research assistant associated with the SEKN team in Peru.*

# The Magic of Butterflies

## *Ecological Rural Development in Costa Rica*

BY JOHN C. ICKIS, JULIANO FLORES AND CATALINA ICKIS

WILLIAM CAMACHO WAS WORKING AS A LABORER IN A BIOLOGICAL research station near the village of Las Horquetas, Costa Rica, when he learned from a visiting scientist of the possibility of breeding butterfly pupae for export (just as a moth caterpillar spins a cocoon, a butterfly caterpillar spins a pupa, or pupae in the plural). With the guidance of a technical manual that he obtained from his employers, he began the laborious tasks of cultivating feed plants, attracting butterflies, gathering the eggs, raising the caterpillars, and eventually harvesting the pupae which he sold to a small local business, Costa Rica Entomological Supply.

He was soon selling as many as 600 pupae per week at a price of \$1.60 per unit. That was 12 years ago, and today William has a thriving business that not only sells pupae but also includes a butterfly farm and a zoological park. In the past three years alone, William has received visits from some 40 groups of tourists and researchers from all over the world.

Apart from breeding 18 to 20 different species of butterflies, William also has land turtles, three different species of frogs, fish, *tepescuinles*, toucans, *pericos*, *guajipales* and an infinite number of insects. A true lover of nature and entrepreneur, William has introduced the idea of exporting insects in addition to the butterflies. "This business is not for everyone," he cautions, because it requires 7-day work weeks and a genuine passion for nature. But with the work come rewards. These combined businesses bring him an income of around 20 times what he earned as a rural laborer, transforming the life of his family and bringing unimagined opportunities for his children.

Throughout Costa Rica, the lives of farm workers and the rural unemployed have been transformed by the rise of a new business opportunity, the export of pupae to butterfly exhibitors in North America and Europe. Instead of earning minimum wages, these workers have become entrepreneurs. The Costa Rican butterfly business has indirectly resulted in greater school attendance, improved health standards, and a new sense of community pride that can be seen in the butterfly murals that adorn schools and health clinics in the village of La Guácima.

Another striking example can be found in San Ramón, an hour's drive west from the capital city of San José. Here, Luis Alberto Chavarria and his nephew Sergio Hidalgo Chavarria breed the spectacular blue morpho butterfly, which they have been selling to the Costa Rica Entomological Supply for more than 15 years. Before entering the butterfly business, they both worked on a cattle ranch, earning the minimum wage, around \$200 per month at that time. While this was much higher than Costa Rica's impoverished neighbors, it was still inadequate to provide for their families, so when a visiting biologist mentioned the butterfly opportunity, Luis Alberto and Sergio immediately became interested. "We got him to teach

us almost everything there is to know about butterflies," Sergio recalled. Now, they are not only successful breeders of cocoons, but are also one of the main suppliers of butterfly souvenirs in the country. Two nonprofit organizations, the Fundación Neotrópica and the Tropical Zone, make monthly orders to Luis and Sergio for the sale of framed butterflies to tourists visiting Costa Rica and for export.

The Costa Rican butterfly business began more than 20 years ago when a Peace Corps volunteer, Joris Brinckerhoff, happened by chance to meet a retired entomologist, also from the United States, who gave him the idea. Joris had been looking for a business opportunity that would allow him to stay in Costa Rica and to engage in an activity that would contribute to the economy while not damaging the environment. The breeding of butterfly pupae for export seemed ideal, as it would generate export earnings which were at that time concentrated in a few traditional products such as coffee, bananas, sugar and beef. Moreover, the business required very little investment and no highly skilled labor. He was also inspired by reading E.F. Schumacher's *Small is Beautiful*, which describes how small businesses can make a big difference without harming the environment. With his Peace Corps allowance, the sale of a car in the United States, and a loan from his family, he built a few butterfly reproduction cages on borrowed property and founded the Costa Rica Entomological Supply. More popularly known as CRES, the company became the first commercial exporter of butterfly pupae in Latin America.

The new venture did not immediately prosper. Joris underestimated the difficulty of exporting a new product from a country known for its slow-moving government bureaucracy. It took nearly a year of visiting and cajoling to get a Ministry of Agriculture inspection and an export permit, only to learn that he had to pay a \$2.00 "wildlife export" tax on each of his pupae, which the overseas exhibitors were buying for \$2.40. It was almost another year before he convinced the government that the tax should be levied not on each pupa, but on each fifty-unit container. The first exports began in the

**The rise of the butterfly industry in Costa Rica has transformed the lives of farmworkers throughout that Central American country. Instead of earning minimum wages, these workers have become entrepreneurs.**

mid-1980s but orders quickly fell as the winter months approached, since exhibitors close rather than heat their enclosures.

It was then that Joris' Portugal-born wife, Maria Sabido, suggested that they build a butterfly enclosure since the tourism industry in Costa Rica was beginning to gain momentum. Since the more affluent ecology-conscious tourists visit Costa Rica during



Virtually all of CRES production in 2006 will go to international markets. Nevertheless, part of the pupae production is used for quality control processes, research and development and knowledge generation. Barely 5% of CRES production is lost due to pupae illness.

the winter months, this new business would help to even out the seasonality of the pupa exports. Joris and Maria bought a few acres of land in La Guácima, a village near Alajuela, Costa Rica's second largest city, and The Butterfly Farm was born.

Maria took up the challenge of designing and building The Butterfly Farm. The result was an enclosed greenhouse of nearly 840 square yards with 500 different varieties of plants and butterflies, trails and a waterfall. With this diversification, the business began to improve. Local travel agencies began to send tourist groups for daily tours. The Butterfly Farm opened a gift shop and a restaurant. Opportunities for CRES were also growing as the world butterfly market was becoming more attractive and new exhibits were opening in the United States.

The problem was no longer a lack of demand for butterfly pupae, but a limited production capacity. To meet the growing demand, CRES began to buy pupae from former employees who had opened breeding facilities. As exhibitors began demanding ever greater varieties of butterfly species, Joris went beyond La Guácima to seek breeders in Costa Rica's many diverse microclimates. Today, CRES offers more than 70 species of butterfly pupae in any given week and works with about 100 breeders all over Costa Rica. Though still a small business, it has become one of the world's largest exporters, shipping more than 400,000 pupae a year to exhibitors in North America and Europe.

When Joris began working with independent breeders, he had two concerns. One was to maintain the quality of their product,

defined by the percentage of "emergings" from pupa to butterfly and by lack of defects, diseases and viruses. The age of pupae at the time of delivery is also critical, since exhibitors are not interested in receiving butterflies that have already emerged. Joris regularly holds workshops with the breeders to discuss quality issues, and they can be temporarily suspended if failing to live up to CRES's quality standards.

The second concern was to maintain high prices to quality breeders for both practical and altruistic motives. As new competitors entered the butterfly export business and the supply of pupae began to surpass the demand, it was important to ensure the breeders' loyalty and to prevent price wars. In the late 1990s, competing exporters began offering low prices for pupae that CRES was unable to purchase for lack of orders. Joris met with the breeders and explained that this undercutting would flood the market, reducing prices for all pupae. He proposed a "gentleman's agreement" in which the breeders would agree to sell exclusively to CRES and in return would receive first priority and the highest prices. He also introduced a "Plan B" by which they could sell to anyone but would agree not to sell at a price lower than that established by CRES. All 70 breeders who supplied CRES at that time signed the agreement, but in the face of aggressive pricing tactics pursued by competing exporters, which included cash purchases at 25 cents for pupae that CRES was unable to buy, prices collapsed in 2003. Despite a strong increase in total export volume from Costa Rica, total revenues from exports fell by more than 10%. CRES contin-



Left: Joris Brinckerhoff explains to CRES employees and suppliers the price/quality ratio needed to keep offering high prices to suppliers. Quality is critical, since it guarantees high international prices. Confronted by pupae market saturation CRES has been forced to differentiate its products in terms of variety, on-time delivery and after-sales service. Above: Breeders grow, in a very small area, many plant species needed for butterflies to feed and reproduce. Since butterflies are naturally attracted to those plants, it is easier for breeders to capture them. Butterflies are held in an insectary where they can lay up to 100 eggs, of which 90% actually survive. In wilderness, the survival rate is only about 2%.

ued to pay the highest prices to breeders, at least 25% more than the nearest competitor, but world market prices for pupae fell from \$2.40 in 1985 to around \$1.60 in 2003.

Joris responded by attempting to differentiate his product by increasing the variety of species, a demand CRES could meet through its extensive network of breeders from diverse Costa Rican

## Costa Rica Entomological Supply (CRES) and butterfly breeders from diverse microclimates are partners in wealth creation and social development.

microclimates. He has also introduced a policy of guaranteeing to his customers that 100% of the butterflies will emerge, or that he will instantly replace them. To back this up, CRES has begun to ship one third more pupae than the number ordered, in effect reducing its price by nearly a third since nearly all butterflies emerge. This has meant that CRES has had to reduce the price it pays to the breeders, but since it has also increased the amount purchased, the breeders' total income level is maintained, and they are less likely to dump excess pupae on the market at 25 cents. "Protecting the breeders' income is an important part of the CRES mission," Joris affirms.

Thus, what began as a business strategy by CRES to outsource the breeding of butterfly pupae and create competitive advantage through a sourcing network that offers unmatched diversity of species, has become a social enterprise in which CRES and the breeders are partners in wealth creation and social development.

Beyond transforming the lives of over one hundred low-income rural families, CRES and The Butterfly Farm has changed the land-

scape of its community in La Guácima de Alajuela. Brightly colored murals of butterflies adorn the walls of schools and shops throughout the village, and in 2005, the municipality of Alajuela officially designated La Guácima as "La comunidad de las mariposas" or The Butterfly Community. The idea for the murals came from a visit by Joris to Bordano, Italy, where walls are also adorned by brightly painted butterflies. Joris has now organized an annual contest with cash awards for local artists.

In April 2005 the city of Alajuela signed a sister city accord with the Italian towns of Montegrotto Terme and Bordano, motivated by the heritage of butterflies that is common to all three cities. In June 2006, another sister city accord was signed with the German town of Bendorf-Sayn. What began as a backyard experiment over 20 years ago has symbolically united Costa Rica with Italy and Germany, through the magic of butterflies.

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*John C. Ickis is a graduate of Harvard Business School (MBA, DBA) and professor of business administration at INCAE Business School in Alajuela, Costa Rica. He has published in The Harvard Business Review, World Development, and The Journal of Business Research. Juliano Flores, Peruvian, is Project Coordinator at INCAE for the Social Enterprise Knowledge Network and coauthor of chapters in Effective Management of Social Enterprises (Harvard University Press) and Business Solutions for the Global Poor: Creating Social and Economic Value (Jossey-Bass, forthcoming). Catalina Ickis, born in Costa Rica and currently a student at Bates College, conducted field research on the butterfly industry in Costa Rica as a summer intern at INCAE Business School.*

# The Base of the Pyramid

## *Citizenship above Consumerism: Colombia's Colcerámica*

BY DIANA TRUJILLO-CÁRDENAS AND ROBERTO GUTIÉRREZ

**A**NA DELIA IBARRA, A 40-YEAR-OLD MOTHER OF THREE, IS ONE of 80,000 Community Mothers who work in marginal neighborhoods in Colombia. Back in 1986, when President Virgilio Barco created the Community Homes day-care program to provide resources, food and training for neighborhood daycare centers, many of these women were already organized to care for children—their own and those of other mothers. In 2006, the program was recognized by several studies as one of the state programs with greatest impact.

As a girl, Ana and her family moved to Bogotá from the faroff city of Palmira for better opportunities. She lived with her mother on the outskirts of the city even after she was married and had children of her own, until a friend of her husband Noel offered the family a lot in Usme, a neighborhood of some 250,000 residents on the fringes of Bogotá. Recalls Ana, “We paid a third of the price and the rest in monthly quotas. When we finished the payments we moved close by and began construction.” The family laid the foundation and, two years later, raised the house in slabs and later added other material piece by piece.

Ana joined Community Homes in 1996 when the director of El Portal, a foundation where she had worked caring for children of prisoners, told her that she was eligible because she had her own house, a high school diploma and experience with children. Ana agreed. For a long time, she had yearned to work from home to be with her three children, now 4, 11 and 13 years old. She brought together 20 of her neighbors’ children, but although she was an experienced childcare provider, she faced typical difficulties such as financial deficit, criticisms and lack of formal training.

### A NEED

Ana’s day care functioned on the first floor of her house; there were two rooms, plus a kitchen and a bathroom with plumbing but no tile. The upper floor was halfway constructed. In early 2006, a Bogotá Health Department visitor said she would have to tile the bathroom and kitchen for “hygienic reasons.” Since 2001, the health department had been promoting such improvements, and daycare facilities that did not meet hygienic standards were shut down. Ana, like the other 670 Community Mothers of Usme didn’t have the 207,000 pesos (US\$ 85) of monthly income to make the improvements to their homes. Each Community Mother tended 13 children between the ages of one and five years, with health services, nutrition and education. If Ana and her colleagues could not find a solution, the closure of their day cares would mean the loss of their employment, income and their greatest happiness, that of “serving and caring for children who had no other possibilities.” They would be visited again in six months.

Ana’s Community Mothers cooperative got together and negotiated improved conditions for their homes. In February 2006 social worker Haidy Duque, who had worked for 11 years in Usme with women seeking refuge there from Colombia’s long-lasting internal

war, arrived to the cooperative office with an offer. Ceramics of Colombia (Colcerámica), a branch of the Corona Company, invited them to participate in a project to improve their housing. Ana and her colleague Patricia Abril accepted.

### A SOLUTION

The roots of the project go back to the beginning of the 90s when Colcerámica enjoyed a monopoly position in the market. The company’s different businesses such as tiling, porcelain toilets and faucets were managed as one business and were offered on the market as distinct brands which, according to Carlos Espinal, director of Mass Marketing, “we would continually invent to compete with ourselves.” The marketing of products with the Corona label, with high technical and design specifications, was geared to middle and high income groups; the Mancesa label was geared to the lower-middle and lower income markets.

When Colombia lifted most of its trade restrictions in 1991, creating an economic opening, foreign companies entered the market with better prices for the middle and lower segments. Colcerámica’s participation in the market diminished. To recuperate lost terrain, in 2000, the company decided to manage three independent business units. Tiling remained with the Corona name, and sought to offer a new product with lower design specifications at a very low cost, launching the Ibérica line in 2003. Another part of the strategy was to open new channels: national and local wholesalers, and large retailers marketed to the two lowest levels of the social “strata” (the Colombian Department of Statistics classifies the population in six socio-economic strata; the highest income earning Colombians belong to level 6). By 2006, the Ibérica line was so successful that sales surpassed production capacity. Nevertheless, the growth goals of the company kept the directors attuned to new business opportunities. At this point, Carlos discovered the book *The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits* by C.K. Prahalad. The idea interested him and he sought more information.

The Ibérica line allowed the company to compete in the lowest income segment of the market. Carlos was put in charge of developing this market. To avoid the problems faced by other companies entering this segment, Carlos contacted Ashoka to identify a social entrepreneur who could facilitate contact with potential consumers. This multinational organization has invested in social leaders since 2003 in an initiative called “Full Economic Citizenship” that develops capacities and opportunities so that citizens may participate in the global economy. Ashoka’s mediation role was not immune to the problems of lack of confidence between business people and social entrepreneurs. Nonetheless, Haidy Duque liked the proposal. She thought the Colcerámica products would improve the living conditions of the women she worked with and, furthermore, she knew Corona to be a socially responsible organization. The Corona Foundation was one of the best known corporate foundations in the



country, part of its work being with grassroots organizations.

Three months later Haidy and Carlos set to work. They understood that “a social entrepreneur must continue his or her activity in order to develop a hybrid value-chain...to join knowledge and action to construct a model.” The first actions were to choose a location and study its housing issues, to understand very well the cultural and political context in which they were to operate, and to identify where the project could begin with a certain amount of guaranteed success. Because of her experience, Haidy suggested Usme, where the entire population belonged to strata 1 and 2. Using student interviewers, she took 80 surveys in the area to gather basic information. With this data, Ashoka and Colcerámica determined the potential market, convincing themselves of the viability of the project. For Carlos, “the contact with Usme was excellent. The only thing I lacked was taking people from marketing here to undermine the idea that executives won’t get their feet muddy.”

For the consumer, buying materials from traditional merchants meant buying everything at once, paying in cash and doing all the work oneself: design, purchase, pick up of material, and all the labor. In the new model, a promoter offered the product directly at the home of the low-income consumer, providing advice and a variety of payment options. Furthermore, community members participated as sellers in order to overcome three barriers: the lack of income of consumers, their belief that they could not bring about their own development, and the barrier of entering the home of a potential consumer.

To create the new channel, Haidy and Carlos thought of the possibility of setting up a cooperative among community leaders, extending beyond the already-existing daycare cooperative. Yet, while Colcerámica wanted to formalize everything, the community

held informality as the norm. In discussing the project with the community, the promoters of the project identified organizational and administrative strategies that, while informal, could be effective. According to Carlos, “We became more relaxed about the issue of formalization when we had more contact with people. I met a woman who managed a lending chain for years; she managed a lot of money and everyone had confidence in her. There weren’t any papers or contracts.”

After six months of work, Haidy and Carlos held a community meeting to present the model. Haidy observes, “It was the moment of truth: they challenged us for proposing cooperatives. The community said that if they already had their organizations, why should we create new ones?” Carlos recalled: “After hearing the

A social entrepreneur must continue his or her activity in order to develop a hybrid value-chain... to join knowledge and action to construct a model.

community leaders I asked myself, who are the experts here? We hadn’t recognized the real value of the contribution from the community. We had been cocky; we needed to be more humble.” The meeting also served to identify other interests of the participants that could be contrary to those of Colcerámica. For example, one attendee expressed the following: “Two years into this and I’ll get to be elected to the city council.” The team concluded, “In order for this to work we need to find an intermediary point between being naive and arrogant.”

After the meeting, Carlos and Haidy defined the elements of the model: the product, easy financing, communications, community participation and custom design. They also decided to use existing networks in the community. They called the project “Your



Surrounded by smiles, Ana Delia Ibarra runs one of the Community Welfare Homes. She takes care of up to 14 children whose working mothers can't afford an alternative way to give basic assistance to their children. These Homes, partially financed by the Colombian government, operate in the Community Mothers' own homes 5 days a week. Colcerámica has allowed Ana and other local women to enhance their houses by providing access to high quality ceramic tile.

house made new, step by step" and they defined the vision: "to provide options to low-income citizens to reach the personal dream of improving their homes through collective support, to commercialize ceramic tiles and to improve the quality of life of communities." Furthermore, something more than tiling would remain in the community: management capacity in their organizations.

Colcerámica and Haidy, together with the selected community organizations (CO), formed an Organized Community Nucleus (OCN). The responsibility of the OCN was to adapt the model to the needs of the community and to offer a space in which organizations could share their experiences. The COs were in charge of managing promoters (selection, accompaniment, supervision and payment, with criteria defined by the company), as well as the administration of money from the exhibition and sales of products in their spaces. Each CO received 3% commission on sales profits. The first OCN was conformed of three local city council associations (*Juntas de Acción Comunal*) and one Community Mother association.

Women only were chosen to be promoters for three reasons: they were more sensitive to the idea of home improvement, they had the time necessary to carry out the sales work and "because of the issue of suspicions and jealousies." Their responsibilities included visiting clients, advising them, measuring spaces and quoting products/services that they sold, closing the sale and following up on payments. The women had a good sales argument: "Who doesn't want their house to look nice?" The income for the promoter was 7% of the profit, which was estimated to reach, on average, 230,000 pesos (US \$94) per month. In December 2005, the first group of promoters visited the factory where Ibérica was produced. There they became convinced that the product was indeed new and produced for their community, and that it was not in fact leftover materials from other production lines. Between January and May 2006, the promoters sold nearly 40 million pesos (US \$16,500) of products.

Each month the sales doubled from the previous month. The costs of what was considered a pilot project reached 100 million pesos (US \$40,900).

Initially, Colcerámica did not offer credit to its clients; it did freeze the price of the product/service when the client began to pay, but it only delivered the product once the product/service had been fully paid. Nor did the company, or any person under its control, interact with the client. Colcerámica offered a lot of flexibility to its community clients, both in terms of payment forms and its product/services. In the case of the Community Mothers it did agree to provide the product/service on credit, delivering after the first payment.

#### A COLLABORATION

In March 2006, Ana began participating in "Your house made new, step by step," both as a promoter and as a client. As a promoter, she brought in 37 Community Mothers who, like herself, faced pressure from the health department to raise their hygienic standards through tiling. With the proper renovations achieved as a result of the program, the daycare centers continued to serve 481 children. For Ana, this meant nearly doubling her income. As a client she finished tiling her kitchen and continued with her bathroom. Ana concluded, "We have benefited from all of it... training, development of values; one becomes enriched as a person and learns many new things."

*Diana Trujillo-Cárdenas is an Instructor in the School of Management at the University of Los Andes. Roberto Gutiérrez is an Associate Professor in the School of Management at the University of Los Andes. He currently chairs the Social Enterprise Knowledge Network (SEKN). Both collaborate with the Program on Social Initiatives (IESO for its acronym in Spanish) at the University of Los Andes.*

# Dendê Oil Family Agriculture Project

*A quest for sustainable economic and social development*

BY ROSA MARIA FISCHER, MONICA BOSE AND PAULO DA ROCHA BORBA

**D**ENDÊ, THE OIL OF THE AFRICAN OIL PALM IN BRAZILIAN Portuguese, is extracted from the fruit of a tree known as the *dendezeiro*. The economic importance of *dendê* palm oil extends beyond its use as a cooking ingredient, which is what it is best known for in Brazil. It is employed as a biofuel, as protection for tin plate and steel plate, and in the production of soap, candles, grease, lubricants, vulcanized articles, vegetable fats and margarine. Brought from Africa by slaves, the *dendezeiro* was first planted in the Northeast of Brazil. The country is now the third largest producer in Latin America and the state of Pará, in the Amazon region, accounts for 85% of domestic *dendê* oil production.

In 2001, the Agropalma Group, considered Latin America's most important palm oil producer, began the "Dendê Family Agriculture Project" in the municipalities where it operates in Pará. The project became an attractive labor option for small family farmers in this poorly developed region. By transforming family farmers into fruit suppliers for the palm oil production chain, the company managed to get them to play an active role in the local economy, whereas previously they had focused only on subsistence farming. By becoming oil palm farmers, these families became the agents of a sustainable socio-environmental development process characterized by the growth of income generation and ecosystem conservation.

## IN A STATE OF IMBALANCE

The Brazilian state of Pará is part of the so-called "Legal Amazonia," an administrative region of more than 1,235,000,000 acres that covers 60% of the national territory. Although the "Legal Amazonia" region has experienced economic growth since the 60s, living conditions in the area still reflect poor human development standards. For instance, in the town of Vitória do Jarí, in the state of Amapá, only 3.74% of the inhabitants live in homes with a bathroom and running water. This is also the case of Almeirim, in Pará, where 31.81% of the children are illiterate (compared to the overall Brazilian rate of 6%). If social policies to correct these distortions are not implemented, the region's development may be permanently impaired. Social dynamics indicate there are many conflicts at play: native family farmers oppose migrants; farmers demand land ownership; indigenous peoples witness the expropriation of their means of production and their culture; companies exploit natural resources with predatory management practices; and many families live in utter poverty. Furthermore, it is difficult to gain access to the available natural resources and the technical and financial resources that city councils, states and the federal government can grant.

Pará occupies one third of the Brazilian Amazon region, 1,248,042 square kilometers (481,872 square miles) or 16.7% of the country's territory. The state, whose key feature is vast emptiness, has 7 million inhabitants spread out over its area—on average,

5 per square kilometer. Its economy is based on mineral extraction, vegetable extraction and, to a lesser extent, on agriculture, livestock farming and industry. Pará accounts for 1.9% of Brazil's GDP or roughly US\$16 billion and is an area of major social, economic and environmental imbalance.

## CONTROLLING THE PRODUCTION CYCLE

The Agropalma Group has the largest and most modern palm cultivation and processing agro-industrial complex in Brazil. Accounting for 80% of the domestic production of this oil, it generates 2,800 direct jobs, has annual sales of US\$19.2 million and controls the entire production cycle—from cultivating the seeds to producing refined oil, vegetable fats and margarine. The Group entered the

**By transforming family farmers into fruit suppliers for the palm oil production chain, the company managed to get them to play an active role in the local economy. Previously, they were subsistence farmers.**

agro-industrial segment in 1982, when it set up a company for cultivating *dendezeiros* and extracting their oil (obtained from the fruit's pulp through cooking, shelling and pressing) and palm kernel oil (obtained through pressing, once the shells have been broken and separated from the core). This first company was set up in an 27,170 acre area in the municipality of Tailândia, about a hundred miles south of Belém, the capital of Pará. Follow the key data on Acará, Moju and Tailândia, the Pará municipalities in which the Group has operations (see Table 1 on p. 18).

The Group believes that its social responsibility activities strengthen the company and its stakeholders. However, Marcello Brito, its commercial director, points out that "as a privately-held company, the Group's main focus is not philanthropy, but making business profitable."

## DENDÊ AND FAMILY AGRICULTURE

Agropalma feels investment in social welfare activities must be aligned with its mission of achieving the sustainable development of its business and of the region as well. Thus, its social actions take place mainly through participation in socioeconomic development projects involving the region's small producers. The *Dendê* Family Agriculture Project stands as an example, aimed at creating productive activities, reducing environmental damage and curbing rural migration by means of a production model based on family agriculture. Through this, Agropalma aims at implementing *dendezeiro* farming in small rural properties and thus encouraging income growth; recovering areas degraded by subsistence crop farming; providing farmers with a production alternative based on



Clockwise from top left: Agropalma, the biggest producer of palm fruit oil (*Elaeis guineensis*) in Latin America, is implementing a family agriculture project in Pará state in northern Brazil; family agricultural workers; Agropalma has incorporated small producers and their families in the enterprise's value-chain. Before, they were engaging only in subsistence farming activities; now they are integrating the value-chain as suppliers, generating a positive impact in the local economy; workers collect fruit from the African oil palm.

**TABLE 1: MUNICIPALITIES INVOLVED**

MUNICIPALITY	ESTIMATED POPULATION 2005	AREA (SQ.KM)	AREA (SQ.MILES)	POP. DENSITY (INH./SQ.KM)	URBAN POPULATION	RURAL POPULATION
Acará (PA)	61,487	4,344.20	1,677.3	14.15	11,495	49,992
Moju (PA)	60,806	9,681.20	3,737.9	6.28	20,245	40,561
Tailândia (PA)	51,421	4,455.70	1,720.3	11.54	37,632	13,789

General data on the municipalities involved in the Dendê Family Agriculture Project

a perennial crop cycle; and reducing clearance of land by raze fires and deforestation driven by itinerant agriculture. This action chain assures a supply of raw material for the industry, at the same time trying to foster the region’s sustainable development and to generate positive economic and financial results for the farming families involved and for the company itself.

The *Dendê* Family Agriculture Project began in the municipality of Moju, state of Pará, 50 miles away from Belém. In just four years it attained its initial targets of:

- Planting 3,705 acres of palm;
- Generating employment for 150 families, with roughly 750 direct jobs;
- Increasing the income of the families involved in the project by 80%.

The project grew out of a joint initiative of the Moju municipal council and Agropalma and focuses on stimulating the harvest of palm fruit bunches. To achieve their objectives, both sought funding from the Amazônia Bank (BASA – Banco da Amazônia) for the Family Agriculture Strengthening Program (PRONAF – Programa de Fortalecimento da Agricultura Familiar), in order to get families to subscribe to the company’s proposal. The partnership aimed at helping 150 families in Moju, a municipality with 60,000 inhabitants at the time. The alliance was crucial for the project’s viability, as the palms take roughly three years to start yielding fruit and BASA granted a monthly stipend of one minimum wage (some US\$130) for the support of each family and the purchase of palm farming material. The loan was payable with interest of 4% a year, with a seven-year grace period. In other words, the terms were far better than the annual interest rate of 64.4% charged for loans to individuals in 2005. “Part of the earnings of each family is retained by BASA and will be used to pay off the financing, ensuring the investment’s productivity cycle,” explains Brito.

Besides the BASA loan, each family was given a 25 acre plot with legalized ownership rights, thanks to a negotiation between the company and the Pará Land Institute (Iterpa – Instituto de Terras do Pará). The families also received agricultural machinery and equipment, palm seedlings and technical assistance

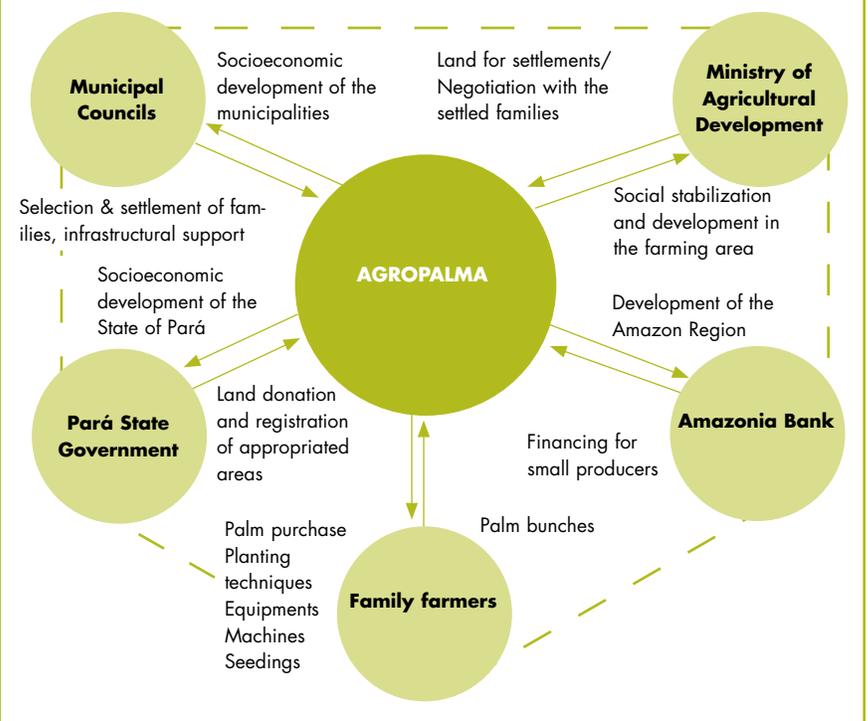
from Agropalma directly. Furthermore, the company pledged to purchase the small farmers’ entire production and to keep on hand an agricultural operations team, vehicles for transporting fertilizer, raw materials, tools and personal safety equipment. The municipal council, in turn, promised to select and settle the families, besides providing infrastructure support, such as choosing the area and the topography and providing demarcation. By 2006, the company had invested US\$1.2 million in the project (see Table 2 below).

The project’s second phase began in 2005, now in the municipality of Tailândia, also in Pará, with 34 of the 50 families intended joining palm bunch production.

**THE RELEVANT RESULTS OF AN INNOVATIVE PROJECT**

The *Dendê* Family Agriculture Project led the Moju farmers to establish the Arauaí Community Development Association. In its headquarters, they hold monthly meetings attended by the association members, Agropalma technicians and representatives of the parties involved with the project. Difficulties, improvements

**TABLE 2: AGROPALMA LINKS**



The value chain involving groups from the First, Second and Third sectors

and partnerships in aid of the community are discussed at these meetings, giving rise to action plans that have already led to road building, the establishment of a school and the institution of public transport. The appearance of this association is considered one of the project's main results, because it strengthens the community's social capital and its capacity to interact with the government, as it exercises its citizenship. Promoting environmental education among family farmers is another one of the project's main outcomes, since previously they were used to living off the non-sustainable extraction of timber, as well as other native resources and subsistence crops such as manioc, corn and beans. In the words of Edmilson Ferreira de Barros, president of the Arauaí Community Development Association, "we didn't have development before – we deforested a lot and reaped little. Now we don't cut down the forest."

In 2005, 50 Moju families harvested their first crop and began earning an average monthly income of US\$320, with a possibility

### Perennial crop production means ongoing income. Steady and higher incomes reduce rural migration and strengthen local communities.

of doubling this amount in 2006. After the seventh year (2008), the expected annual income should reach some US\$8,500 per family. Before taking part in this project, the families' average monthly income did not exceed US\$26 monthly from the sale of flour, fruit and coal, while, according to 2005 data, the average monthly income in Brazil equaled US\$231.14 and the equivalent for the rural population amounted to US\$108.30. In addition, their activities degraded the forest. Families have a source of permanent work due to the crop's perennial nature, in which production at the same site is maintained. Moreover, the palms do not require daily care and the planted area can be shared with other crops.

The project is innovative because it includes small local farmers in a production chain with positive economic prospects, provides them with viable access to the technology for planting and harvesting palms, and orients family agriculture toward a type of farming previously considered viable only for intensive crops. Thus, an example of perennial crop production that generates ongoing monthly income has come true in the Amazon region, reducing rural migration and strengthening the community. Furthermore, it enables Agropalma to demonstrate socially responsible conduct to its stakeholders, in addition to providing it with direct benefits such as lower investment expenses, less tied-up capital, higher production volumes and the assurance of obtaining high quality raw material. More specifically, these projects allow the company to expand the production area without tying up capital in land or raising direct employee headcount, which noticeably cuts personnel costs and labor charges. Another one of the project's favorable aspects is the conservation of land and natural resources by the population itself, mainly the local farmers' families.

In Brito's opinion, "the project opened the authorities' eyes to the need for partnerships that ensure the investment's useful life, with products that have a strong, open market and that, above all, pay the producer adequately." He adds, "It's a mistake to say that family agriculture and corporations don't mix. To the contrary, it can be combined with any firm, large, medium or small."

### OVERCOMING CHALLENGES

One of the chief challenges of the project is difficulty in changing the cultural patterns of small family farmers. Used to living off extraction and subsistence crops, they are now obliged to adopt the more sophisticated planting techniques that perennial crops require. This change has been taking place gradually, through constant dialogue and information, as illustrated by the learning process Agropalma experienced to build a relationship of trust with the farmers. Some were disinterested and suspicious of the company's intentions at first, causing initial resistance to the project. However, people from Agropalma and from the other institutions involved met with the farmers to clarify objectives and discuss the project's activities and results, overcoming the initial resistance.

Concerning this evolution, Ivan da Silva Cristo, one of the family farmers, declares: "At first, I had my doubts about joining the project or not. But my colleagues showed me that it would have benefits.

Today, my income covers 100% of my household expenses." Brito adds that "as it is the international market that sets the pricing, the company is unable to define prices capable of particularly benefiting any party. This lends transparency to the process."

The involvement of the public sphere in the network and the value chain built, however, poses challenges of a different nature. Whereas some relationships flourish, such as the partnership with the Moju Municipal Council, others stall. The state government's non-fulfillment of agreements to invest in the region's infrastructure is just one example of government lack of commitment to the project. Further examples include the restrictions imposed upon the registration of land ownership in the settlements, or the lack of support from municipal councils of neighboring towns, which obstruct or hinder project expansion to other sites. In these cases, to avoid jeopardizing results and keep the project from being discontinued, the company bears the burden of a portion of the investment that was meant to be shouldered by other partners in the undertaking.

Alternating between forward strides and setbacks, this experience illustrates the road of persistence and resilience faced by pioneers of a new way of producing economic results with social value and environmental conservation. It also shows that it is possible to transform the reality of families through initiatives that involve the participation of several social actors and to encourage their inclusion in the production chain of goods, helping not only to improve their quality of life but also the sustainable development of a region.

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*Rosa Maria Fischer is the SEKN leader in Brazil. She is Director of CEATS – Centro de Empreendedorismo Social e Administração em Terceiro Setor (Center of Social Entrepreneurship and Management on Third Sector) and Professor at the Faculdade de Economia, Administração e Contabilidade da Universidade de São Paulo (FEA/USP). Monica Bose is a senior researcher at CEATS and holds a Master in Business Administration from the Faculdade de Economia, Administração e Contabilidade da Universidade de São Paulo (FEA/USP). Paulo da Rocha Borba is a senior researcher at CEATS and holds a Master in Business Administration from the Faculdade de Economia, Administração e Contabilidade da Universidade de São Paulo (FEA/USP).*

# Adding Value to Wild Fruits

*A Chilean Experience*

BY MLADEN KOLJATIC AND MÓNICA SILVA

AS VERONICA SALAS DROVE THROUGH THE POVERTY STRICKEN Chilean countryside in the early months of the year 2000, she waved her hand to a woman and two youngsters picking berries along the road. Instead of waving back, they hid beneath the bushes. She later learned that although peasants were normally affable and congenial, they did not like being seen picking fruits or mushrooms.

Gathering wild fruit was not considered a reputable activity in the area, looked down upon as a menial job performed by females and young children. Even unemployed men refused to perform the backbreaking and poorly paid harvesting activity. Middlemen buying the highly perishable berries and wild mushrooms from the peasants made a profit through sales to wholesale distributors in the area. Peasants had no negotiating power with the middlemen, who arrived each evening in their big trucks. It was simply take it or leave it, and the peasants had no choice but to take it; otherwise, the fruit would spoil and be worth nothing.

Salas, a graduate of the Université Catholique de Louvain and leader of a Chilean community development non-profit organiza-

The knowledge acquired in the process of centuries of harvesting the wild fruits of the land had played an important role in peasants' subsistence and development and could become a valuable asset now.

tion—Taller de Acción Social (TAC)—wondered if it would be possible to organize wild fruit harvesters to develop their own business initiative. That way, they could bypass the middlemen and deal directly with the produce marketers. She realized this would not be an easy task. First of all, the gatherers were not a community. They lived in farflung rural villages or the countryside, with very little formal education and few ties among themselves. The TAC team had been very successful in strengthening communities with a sense of identity—not the case of the gatherers. She realized that they would need to form an identity and create bonds to collaborate with each other. Basic skills training would simply not be enough.

“I knew if we were to be successful we would need to start from scratch,” Salas commented. “First, we had to bring the peasants together and create the conditions so that in spite of being scattered and relatively distant from each other they could become ‘neighbors.’ In other words, we would have to lay the groundwork so they could become a community. In all our previous experiences we had started with literacy programs and training inspired by the model developed by Paulo Freire. But this time, we needed to build a sense of community first and most important, instill dignity into the job.”

To meet the challenge, Salas and her team worked with census

data in order to choose an appropriate geographical area. They opted for the second poorest region of the country, Región del Bio-Bio. Relatively close to Santiago thus allowing the TAC team to commute easily, Bio-Bio also had one of Chile's highest rates of unemployment: 9.7% for men and 17.4% for women. Although the region harbored large forest-based enterprises, fishing and agricultural businesses, the mechanization of labor translated into jobs for only a few workers. Only the better qualified found jobs in these industries. The rest had to find low paying jobs as farm laborers, complementing their meager wages with the income from the harvesting activities of the women and children of the household.

Salas recounts how TAC identified six groups in different communities. “[We] started knocking doors to introduce ourselves,” she recounts. “We met the poorest of the poor in our nation, people that lived in extreme conditions of isolation, in a state of misery that affected all dimensions of their existence. Gatherers did not live in areas with easy access. Their homes were spaced miles apart. Many of the families did not have running water or electricity.

“Often the households were headed by single women who had to bear the brunt of feeding their hungry children, keeping them warm and healthy during the winter months, bringing fresh water daily, collecting wood for the stove... We discovered their strength, sensibility and wisdom and that made all our efforts to reach them more than worthwhile.

“Often we had to travel through muddy rural roads in dire conditions to get to them. Some places could only be reached by foot, sometimes two or three hours walking distance from a shabby train station. If we happened to miss the train it meant being stranded for two or three days in the middle of nowhere at a time when we did not have cellphones,” she recalls.

TAC then began to host regional conventions of gatherers, stressing that anybody—male or female—was welcome. TAC paid for travel and accommodation expenses holding its first meeting in the town of Chillán in 2001.

Salas realized the need to infuse dignity into the work performed by the gatherers and to build value into the activity. The peasants had to become aware of the connection between their history and traditions and the role of picking wild fruits in the sustainability of their life and culture. The knowledge acquired in the process of centuries of harvesting the wild fruits of the land had played an important role in peasants' subsistence and development and could become a valuable asset now. TAC devoted resources and efforts to help peasants develop a genuine sense of identity and pride in this activity and they apparently succeeded in boosting their self-esteem, as expressed in the words of Panchita Rodríguez: “gathering wild fruits has been done historically by peasants and natives, it's [an] ancestral [activity]. Women and men of the countryside have always extracted from nature what we need to survive, to improve



Building community and sustainable business: these people are working together to provide sustainable income to their families. At the same time, they have developed an empowerment process through recognizing dignity in their jobs and creating a successful enterprise.

our nourishment, to feed our animals, to build our houses, to use in arts and crafts... Gathering wild fruits distinguish our people for what they do, and also distinguishes local communities and is expressed in local festivities.”

The meeting in Chillán served as the starting point to establish a collaborative network between people and communities. Salas observes, “At the time the harvested fruits were not valued, in part because of the meager price paid by the middlemen. In fact, most women did not use these in food preparation. So we thought it would be a good idea to stimulate them to discover how good they were and how highly valued they were by the city people that bought them. We taught them how to prepare a variety of new dishes, like chicken and mushrooms, which we ate together afterwards...For them[the gatherers] to value their work, we arranged visits to the agro-industrial businesses that bought their produce from the middlemen so they would see with their own eyes the end product of their labor. Many had never realized that their fruits underwent a process of cleaning and dehydration before being

packaged and sold to customers and they were impressed to see how good their products looked.”

But what finally boosted the feelings of self-worth in their endeavor came out of a fortuitous event. One of the most prestigious shows of a local television channel learned about the nascent communities of gatherers and decided to run a program that documented their efforts. When the gatherers saw themselves on television they felt dignified and validated as workers.

Salas was aware that dignity was a necessary but not sufficient ingredient to move the gatherers from their marginalized status. They had to dream of a better future, and take action towards the improvement of their living conditions. The venue to achieve this was to organize themselves into a business enterprise to sell their produce directly to the agro-industries and obtain a better price. Thus, subsequent meetings in Chillán organized by TAC included modules that aimed to train them in vitally important business skills. Agro-industry executives, university faculty members from the Universidad de Concepción and local government officials were



Left: A new perspective on a traditional activity: a group of Chilean women that used to be gatherers and lived in poverty, created an agroindustrial business with the help of a local NGO; Rosita Paine (at the rear of the photograph) and her coworkers, are part of this group that sells dehydrated medicinal herbs and mushrooms to national and international markets. Middle: After cilantro is gathered, Quenaida Valdebenito, Miguelina Mardones, María Arteaga and Yuri Valdebenito (in order from front to back) select the herb to be dried out in the oven.

invited to share their expertise with the gatherers, to help the gatherers to organize themselves into productive units and to develop a cogent business strategy. With TAC's help, the nascent enterprise conducted an in-depth exercise in strategic planning analyzing strengths, weaknesses, opportunities and threats. This exercise identified needs for training and support in order to pave the way for the development of a successful business initiative.

The communities of gatherers soon realized that a good way of obtaining a better price for their products was to dehydrate the fruits and vegetables and sell them already processed to the agro-industries. The Food Technology department at the Universidad de Concepción played a vital role in training the gatherers to dehydrate their produce, providing technical support with the first dehydrating oven, which allowed the gatherers to enter the world of mass production. They dried and packaged their products, selling them directly to national agro-businesses, as well as foreign markets. By dehydrating the fresh produce, they could obtain five times the value. Additionally, their work could be extended from a seasonal activity to a year-round endeavor if they expanded their range of produce to incorporate a variety of vegetables and herbs.

By 2006, the organization had gone a long way. They created the Coordinadora Regional de Recolectoras y Recolectores del Bio-Bio, a governance entity that managed, marketed for and represented

eight local communities of gatherers from different counties. Each community elected two leaders of a board that met monthly to oversee the chain of production and marketing. Leaders shared information with community members, issuing a public statement of costs and revenues in order to foster transparency and accountability. Salas continued to support the nascent business initiative, attending the monthly meetings and collaborating with the gatherers-cum-managers on sales and distribution decisions.

The Coordinadora developed a collaborative network with forestry and agricultural businesses so that members of the eight communities were allowed to collect

fruits from their property, a previously prohibited area. For years companies had forbidden the entrance of gatherers to their land for fear they might accidentally start a fire. To assuage these worries, an agreement was reached that specified the conditions and precautions to be followed by gatherers. Both parties gained from this arrangement: Gatherers had access to new reaping sites and the companies earned their goodwill and the approval of the local community.

Salas expresses with pleasure, "This is a first step that has trans-

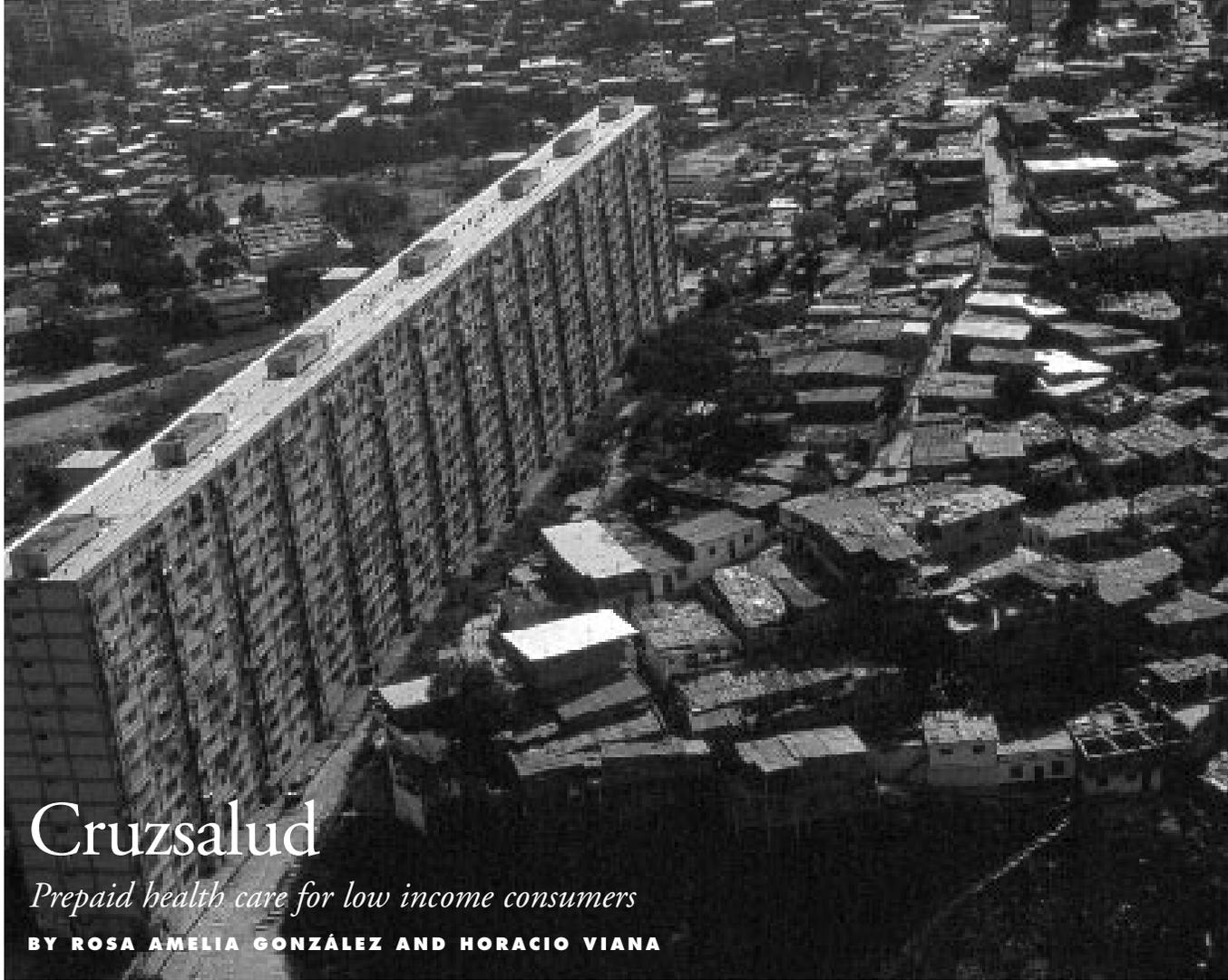
**"There are over 200,000 gatherers in the country. If they can replicate this initiative, there is hope that rural poverty can be overcome some day."**  
—community leader Verónica Salas

lated into a stable albeit small monthly income for the gatherers in the Coordinadora. And even for those gatherers in the Bio-Bio Region that are not part of this business organization there have been positive consequences. Competition has prompted middlemen to pay higher prices for their products. There are over 200,000 gatherers in the country. If they can replicate this initiative there is hope that rural poverty can be overcome some day. Overcoming poverty is not matter of giving people money. Poor people have often lost their dignity and their ability to dream of a better world with a promising horizon of business opportunities. We need to empower them by helping them regain a sense of worth and offering them the tools to become part of the wider society..."

### COORDINADORA REGIONAL DEL BÍO-BÍO: SOME DATA

- In 2006, 70 people (57 women and 13 men) were members of the Coordinadora. The total number of family members that benefited from this initiative was 280.
- From year to year their sales increased rapidly. In 2004, total sales reached US\$2,120 and grew to US\$8,380 in 2005. By June 2006, sales totaled US\$18,620, and the Coordinadora had signed a contract with a national distributor to deliver medicinal herbs to supermarkets nationwide. They also were expanding their international market, exporting a large order of mushrooms to Sweden.

*Mladen Koljatic is a faculty member of the School of Business Administration at the Pontificia Universidad Católica de Chile. He holds an MBA from the University of Michigan and a doctorate in education from Indiana University. He teaches courses on marketing and more recently on corporate social responsibility and management of nonprofit organizations. Mónica Silva is an associate researcher at the School of Business Administration at the Pontificia Universidad Católica de Chile. A trained psychologist with a Ph.D. in educational psychology from Indiana University, she specializes in educational assessment and research methods.*



# Cruzsalud

*Prepaid health care for low income consumers*

BY ROSA AMELIA GONZÁLEZ AND HORACIO VIANA

**W**ALKING ON PETARE'S LA LINEA STREET AT THE END OF A workday is akin to flowing with the tide. Hordes of people head to their dwellings in any of the hundreds of crowded barrios that make up the eastern tip of Caracas, Venezuela's capital city. But on this particular day the moving mass of pedestrians is marked by a strange sight—a crew of men and women wearing starched white gowns, some with stethoscopes hanging from their neck; they bring to mind scenes from *ER*, the popular TV series, as they offer passersby a quick health check-up.

Some view the visitors skeptically, while others pause and wonder what this is all about. The scene is staged by Cruzsalud, a prepaid health care firm founded in November 2004 by entrepreneur Jean Paul Rivas and three partners, in order to promote a service aimed at Caracas' low-income sector (LIS) consumers.

By mid-2006 Cruzsalud boasted some 10,000 affiliated customers, offering health care plans at fees that ranged from about four to nineteen dollars per month. Included are 24-hour a day telephone consultations on any health issue, home-visits by qualified medical staff, emergency ambulance services, dental emergencies, medical specialist consultations, lab tests, and all supplies required in Venezuela from patients seeking surgical procedures in public hospitals (such as cotton, gauze and screws to mend fractures), as well as a complementary physician's gown thrown in for good measure.

The easiest way for affiliates to pay their monthly fee is to purchase a prepaid card at the nearest drugstore, or directly from a

Cruzsalud salesperson, activating the card by phoning in the code that appears on the back. The card's basic coverage—access to the Cruzsalud health care center—may be equated to that for prepaid mobile telephones; to obtain other health care services (at additional fees) affiliates sign up for a “health ticket,” at just over two dollars each.

Cruzsalud employs 60 staff members, including physicians and salespeople on payroll. An additional sales force of 25, all independent and on commission, are known as Cruzsalud Independent Representatives (RICS). Moreover, 70 specialist physicians are on call, and affiliated customers can draw on 10 health care organizations (such as clinics and laboratories). The firm's headquarters are located in Lebrún, a Petare industrial zone.

## THE IDEA

Rivas is a businessman with 15 years' experience in the insurance industry. In his view, Venezuela's market for insurance will continue to decline over the next 10 years—as it has in the last two decades—given falling purchasing power. Thus, those who propose to remain in the insurance business face only two choices; to compete for 10 % of the market with some 50 other firms or make a go for the remaining 90 %.

As Rivas put it, “When we became aware that the insurance market failed to grow, that competing firms spent millions to grab customers from each other, we asked ourselves: ‘what's to be done? Where's the vision?’”

Rivas and his partners sensed a market opportunity for insurance

Cruzsalud brings prepaid healthcare into low-income neighborhoods.

## SOCIAL ENTERPRISE

providers among LIS consumers, but the needs and economic circumstances of the poor would first have to be gleaned. Established insurance companies view areas such as Petare as a homogenous mass, making up the D and E strata; i.e., market segments with the lowest educational and income levels, ranked according to the grid employed by market research firms in Venezuela. Cruzsalud, instead, felt that within these segments are wide substrata: population groups that barely subsist and must be provided state-supported health care by means of programs such as Barrio Adentro (a system of primary health care units in LIS areas launched by President Chávez in 2003) coexist alongside other groups with unmet needs and some purchasing power, able and willing to pay for certain services.

Before operations were under way, Cruzsalud shareholders chose to verify their hunch, hiring a market research firm to prepare an ambitious survey. According to the findings, D and E income groups spent 7% of family earnings on health care. More than four out of five of those interviewed would be willing to sign up for the services offered by the company (given a 6.7% margin of error).

The challenge at hand was to design a product that low income groups could afford, featuring significant value added vis-à-vis such health care services as were offered by the state, including Barrio Adentro. Cruzsalud shareholders were convinced that the right product would ensure success, given the huge size of the potential market and lack of competition for the target segment.

### THE CRUZSALUD BUSINESS MODEL

Two key factors—knowledge of the LIS consumer market and cost control—serve as the basis for the Cruzsalud business model.

"What took us by surprise on getting started was learning that the real need of the target market was simply to have someone to call; not the kind of coverage that, once needed, may cost thou-

sands. Middle income people like us generally know of a doctor we trust, perhaps a family member, friend or neighbor, whom we can phone when sick. But the poor don't!" said Rivas.

Findings such as these led Cruzsalud to design a product portfolio that offers an assortment of services aimed at fulfilling target market needs. One such service is a health care center, where affiliates may consult a resident physician charged with reviewing and assessing each case 24 hours a day.

Another key lesson learned relates to the contingent nature of health insurance.

"We must understand the economics of being poor; given the dynamics of poverty, a woman may return home carrying five dollars in her purse, but seldom \$35. Each day she buys what she needs in order to live. How can she be persuaded to pay today for what she may – or may not – need tomorrow?" commented Rivas.

This reality led Cruzsalud to understand that in the low-income consumer market, the firm competes for the very last dollar; and that competition becomes harder when the product offered is not tangible. This makes it necessary to win over customer trust by offering a quality service on time. "It's not enough to stick the card in their purse; they later test you to find out if it's true. They call in to say they feel sick, and challenge you. Is it true you will come over here, to a barrio?"

To build trust, Cruzsalud recruits "barrio people" for its staff, especially for nursing and sales. A salesperson makes the first contact, and nurses are the first to attend to a patient. "These people are highly skeptical because they have been misled and tricked, subjected to unfulfilled promises; barrio people perform a "validating" role, for they are much alike," said Rivas.

Once a customer is affiliated, the next challenge is to ensure that payments are kept up. Experience shows that once affiliates make use of the service, a degree of trust that helps build loyalty emerges; should a call not be attended promptly, the probability of missed payments is high.

Cruzsalud attends medical emergencies even when an affiliate's account is delinquent; once attended, a debt reminder is handed to them. This policy enables the firm to soon recover debt, and turn affiliates into committed customers who pay their monthly fees promptly.

Another recently deployed strategy that holds promise is to employ house to house bill collectors. This helps remind customers to pay their monthly fee on time, and renders payment easier by billing either at home or place of work.

These examples reveal how important it is for Cruzsalud to make every effort to understand the needs, perceptions and consumption patterns of the poor.

The second key aspect, beyond knowledge of the market, is cost control. Insofar as price is a determining factor for low-income consumers in making a decision to buy, cost monitoring and control are overarching priorities. Accordingly, Cruzsalud makes inten-



Cruzsalud is creating social value by offering previously unaffordable quality products to low-income sectors.

sive use of information technology by means of a system application developed by SAP (the world's largest business software company) that allows it to track daily operations. "Today, at 6 p.m., we will know how much the day cost us, what happened, how many lab tests were done, how many customers were cared for... we'll have all the data. That's why I consider this a hands-on business. You have to be on top of everything," said Rivas.

Improved medical histories of affiliates, made possible by the information system, enable Cruzsalud to tighten the efficiency of its health care model. "According to available data, we expected that each month, for every 100 affiliates, one and one-half would require service; the record shows that it's more like four out of 100. Of course, at the outset there was no cost reduction; instead, costs mounted as we needed more physicians, more people to handle calls; but this changes when costs are examined in light of medical histories. The more people seek out our services, the easier it is to readily identify those who suffer from hypertension or diabetes; to the extent you can increase preventive health care, the cost of hospitalization and medical treatment becomes lower," said Rivas.

Cost control is perhaps the company's most effective management tool, for in the final analysis this governs the financial viability of a business built on high volume operations and very low margins.

#### THE OUTLOOK FOR CRUZSALUD

Rivas and his partners well know that the viability of their venture depends on two critical variables, mass consumption services and up to date fee payment by those affiliated. "It's a problem of volume and depth," said Rivas. "Once we reach the point of mass consumption, the product will become much more tangible; to guarantee the operation we must attain a critical mass of monthly contributions as soon as possible."

Operating profit is being generated, but return on investment is minimal. Cruzsalud faces the challenge of expanding the number of affiliates exponentially, and educating consumers to learn a payment culture that most lack.

Asked about the critical resource for Cruzsalud at this time, Rivas readily responds, "Time, that's all we need. We've learned this business is based on experience; the longer we operate, the better we know our market and do our job. We want to build a

**To the extent that you can provide preventative health care, the cost for hospitalization and medical treatment becomes lower. Cost control is perhaps the company's most effective management tool.**

business, not simply to make money; and in Venezuela too many businesspeople seek an immediate return on their investment. As happens with many other aspects in the health field, this is a long-term initiative."

Rivas may cry for time to allow his venture to mature, but conditions in the insurance market exert an upward pressure on the company. By offering a quality product at a low price, Cruzsalud positions itself as a highly appealing service provider for large as



This photo by architect Oscar Grauer depicts sprawling housing in Caracas. Health and housing are priority basic needs for the poor.

well as small companies obliged by law to offer health care to their workforce. A 2005 law known as Lopcymat that regulates workplace conditions in Venezuela specifies that employees and workers must organize themselves to ensure health care at their place of work. Companies that seek to comply with the new law's mandate, which is being enforced by authorities with uncommon zeal, have spurred demand for health care services. Management is currently reluctant to enter that market, fearing that doing so may compromise the company's mission. Nonetheless, a dilemma is in the making.

Yet another factor that may shape the medium and long-term outlook for Cruzsalud is the quality of state-provided health care services. Up to now, services not available from state-run facilities have been offered by Cruzsalud at reasonable cost. Should state-run services continue to improve in terms of quality and coverage through the new programs Barrio Adentro 2 and 3, Cruzsalud may have to ensure that instead of competing with public health services, its product portfolio is complementary.

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*Rosa Amelia González is Associate Professor at Instituto de Estudios Superiores de Administración—IESA, and Coordinator of its Public Policy Center. Horacio Viana is Professor at Instituto de Estudios Superiores de Administración—IESA, and Academic Coordinator of its Master's in Administration program.*

# Recover Them from Oblivion. Recover the Community's Ability to Produce

*Cristina Lescano and El Ceibo*

BY GABRIEL BERGER AND LEOPOLDO BLUGERMAN

**L**OW-INCOME SECTORS (LIS) OFTEN FACE tough obstacles and tensions that make it hard to act collectively. But a small group of people, made up of 40 families in a poor Buenos Aires neighborhood, overcame those barriers and organized to change the conscience of residents in Palermo, a trendy Buenos Aires neighborhood. We are talking about a collective of garbage recyclers known as El Ceibo.

## THE BEGINNINGS: ORGANIZED TO SURVIVE

*In our neighborhood, Palermo, 1989, we used to get together while we tried to buy some groceries for our families, with seven women, all of us with our children; we all were outside the law, because each one of us was living illegally in houses that didn't belong to us: we were okupas [slang for illegal squatters of abandoned houses], young and most of us single mothers, and we hardly had a buck to live... There was hyperinflation those days, the president Alfonsín resigned... We, or me, who cares, needed to make something....*

Coming to Buenos Aires from southern Patagonia in the mid- 80s, Cristina Lescano got a job at City Hall as a community worker, but lost it a few years later, due to political reasons. Jobless, and in the midst of hyperinflation, that's how the story of cooperative founder and Palermo inhabitant Cristina Lescano begins. But from that beginning follows the story of a woman who decided to organize people like herself, and fight to improve their situation. Cristina taught women reproductive health and mobilized them to get free contraceptive pills. At the same time, she also started an organization to defend the houses they were occupying illegally, but which had been vacant since the end of the 70s, when the military government evicted its former residents because of a planned highway that was never constructed.

Abandonment is a common thread throughout Cristina's narration: the abandoned highway project, the abandoned houses, and the abandoned poor people taking those houses to find some shelter. But always some people try to do something to halt the cycle of neglect. That's how the story of Cristina and the origin of El Ceibo began.

Throughout the late 80s and early 90s, El Ceibo created a network of grassroots groups to defend the illegal occupants of the



Some El Ceibo staffers, with Cristina (far right), transport recycling material. They all wear uniforms, as they display the bags for inorganic garbage that show the alliance between Greenpeace Argentina and El Ceibo in "Programa Basura 0" (Zero Waste Program).

otherwise vacant houses, even working with the Buenos Aires city administration to form the network. In the process, the scope of its activities grew, providing social support to single mothers and poor families by giving them a shared place to express their problems, helping them obtain ID cards that would allow them access to social and other services, and helping their children get scholarships.

## THE LATE 90S: STRATEGIES TO GENERATE INCOME

*As we couldn't find a job for years, cartonear was the only chance to get some bucks.*

In the late 90s, the activities of this loosely institutionalized group continued to evolve as the economic situation in the country became increasingly unstable with increasing rates of unemployment and poverty. Many LIS families and groups began to see garbage collection as a survival strategy to earn some cash. *Cartoneros* dug through the trash to rescue almost anything that could be recycled and sold to middlemen. This activity was prohibited by law, so the *cartoneros* or *cirujas* were forced to work by night, in small groups or individually, usually paying bribes to local authorities.

The garbage might be said to be improving in the neighborhood.

Once a solidly middle class neighborhood with sprawling houses on the outskirts of the city, a large section of Palermo became the trendy *Palermo Soho* in the late 90s, reminding visitors of the New York Soho, the *Barrio Gótico* of Barcelona or Boulevard Saint Germain des Prés in Paris. Cristina remembers silence and the singing of the birds as part of the landscape of her childhood Palermo, an area loved by Argentine writer Jorge Luis Borges.

As the Argentine economy became *nowhere-stagnated-land*, with high rates of unemployment and poverty, some people living in Palermo began to notice those changes taking place in their backyards, and became receptive to initiatives like that of El Ceibo. Recycling has now become “cool” and something one should show off to one’s neighbor.

#### THE VALUE CHAIN: JUST A FEW NUMBERS OF A BIG BUSINESS

*The garbage always pays well... There’s a lot of money and interest in the garbage.*

But first, let’s examine the business of recycling itself. *Cartoneros* (also known as *cirujas*) gather and classify recyclable items such as paper, glass, metals or clothes from residential and office trash, and then sell it to the *depositoro*, or store man; recycled and processed material is eventually sold as raw materials to companies.

In Buenos Aires, 4500 tons of garbage are produced every day. The six waste collecting corporations that operate in the city take around 85% of it. Most recyclable trash is gathered up by those informal workers, the 10.000 to 25.000 *cartoneros* of the Buenos Aires metropolitan area, who receive an average of US \$60 per ton collected. The next step in the value chain (*depositoro*) adds a 15% margin. In a highly concentrated market, processors earn about US \$400 per ton. According to some estimates, the *cirujas* as a whole take in US \$30 million yearly, and the entire business produces US \$150 million (*La Nación*, 6-25-2006), only taking into consideration the paper-related market in Buenos Aires.

Needless to say, *cartoneros* don’t pay taxes and the rest of the actors move in a legal twilight zone, with the acquiescence of some authorities.

#### THE ORIGINAL IDEA

*That’s when I thought ‘Why don’t we work together to get a better price for what we sell, while we take care of the environment?’*

If the *cartoneros* could involve neighbors in the cooperative project, teaching them to separate organic from non-organic waste, Cristina explains, “then collecting it from their homes once or twice a week, we wouldn’t break the law, and later, we could put all the garbage together and take that to our *galpón* [storehouse] so we can clean the waste and have more economy of scale—one thing is the result of one family working; another is the production of 40 people—and sell it at a better price... we also can negotiate better.” That was the starting point for Cristina.

Nevertheless, the idea faced resistance: “As we didn’t know how to organize the work collectively, and didn’t have the money, we had to get in contact with a crowd of people to help us... It was hard because of the law, and because we were *cirujas*. Then, what to do? We needed to go out and beat the prejudice, both of the rich and the poor people.”

#### ... AND HOW THE LAW LED TO INNOVATION

*I realized that the garbage belongs to the one that produces it.*

Informal recycling activity in Buenos Aires was illegal because the garbage on the streets belonged to city-contracted waste-collecting companies. *Cirujas* were pressed both by the law and by those public utilities firms that saw them as competitors. But Cristina thought they could use the legal framework as an opportunity to win potential clients’ loyalty: “We knocked on their doors, and as they saw us in Palermo every day for years, working in the light; thus they could trust in us.”

#### THE PROJECT

Now that we have the big picture in mind, we’ll see how El Ceibo works: Ten El Ceibo promoters canvass the pilot zone, a hundred block area with some 56.000 residents. They explain the benefits of recycling, the mission of El Ceibo (recycling both people and garbage), how the neighborhood could help the LIS to earn its money productively, and how to separate inorganic from organic waste. Cooperation grew from a hundred clients in 2001 to around 900 clients at present. El Ceibo’s number of providers increased after it began to collaborate with Greenpeace Argentina in a program called Basura 0, intended to promote new legislation in Buenos Aires regarding solid waste management policies. That alliance, which led to the passage of a law in 2005, was a hallmark of El Ceibo’s popularity.

Now, if the neighbor agrees, one of the 15 *recuperadores* stops by the house on a regular basis with his/her *carrito*, and takes the waste to an El Ceibo gathering point in a storefront. Those *recuperadores* visit almost fifty clients every working day. As the *recuperadores* collect the solid waste from the homes and not from the streets, they aren’t breaking the law.

Inorganic waste is brought to a central point and then trucked to the *galpón*, where eight *acopiadores* separate, clean and start the recycling process. After that, the waste is sold to specialized recyclers. The logistic-administrative duties are assigned to six persons, mostly members of the Administrative Council, the cooperative’s governing body. El Ceibo takes in US \$32,000 - 36,000 yearly for the recycled materials. Each of the 40 members earns from US\$ 1,400 to US\$ 2,900 per year, an amount which includes a city government subsidy.

#### WORKING TOGETHER

*We the cirujas aren’t used to work together, we don’t know how to work in a group, we needed to do that if we wanted to survive... It was hard for us to act collectively .*

Despite the large numbers of *cirujas*, they weren’t used to working together or presenting a united front in the agenda-setting process with other waste-stakeholders. It is hard, Cristina says, and we believe it: the city government office in charge of solid waste management that monitors the *cartoneros* says that there are just five cooperatives in Buenos Aires, employing 110 persons (around 1% of the *cartoneros*), even though there are thousands of individual *cartoneros* working in the city.

El Ceibo, one of the few cooperatives that has managed to organize, emerged as a collective actor in the first part of the value-chain



El Ceibo's President, Cristina Lescano, in *el galpón*, after waste was cleaned and recycled.

of the garbage collection-disposal process. They could only accomplish this over time, Cristina says when asked about the project's resilience, "because we know each other from a long time, now our children are working as promoters or *recuperadores*, and the neighbors know us for a long time." In this process, *cirujas* took on a new economic role: *recuperadores urbanos*, urban recyclers.

**ALLIANCES: LEARNING TO WORK TOGETHER, WORKING TO LEARN TOGETHER**

*I always thought: if we want to make it, we need to open up ourselves... it was strange for us to work with Americans, Europeans, foundations, politicians, but I think it was stranger to them, to see the*

*way we, the poor, work. It was fine because we learned from each other. It is so useful, for us certainly... I think it was useful for them too... but the rich don't trust in the poor.*

The cooperative managed to act with continuity and collectivity, not only because of the strong ties binding its members; its social capital; but, as Cristina concludes, "because we are open to everyone who has something that can be useful to us: whether it is money, experience, networking or political clout."

Examples of alliances include work with Asociación Conciencia that provided training to El Ceibo on how to build an institutional and unified discourse for negotiating with local authorities; Greenpeace Argentina on how to work with the media and get visibility for the group; CLIBA (a waste collecting company); the World Bank, and more recently, AVINA, with its support for the production of crafts and artwork using recyclable materials. El Ceibo showed openness to alliances, but with two conditions: "as long as you don't use me politically and we understand how to take advantage of your help, you're welcome," Cristina asserts.

*Gabriel Berger is a professor at Universidad de San Andrés in Buenos Aires (UdeSA) and director of the Graduate Program in Nonprofit Organizations. He leads the SEKN team at UdeSA. Leopoldo Blugerman is a research assistant on the SEKN team at UdeSA. He holds an M.A. in International Relations from Bologna University, Italy.*

**FIRST RECOVER THE PEOPLE, THEN RECOVER THE GARBAGE**

"How did we start with this project? In the end of the 1990s, laws passed by the dictatorship that governed the country said the garbage on the streets belonged to the firm that collected it. This led us to develop the following strategy: to pick up the garbage in the door of our clients voluntarily, instead of the usual method of the cartoneros: picking up the waste from the garbage bags that neighbors leave on the streets... We are closer to our clients because of our strategy, and despite the laws having changed,

our type of relationship with them remains the same... From the very beginning we were driven by the same principle: Recover the people, and then recover the garbage."

"Society changed after the 2001-2002 economic and political crisis. It is more open to support this kind of initiative. [Also] we opened our minds to working with people outside the cartoneros. In this sense, if the one who has the money wants to give us anything to make corporate social

responsibility [sic], it is welcome because we need the resources... the sole thing that we don't want when it comes to making an alliance, is to be used politically, or to be eaten by our partners... In the end, a cooperative has to work and plan its strategy as corporations do, regardless of its legal status."

— Cristina Lescano, President of El Ceibo

"Many of the people working here started the bond because we treated the problem of the okupas [ille-

gal occupants of the houses], but soon we all realized that if we didn't work, we couldn't make it. It was so hard to change the minds of the poor people working here, with almost no concept of the duty, with no previous formal work, or not having any formal activities for a long time... We follow Cristina in everything she decides. Some times we discuss about this or that, but in the end, what can I tell you? Cristina la tiene muy clara con esto [has it right],"

— Alfredo Ojeda, El Ceibo promoter, and Valeria Corbalán, in charge of administrative affairs.



# Construmex

*Constructing Bridges Between the United States and Mexico*

**BY LORETTA SERRANO AND CONSUELO GARCÍA**

**I**N 1998, JOSE LEFT HIS HUMBLE SHANTY HOUSE ON THE outskirts of Morelia, the capital city of Michoacán state in Mexico. He was dreaming of a better life for his wife Laura and his two daughters, then only six and seven years old. Several years earlier, their infant son José Manuel had died of complications from pneumonia and hepatitis at a public hospital. Some months after the death of the seven-month-old, José's relatives in California invited him to cross the border and join them. After several failed attempts by truck, he was able to reach the northern side of the border by foot.

In Mexico, José worked as a mechanic. In the United States, he was paid for demolishing cars. In one hour, he managed to make at this job the equivalent of what he used to make in a single day back home. José could not see his family for seven years since his lack of documents meant he could not easily cross the border back

*A formerly houseless couple stands proudly in front of what soon will become their brand new home. Many disadvantaged Mexicans have benefited from Construmex, the initiative CEMEX has set up to provide construction materials for Mexican-U.S. immigrants and their families.*

to Mexico. Nevertheless, as Laura relates, he religiously called home at least three times a day. His dream was to return to Mexico and to his family. But first, he was determined to save enough money to build a proper home in Morelia and to open a garage service center there that would serve as the main source of income for his family.

According to the Pew Hispanic Center, more than six out of ten Hispanic immigrants in the United States are of Mexican origin, that is, roughly 20 million. From these, about 10 million are first or second generation, that is, they or their parents were born in Mexico. One out of every three young Mexicans enters the job market on the U.S. side of the border. That's because of the lack of job opportunities and comparatively low wages in Mexico, coupled with increasing demand for low wage labor on the U.S. side. Traditionally, Mexican immigrants have faced a series of challenges to endure and adapt to these changes. Stories about abuse and commercial frauds abound. Against this backdrop, developing trust turns out to be one of the key elements when targeting the Mexican immigrant market.

**CONSTRUMEX: A SOCIAL ENTERPRISE OF CEMEX IN THE UNITED STATES**

Construmex was launched in 2001, backed by a million-dollar capital investment from CEMEX Mexico, the Mexican subsidiary of the multinational Cementos Mexicanos, as one of the company’s flagship social enterprises. That is, one that aims for the simultaneous creation of economic and social value. The experience of “Patrimonio Hoy,” a program promoting self-construction in Mexico’s disadvantaged areas through micro-credits and technical assistance, paved the way for the development of a new business idea targeting Mexican immigrants in the United States. The Patrimonio Hoy program organized low-income families into self-financing cells to construct their own houses, and Construmex capitalized on remittances to serve U.S.-based Mexicans who wanted to build a home for themselves or their relatives in Mexico. Remittances are the second largest foreign revenue generator for Mexico, second after oil exports. More than 60,000 Mexicans have expressed interest in the program, with its catchy Spanish slogan “Házla paisano” (“You can do it, compatriot!”). To date, Construmex has helped more than 7,000 clients buy, build or improve their homes back in Mexico.

**Strategy “Cash to asset”.** Construmex began by facilitating the use of the remittances for construction purposes, through a model known as “cash to asset.” However, the company soon began to strive for a market share of the resources Mexican migrants spend within the United States because remittances are generally used by their relatives back home to cover day-to-day basic needs.

Construmex now hopes to spread the word in those U.S. cities with more than 100,000 first-generation Mexicans. It offers a variety of housing options in Mexico, such as self-construction,

**Construmex has helped more than 7,000 clients to improve their housing conditions back home in Mexico. A variety of housing options such as self-construction, remodeling or home purchase are offered.**

remodeling or purchase of already existing homes. Payment options are attractive, and Construmex uses a cross-subsidy mechanism. This technique, common in the nonprofit world, allows clients—in this case, immigrants—with higher purchasing power to pay for construction materials received by relatives in Mexico.

**Product portfolio.** Currently, Construmex offers its clients construction materials, either in cash or through credit financing options. Since 2005, Construmex has diversified its portfolio of services by offering credit for housing sold by real estate firms in Mexico. Construction materials are provided by local distributors



near the client’s construction site in Mexico. A medium-sized distributor, for instance, manages more than 4,000 products. Construmex also provides optional technical assistance delivered by experienced Mexican architects that tailor advice to the client’s needs.

**Price structure.** Initially, Construmex charged no commissions in an attempt to attract clients. Small orders, ranging from \$20 to \$50, were readily accepted to build a customer base. The client could request as many blueprints as he or she wanted from the architect and reject them without cost. As the business began to grow, the company established a \$300 order minimum and also began to charge additional small commissions. Construmex executives initially feared decreased demand would result, but that fear turned out to be unfounded.

Luis Enrique Martínez, Construmex general director based at the company’s Los Angeles headquarters, observes that receiving free service in the U.S.—where almost everything involves a fee—tends to arouse suspicion and distrust. Some clients were left out, but the ones remaining began to appreciate the services received. The company charges a \$150 fee when a client applies for credit, or a \$5 fee per transaction under a cash scheme. Distributors, on the other hand, are charged 1.5% per transaction. Interest rates on loans for materials range from 18 to 23% over periods of 6, 12 and 29 months and for the sale of homes, from 9.9 to 14% over a 10 to 15 year period. The only references requested are those from two relatives, one in Mexico and another in the United States, as well as proof of income and expenses. Construction materials are offered at Mexican market prices.



Left: For people like this man, housing is not a problem anymore. He has been able to access high-quality construction materials needed to build his own house. CEMEX initiatives for low-income sectors have played a key role in this endeavor. Above: Construrama was born in 2001 as an initiative from CEMEX to foster entrepreneurial capacity by coaching and providing low-income retailers with a reliable brand. Construrama has grown to become one of the biggest construction material retailers in Latin America, with more than 2,000 retail stores all over Mexico.

**Making a Difference for José.** Two years ago, in 2004, José discovered Construmex, thanks to some Mexican friends in California. Laura had also heard about the initiative from one of her neighbors in Morelia. They both identified the service as a great opportunity to improve their housing conditions. At that time, Jose was sending money home to buy the land on which their plywood and corrugated metal home was located. While living in that single-room house, the family suffered constantly from flooding and cold. On one occasion, the water levels reached about three feet, and they lost all their furniture and belongings. Laura used to have frequent nightmares.

José began to buy from Construmex by sending materials to Mexico in the form of cash-to-asset transactions. Later, he applied for two credits of \$2,400 and \$2,600 over periods of 6 and 12 months, respectively. A Mexican architect from Construmex designed the blueprint for the house. After each payment, José received a reference number that he communicated to his wife in Mexico, allowing her to order the materials directly from the local distributor. Simultaneously, the Construmex staff ordered the material from the distributor, providing him with the reference number and name of the intended beneficiary.

After two years—during which Laura’s relatives have been assisting on-site as bricklayers—a three bedroom home with two full bathrooms, a living room and kitchen is half built. So is the foundation of what will become a garage service center in the future. Construmex has helped José invest his resources in building a home and business locale designed by a U.S.-based Mexican architect. Together, José and Construmex have contributed to the Mexican economy through consumption and job creation, and have radically improved the quality of life for José and his family.

#### KEY FACTORS TO REACH –AND HELP CREATE– A NEW MARKET

**Developing trust.** Construmex’s Martinez admitted that at the outset, the company’s approach was characterized by an excess of confidence. “We thought, we are CEMEX, it will be easy. There are many Mexicans in the U.S. and they are earning money, so we will open our doors and that’s it.”

The plan was to capitalize on a business opportunity and to do it as fast as possible. Nevertheless, as he also explained, the market in Mexico is seen with a completely different perspective than in the U.S. Over time, the Construmex team came to understand that the company’s core business wasn’t just selling materials, but more importantly, attaining a level of trust from immigrants who had been victims of previous abuse and fraud. Construmex also faced another unexpected challenge from beneficiaries, who often demonstrated a preference for receiving cash, rather than the delivery of materials. To enhance trust, Construmex worked hard to establish strong relationships by providing high quality service tailored to its clients’ needs.

**Collaboration.** Collaboration with diverse actors proved fundamental in this new and unknown market, with Construmex partnering with Mexican immigrant associations and Mexican Consulates.

Working directly with the communities through immigrant clubs, such as those from the Mexican states of Jalisco, Michoacán and Zacatecas, hasn’t delivered massive commercial results. However, it has resulted in the construction of credibility and trust and, most importantly, assistance to these organizations in the development of community projects. Moreover, because many Construmex staffers have gone through the migrant experience themselves, they are sensitive to clients’ needs.

Market research studies, including focus group studies and survey interviews, are frequently co-conducted with Mexican consulates in each city where Construmex has an office. In exchange, Construmex provides customer service training or remodels or constructs additions to consular headquarters. Construmex also has other networks in Mexico: more than 2,000 small- and medium-sized local material distributors as well as some of the most prestigious real estate firms.

#### DREAMS AND CHALLENGES

It’s been eight years since José left. Laura has seen him only once—when he traveled to Mexico a few months ago for one of his daughter’s *quinceañera*, or fifteenth birthday party. Laura dreams of enjoying a second honeymoon in their new home, when José finally returns from California in a couple of years to work in his own garage service center.

Construmex has nourished Laura’s dare to dream; nonetheless, it still remains a business initiative subsidized by CEMEX. Its main challenge is to reach its equilibrium point and financial sustainability, in order to become profitable. Undoubtedly, this innovative enterprise is creating social value and it seems to entail an enormous potential for generating economic value as well.

*Loretta Serrano, M.Sc. is an Associate Researcher for the Social Enterprise Knowledge Network based at EGADE, Tecnológico de Monterrey in Mexico. Consuelo García, Ph.D is a Professor and Researcher on Marketing and Social Development for EGADE, Tecnológico de Monterrey in Mexico.*

# Photo Essay

## *Making a Difference*

**T**HE STUDY OF BUSINESS FROM THIS different perspective—Market-Based Poverty Initiatives (MBPI)—is the latest cycle of research for SEKN, the Social Enterprise Knowledge Network, comprised of nine business schools from Latin America and Spain plus the Harvard Business School. In the course of its current investigation, SEKN is examining 18 cases, eight of which are discussed in this issue of *ReVista*, ranging from agribusiness to construction, healthcare, textiles and retail.

—JAMES E. AUSTIN AND MICHAEL CHU



Former illegal crop producers have become Palmas del Espino's allied workforce. A palm oil production company, Palmas del Espino has improved the life conditions of workers in an isolated region of the Peruvian Amazon. The company's role has been instrumental in turning low income individuals into land owners and members of an association for agricultural production. (Photo by Flor Ruiz/DPM *El Comercio*, Lima, Peru)



La Guácima, CRES headquarters in Costa Rica. From here, Joris Brinckerhoff, a former US Peace Corps volunteer, deals with pupae oversupply and fierce rivalry among new exporters who are able to buy overproduced pupae at very low prices. Raising international price and cutting off production so that local suppliers can benefit, are two of Joris' main concerns. (Photo courtesy of Joris Brinckerhoff.)



Brazil's northern region is economically and socially depressed. Agropalma's project is very important in the life of small farmers and their families, who participate in the project as fruit palm suppliers and now are part of the formal economy. (Photo by Simone Saraiva.)



Some El Ceibo staffers, with Cristina (far right), transport recycling material. They all wear uniforms, as they display the bags for inorganic garbage that show the alliance between Greenpeace Argentina and El Ceibo in "Programa Basura 0" (Zero Waste Program). (Photo courtesy of El Ceibo staff.)



Cruzsalud is creating social value by offering previously unaffordable quality products to low income sectors. (Photo courtesy of Cruzsalud.)



Construrama was born in 2001 as an initiative from CEMEX to foster entrepreneurial capacity by coaching and providing low-income retailers with a reliable brand. (Photo courtesy of CEMEX.)



After cilantro is gathered, Quenaida Valdebenito, Miguelina Mardones, María Arteaga and Yuri Valdebenito (from foreground to background) select it to be dried in the oven. (Photo by Johanna Molina.)

## THINKING ON SOCIAL ENTERPRISE

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# Unlocking Opportunity

*For a neglected majority*

BY LUIS ALBERTO MORENO

**S**HOULD A PRIVATE ENTERPRISE PROSPER by providing essential services to the poor?

Consider the case of Sociedad de Acueducto, Alcantarillado y Aseo (AAA), a company based in Barranquilla, a city of 1.5 million on Colombia's Atlantic coast. AAA has become one of the fastest-growing water and sanitation companies in Latin America by specializing in the difficult business of expanding or improving service in extremely low-income areas. In Barranquilla, 76% of AAA's customers are in the three lowest of six income segments defined by the Colombian government. Since 1997, when AAA began winning contracts to operate water services in adjacent areas, it has expanded into eight municipalities where more than 95% of the population is in the three lowest income segments. Most recently, the company has won contracts to provide service in Ecuador and the Dominican Republic.

AAA is what Colombians call a "mixed capital" company. Around two thirds of its shares are owned by a Spanish public water utility, and the remainder are controlled by the municipality of Barranquilla and private Colombian investors. The arrangement allowed AAA to bring world-class management and technology to a company that was near collapse in the mid-1990s.

The new managers engineered a remarkable turn-around. Ten years ago, 60% of Barranquilla's population either lacked running water or had it intermittently, and

most of the city lacked decent sanitation. Today, 99.4% of the city has running water and 96.5% has sewer connections—some of the best indicators in all of Latin America. Measured by volume, AAA's water rate is a small fraction of what informal water truck operators used to charge consumers in Barranquilla's shantytowns. And because AAA has an excellent bill-collection rate and highly efficient operations, its shareholders are benefiting as well.

Like the other case studies profiled in this issue of *ReVista*, AAA demonstrates that the private sector can and will respond to the needs of Latin America's low-income majority, given the right incentives.

**Reducing the poverty penalty.** This example of social enterprise comes as no surprise to students of market economics. But many specialists in foreign aid and international development still resist the notion that the private sector can be instrumental to alleviating poverty. Some critics argue that such activity undermines the state's fundamental role as a guarantor of basic services.

In fact, governments that encourage these types of enterprises are not abdicating their responsibility to the majority. Rather, they are recognizing that public spending (and loans from multilateral institutions) will never be sufficient to eliminate poverty. They are also admitting that the poor pay a penalty for their situation—in the form of money spent on trucked water, hours

wasted on commuting to distant jobs, and high interest rates paid to loan sharks—and that the private sector can help to reduce that penalty by offering goods and services tailored specifically to low-income consumers.

Since I was elected president of the Inter-American Development Bank last year, I have traveled throughout the region and met with many of its newly elected heads of state. Regardless of their political orientation, these leaders are all asking variations of the same question: What is the quickest and most efficient way to reduce the poverty penalty paid by their citizens? If the public sector can provide the best solution at the lowest cost, so be it. But most of the region's leaders are also eager to emulate policies that have enabled innovative companies throughout Latin America to produce measurable improvements in the lives of the poor.

These companies recognize that Latin America's low-income majority represents a vast neglected market. In a study commissioned by the IDB, the World Resources

Clockwise from top: "Girls Laughing," the workshops of the Girls for Peace are fun: photo by Araminta, 11; "Dad," photo by José William, 10; "The Kiss," photo by Wilson David, 10; "First Birthday," photo by Sol Marina, 10, all students from Disparando Cámaras para La Paz, Colombia. Ages noted are the ages of the youngsters when they took the photo. Website: <<http://ajaproject.org/colombiaproject.html>>.



*Social enterprise is one way of thinking about poverty alleviation in the Americas and elsewhere. In this section, authors—noted experts in their fields—reflect on the challenges, drawbacks and opportunities in this approach.*



Institute estimated that some 360 million Latin Americans—roughly 70% of the region’s population—are at the base of the socio-economic pyramid, defined as living on the purchasing power equivalent of \$300 per month or less. Collectively, this population has an annual purchasing power exceeding \$510 billion.

**Dormant wealth.** This estimate does not take into account the dormant assets held by Latin America’s poor. In a separate study for the IDB, Hernando de Soto’s Instituto Libertad y Democracia calculated the wealth that is locked up in assets such as informal businesses or properties and homes that lack legal title—and consequently can’t be easily sold or used as collateral. For the 12 Latin American countries included in the study, this “dead capital” amounted to a staggering \$1.2 trillion.

**WHAT HAPPENS WHEN LOW-INCOME PEOPLE ARE FINALLY ABLE TO “UNLOCK” THESE ASSETS?**

Latin America’s thriving microcredit sector offers a compelling answer. In addition to extending millions of small loans to people shunned by traditional banks, these institutions are now offering savings accounts, debit cards, housing loans and money transfer services to capitalize on the \$53.6 billion that Latin American immigrants sent home in remittances in 2005. As a result, hundreds of thousands of entrepreneurs are now able to leverage their modest income and grow businesses that generate personal wealth and jobs. The microfinance market has become so enticing that the region’s big commercial lenders are belatedly “pushing down” into the low-income population

accompanied by reforms to the mortgage finance industry, creating an unprecedented boom in housing for the poor. More than 1.5 million low-income families have obtained government housing loans since 2001. The loans are bundled and sold to investors in Mexico’s nascent mortgage-backed security market. Homes are then built by private developers who have in turn generated thousands of construction jobs.

Transportation is another sector in which innovative public-private partnerships can quickly reduce the poverty penalty. Following the example set by the Brazilian city of Curitiba, cities such as Bogotá, Quito and Santiago have adopted rapid bus transit systems designed specifically to meet the needs of workers in outlying areas and shantytowns. The systems are administered by municipal governments but operated by private contractors. They have comparatively low start-up and maintenance costs, affordable fares, and immediate positive impacts on pollution and traffic congestion. Most importantly, they dramatically reduce commuting times for low-income workers who cannot afford a car.

**The right environment.** Today the challenge for governments is to scale up these successful experiences by creating an environment that encourages more public-private partnerships that benefit the majority.

At the most basic level, governments should modernize civil registries so that millions of currently undocumented individuals can claim the rights and opportunities of citizens. Studies have shown that approximately 15% of children under five years of age in Latin America and the Caribbean—that is, some 8.5 million children—do not

Governments should also take steps to deepen financial democracy, both for individuals and small companies. Despite the growth of microfinance, millions of low-income citizens still lack access to banking and other financial services, and only 6.5% of Latin America’s 60 million microenterprises receive credit from a financial institution. Greater competition and regulatory reform can expand the range of financial services available to the poor and lower transaction costs such as those associated with receiving remittances sent by relatives abroad.

The water and sanitation improvements in Barranquilla and other Colombian cities offer a vivid example of how such reforms can translate into concrete benefits for the majority. Starting in the 1980s, Colombia decentralized control of many public services and gave municipal governments both the flexibility and the means to undertake improvements—so long as they showed measurable progress and financial sustainability. The reforms also established clear rules regarding tariff increases and subsidies, a key prerequisite to private sector participation.

The IDB is committed to helping its borrowing member governments appropriate and adapt these successful models in ways that make sense for their own citizens. We recently launched an initiative known as “Building Opportunities for the Majority” that will concentrate our efforts in areas where we believe the Bank can have a measurable impact. We also are in the process of developing new products and lending procedures that will allow us to more rapidly respond to our customers’ needs.

Reducing the poverty penalty and providing essential services to the poor will require new ways of doing business at the IDB. Development work cannot be subject to rigid formulas, but should be periodically charged by new ideas and a willingness to take risks. The people of Latin America and the Caribbean deserve nothing less.

**The challenge for governments is to scale up these successful social enterprise experiences by creating an environment that encourages more public-private partnerships that benefit the majority.**

with new products and services.

In the housing sector, government programs to promote land and property registration in marginal areas are now yielding fruit, as people with legal titles more easily obtain small loans for incremental home improvements that progressively add value to their property. In Mexico, these efforts have been

have a birth certificate. Millions of other citizens lack the basic identity documents necessary to access social services, earn a diploma, register a property or obtain a loan or formal job. By giving an official identity to these “invisible citizens,” governments can immediately improve their access to basic services and economic opportunities.

*Luis Alberto Moreno was appointed president of the Inter-American Development Bank in 2005. He was Colombia’s ambassador to the United States from 1998 to 2005, after serving as the country’s Minister of Economic Development and holding senior positions in private equity, banking and media firms.*



# Poverty Alleviation Through Business

*Is it possible?*

BY ROBERTO GUTIÉRREZ AND IVÁN DARÍO LOBO

**A**RE ISOLATED ATTEMPTS TO IMPROVE the living conditions of low-income populations changing the landscape of our societies? In their introduction to this issue of *ReVista*, James E. Austin and Michael Chu describe some unsuccessful experiences of the public and private sectors to eradicate poverty. New approaches have been described throughout this issue. This article aims to observe the social transformations that result from market initiatives that engage low-income sectors. Do the changes at the micro level in particular experiences lead to transformations on a larger scale?

The research of the Social Enterprise Knowledge Network (SEKN) into market initiatives that improve life conditions for low-income populations had, among its selection criteria for cases to be studied, the generation of social and economic value. Researchers in nine different countries have

studied cases in which changes in life conditions are evident at the level of the individual experiences. Here, we first describe the type of changes encountered. Then, we examine whether these changes are bringing about transformations at a societal level.

## WE LOOK AT CHANGES IN LIFE CONDITIONS

SEKN's latest book, *Effective Management of Social Enterprises: Lessons from Businesses and Civil Society Organizations in Iberoamerica* (Washington DC: Inter American Development Bank/David Rockefeller Center for Latin American Studies, 2006), defined social value as "the pursuit of societal betterment through the removal of barriers

Social enterprise transforms society in many ways. Above: (clockwise from left): El Ceibo garbage recyclers in Argentina, a cultural action workshop in Chile and palm cultivation in Peru.

that hinder social inclusion, the assistance to those temporarily weakened or lacking a voice, and the mitigation of undesirable side-effects of economic activity." Cases selected for the current research include experiences with evidence of the generation of different types of social value.

Lowering **barriers to access** is one of the most visible accomplishments in some cases. Low-income sectors have gained access to some consumer goods and services. Some low-income communities have become involved in production processes. Barriers have been lowered, and these communities have obtained access to labor markets, means of production and financial capital.

One step towards inclusion is to create access to labor markets. The Argentine crisis at the beginning of this decade united a group of Buenos Aires recyclers in a cooperative called El Ceibo. With their commitment to the organization came schedules and

responsibilities that some of them had never experienced before. The cooperative became a training ground for future jobs. Another group with high access barriers to labor markets are prisoners who return to society after serving their sentences. Among the few opportunities available is Recycla, a Chilean business that employs ex-convicts while they find different kinds of jobs. Recycla sees itself as a transition environment between prison and paid employment. Just as electronics and non-iron metals are recycled, so too the “recycling of lives” takes place.

Access to means of production has made a great difference for oil palm growers in Peru and Colombia. In one isolated region of the Peruvian Amazon, the company Palmas del Espino was instrumental in transforming land invaders and illegal crop producers into landowners and members of an agricultural production association. Years before, in 1995, Colombia’s Indupalma had started a similar process by helping workers organize into cooperatives that first acquired equipment and then land. Five years later, 900 workers in 20 cooperatives were the main suppliers of palm fruit for Indupalma in the country’s northeastern region.

Access barriers to financial markets have diminished in the past years due to the concerted efforts of many organizations. Nowadays, innovative financial services complement credit offerings to micro and small enterprises. For example, Cemex created a program for low-income workers in the United States to transfer savings to their families in Mexico for building or improving their households. Through different mechanisms this multinational firm in the cement industry allows cash in one country to become assets in another. Consumer credit is another field in which companies like Codensa are making a difference in the lives of 300,000 of its clients in Bogotá: half of them earn less than \$300 dollars monthly. A third of them have no previous credit history. This utility company offered low-income consumers purchase credits enclosed in their regular electricity bill. Credits can be used to purchase appliances, the majority being refrigerators, washers and TVs.

Another type of social value generated through market initiatives with low-income populations is characterized by the **strengthening of weakened groups**. Specific groups not only suffer from having low levels of

income, but are also discriminated against because of their activities or lack of skills. Organizations working with these populations are faced with the challenges of building capacities and setting up favorable conditions for their participation in the economy.

In the Bío Bío region in southern Chile, women harvesting wild fruit were mistreated by the intermediaries who bought their produce. The women confronted a low level of income, as well as a lack of respect for their labor within their communities. Then, the nonprofit Taller de Acción Cultural stepped in to work with them. As the women organized into eight local committees and established ties with the forestry industry, respect for their labor and traditional knowledge increased significantly. Valuing their activities as gatherers has taken years, but as with other weakened groups such as artisans or recyclers, organizing brings voice and participation begets changes.

Participation has many faces: it can come through membership in an association or simply as the potential of participating in the consumer economy. In capitalist societies, citizenship is related to participation in diverse markets; an individual who cannot access the labor or consumer markets, for instance, is marginalized from society. By lowering access barriers to the market economy, businesses are addressing weakened groups. According to Codensa executives, enjoying modern amenities means “validating people as citizens.” Moving towards satisfying household needs, this utility company now offers insurance policies through their credit program. In a customer survey done by the Colombian government agency that oversees utilities, 54% recognized a better quality of service during the past ten years and 84% stated that their quality of life had improved.

Strengthening includes developing technical, managerial and entrepreneurial capabilities. For example, Cativen, Venezuela’s largest consumer retailer, employs this type of strengthening as part of its strategy to establish direct links to suppliers. Another part of its strategy is to develop long-term contracts with farmers to guarantee quantity and quality conditions. Coaching and risk management are used to favor a tighter value chain. Cativen’s business thrives while low-income sectors in rural areas benefit from capacity building and contracts.

One last type of social value generated in certain initiatives is related to **environmental impact**. When the largest palm oil producer in Latin America, Agropalma, started a project in 2001 in northern Brazil to engage families as suppliers, it lowered production costs and decreased the negative impact on the environment. These families live in the area where Agropalma operates, and are now able to cultivate other crops along with their palm trees which helps land recovery more than a large intensive plantation would. Migration is lower as they establish permanent links to the business.

Several cases have served to illustrate the benefits of lower barriers to resources and products, strengthened communities and diminished negative environmental consequences. Are these experiences isolated cases or is their social impact on the rise?

**DO SOCIAL TRANSFORMATIONS RESULT FROM MARKET INITIATIVES THAT ENGAGE LOW-INCOME POPULATIONS?**

It is disingenuous to use positive language about the autonomy and potential of the poor, while at the same time re-affirming their identity as the poor that by definition need to change, with outside help, and to change to become more like that outside ‘developed’ world.

—Jem Bendell, “From Responsibility to Opportunity: CSR and the Future of Corporate Contributions to World Development.” MHC’s Monthly Feature, February 2005

One key question is how to measure social impact. How do we know that societies are being transformed through business? Most of the examples described above portray low-income populations in roles other than that of consumers. When consumption is involved, how can one judge its social impact? Can one claim “empowerment” when people are provided the means to consume certain products?

Different questions arise when companies are the unit of analysis. Companies have an impact on an array of stakeholders. One small project that generates some social value cannot distract from the examination of its deleterious effects. A well-concerted public relations campaign can cover up plenty of malfeasance. At the aggregate level, what are the environmental costs of

increases in outputs and consumption?

All of these are very difficult questions to answer. Another approach to the larger issue of social transformations is to consider the changing perspectives on social development throughout the second half of last century. During the 1960s, provid-

with difficulties and challenges. Therefore, developing the necessary skills and adequate coaching forms part of the process. Building capacity makes the existence of independent organizations possible. Low-income populations can accomplish this on their own, as in the case of the El Ceibo

## Poverty alleviation through business is happening throughout the Americas in select locations.

### Whether this type of social enterprise can work on a large scale still remains to be seen.

ing those in need with goods was criticized: it was said that what people needed most was the ability to procure things for themselves. “Give someone a fish and you will feed him for a day; teach him how to fish and you will feed him for a lifetime,” was a common refrain. In the 1990s, this idea evolved: knowing how to obtain the goods is a limited ability; it is key to know how to organize. From then on, poverty has no longer been regarded as the lack of material resources, but as the inability to control circumstances. Along these lines, underdevelopment means waiting for others to solve one’s problems, while development is the capacity to shape one’s future through economic, political and social processes. A strong and healthy community is one whose members organize to define their own future. Participation, organization and interdependency characterize such communities.

Social transformations take place as the capacity to organize and act collectively increases (i.e. bonding social capital), as organizations work together in networks (i.e. bridging social capital), and as they both interact with government institutions to scale up local operations (i.e. linking social capital). It is with this lens that we want to examine the impact of market initiatives that seek to improve living conditions for low-income sectors.

The following paragraphs consider the mechanisms through which these initiatives attain scale or make replications possible. One crucial feature is the creation of new organizations. As **bonding social capital** is nurtured, the probability that low-income communities stand on their feet increases. But organizing is fraught

cooperative. On other occasions, it is in the interest of a company to promote a healthy interaction with organizations that will lower its production and distribution costs. Companies can also help other organizations by lowering some risks of doing business. Contracts are a formal way of doing this, but trust is what allows relations to develop and contracts to appear, especially in contexts in which it is costly to enforce the fulfillment of agreements.

A cluster of strong organizations is better equipped for competitive pressures to increase efficiency in value chains. **Bridging social capital** is at the center of solid organizational networks. Low-income populations can be part of such clusters, but they have to fight their way into those links in the value chains where most of the surplus value is appropriated. Those who benefit the most from those surpluses—economic actors with high capital and bargaining power—find few incentives to share their economic gains with emerging groups. A Brazilian association of small farmers in Bahía took up one such fight. The nonprofit Apaeb managed to go beyond the cultivation of raw fiber to the production and commercialization of mats and rugs. With meager funds they had to struggle against legislation that inhibited the creation of small producers’ coops, against political forces that faced losing a grip on certain agricultural communities, and against the commercial interests and monopolistic practices of retailers. Apaeb is an exceptional case in its success and illustrates well the many forces that constrain the possibilities for changes in the living conditions of low-income communities.

Another rare occurrence is for low-

income groups to have a voice in the public policy debate. **Linking social capital** remains on the wish list of many groups. However, as the saying goes “there is the exception that confirms the rule.” Organized recyclers in Colombia have summoned legal assistance to fight for their rights. In an environment that favors waste management privatization, their struggles faced an apathetic response from the state. Yet, the recyclers have achieved three legal victories in the past few years: first, they were able to change a piece of legislation that gave the state and individuals ownership over trash; they also changed another law that required utilities to have shareholders; and affirmative action policies were set in place to favor recyclers in Bogotá’s clean-up services.

Success stories have at least two caveats: they stress the possibilities, not the structural barriers that must be overcome; and they provide the possibility for governments to “get off the hook.” The accomplishments of profit or nonprofit organizations as they provide a much needed service for low-income populations (such as health care), encourages some public officials to stop doing what they should be doing.

In the realm of possibilities, social transformations can result from market initiatives that engage low-income sectors. The opportunities to generate bonding social capital are being replenished with new experiences in very diverse areas; and the private sector has been instrumental in many organizing efforts by low-income groups. However, the cases in which these groups have benefited from bridging and linking social capital are few and far between. Few organizing efforts have been able to overcome the challenges and lack of resources of which income is just but one. Poverty alleviation through business is happening in selected locations. Whether it can work on a large scale remains to be seen.

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*Roberto Gutiérrez is an Associate Professor in the School of Management at the University of Los Andes. He currently chairs the Social Enterprise Knowledge Network (SEKN). Iván Darío Lobo is an Instructor in the School of Management at the University of Los Andes. Both collaborate with the Program on Social Initiatives (IESO for its acronym in Spanish) at the University of Los Andes.*

# Market Initiatives with Low-Income Sectors

*Troubling to Start, Tough to Build*

BY HENRY GÓMEZ AND PATRICIA MÁRQUEZ

ANGELA, A POWER INSPECTION CREW member at AES-Electricidad de Caracas (AES-EDC), was inspecting an energy tower installed near a Caracas barrio. Nearby dwellers tapped the tower to get free power. Suddenly she heard gunshots and saw other crew members run for cover. She knew she could not catch up, and tried to remain calm. Noting her AES-EDC helmet, a woman pulled Angela into her shack. Waiting for the gunshots to cease, Angela reflected on the danger of working in the barrios.

Angela's experience illustrates why firms engaging in business with Low-Income Sector (LIS) communities, such as Caracas' barrios, face a heap of complex challenges. One is to get company staff to feel comfortable about stepping into these poor and often dangerous neighborhoods. Another is to set in motion the kind of profound changes that will enable the organization to build a sustainable business venture with these communities. AES-EDC employees tread carefully when first entering a barrio, hoping to turn free-riding power users into paying customers. However, building an enduring relationship with LIS such as these Caracas neighborhoods—a relationship that generates ongoing value for both company and consumer—is many times more difficult, requiring a degree of commitment that not all companies are able or even willing to try.

Organizations engage LIS in market-driven business ventures in any of three ways: as consumers, suppliers and partners. Launching such ventures sets in motion powerful forces that promote social change and hold the promise of mitigating poverty. Articles in this issue of *ReVista*, based on studies made in Iberoamerica by the Social Enterprise Management Network (SEKN), show how multinationals, small- and medium-sized firms, cooperatives, and civil society organizations that focus decisively on low-income groups can market goods and

services to consumers previously considered too poor to afford them. They can teach subsistence farmers how to become efficient suppliers of goods destined for world markets, and partner with low-income service providers such as informal economy truck drivers, transforming them from passive players to go-getting entrepreneurs.

Knowledge of how organizations can achieve success as they undertake to develop business with the poorer in Latin America is embryonic. Emerging insights from scattered experiences have uncovered a world of obstacles that stand in the way. Barriers that are easiest to overcome relate to the kind of inadequate infrastructure typical of low-income communities. For example, poor roads make for difficult transport; lack of technology hinders communications; and deficient public services, including police protection, often facilitate guerrilla control in rural areas and, in urban barrios, domination by youth gangs or underworld mafias.

Barriers to doing business with LIS that are far more difficult to overcome stem from social prejudices built up over decades, fostering cleavages between the region's better educated middle- and upper-income groups and impoverished masses that have gradually evolved an informal economy of their own. In some countries more than others, political movements have bred followers by exploiting economic differences in the local society, thus exacerbating social prejudices. In Latin America, managers seeking to explore a market initiative with low-income communities are generally drawn from favored income groups; many have never set foot in a slum or developed personal bonds with people outside their limited social circle. Not surprisingly, LIS groups view outsiders with mistrust.

Studies of emerging experience in LIS business development in Latin America invite a critical revision of traditional ways of understanding poverty and development, as well as a need for innovative measures to

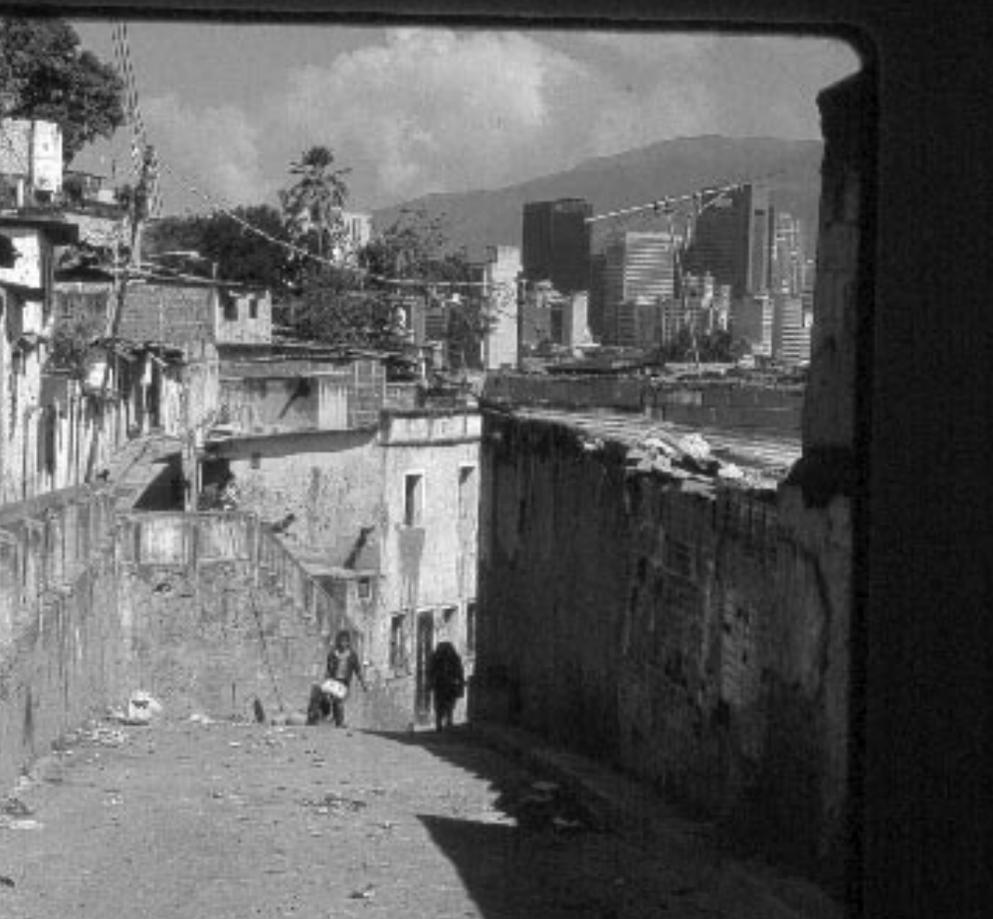


promote sustainable interactions between business and society. Despite their small number, experiences hitherto examined offer an open book for learning about creative business engagement, uncovering a world of possibilities, instead of the usual diatribe signaling decay, chaos and hopelessness.

## GETTING STARTED

Inserting low-income sectors into modern economy value-chains is no easy task. Three experiences studied by SEKN researchers illustrate the challenges involved in launching market-driven initiatives with low-income sectors, highlighting the start-up strategies deployed.

In Venezuela, AES-EDC is the sole power and light provider to the Caracas metropolitan area. More than one-half of the population lives in barrios, where illegal connections to access free power are common. Power losses (not always caused by LIS consumers) threatened to reach 18% in 2004, entailing millions of dollars in lost revenue. People in the barrios suffered as the burden placed by growing illegal connections made for brownouts and power charges, causing damage to their appliances. Poor street lighting and subsequent darkness favored criminal activity. The company had little knowledge of such hardships, for it had chiefly served middle and upper income cus-



This image of a marginal neighborhood in Caracas reflects the dire poverty of many communities throughout Latin America.

tomers. It first sought to turn LIS power users into paying customers by means of a pilot project; 300 pre-paid electricity meters were installed in La Morán, a hillside barrio close to downtown Caracas, with a population of about 20,000. The barrio had no sewage, no running water, and no roads wide enough for vehicles; access to hillside dwellings – some as high up as the equivalent of 40 stories – was on foot. AES-EDC made a start to engage with LIS consumers by means of its pilot project, but there was much the company had yet to learn before it could serve them effectively.

In Peru, Palmas del Espino operated a oil palm plantation and processing plant in an area that for years had battled drug cartels, Shining Path guerillas, and the military. The company sought to convert poor farmers from growing coca to oil palm, offering them an assured market. To improve relations with the community, build trust and improve living conditions, Palmas also significantly increased traditional corporate philanthropy. Together with community leaders, local needs and priorities were defined, and investments made in housing, schools, teacher training and the local health post.

In Colombia, Colcerámica sought to market its lower-priced line of tile through new distribution channels to reach LIS consumers. By partnering with a social

entrepreneur connected with Ashoka, a privately funded civil society organization, Colcerámica was able to link with community leaders in Usme, a poor neighborhood in Bogotá. The link helped the company recruit salespeople, gain valuable marketing insights and generate consumer acceptance for its product.

The above experiences show that simply getting started was challenging in itself. All three companies learned from their start-up step, and found it made good business sense—for all opted to continue investing management attention and financial resources to build a lasting relationship with low-income communities.

The difficulties entailed in launching a venture with the poor are not just about urban topography or dispersed rural communities. Each such community features its own characteristics, regardless of whether it happens to be based in a Caracas barrio, an outlying area in rural Peru or a *favela* in Rio de Janeiro. Starting a viable business relationship requires crafting approaches that take into account LIS obstacles to participating in a modern economy. Downright creativity is required from managers as they seek to overcome cultural, social, geographi-

cal and economic barriers. Building a sustainable business with population groups that have long been subject to scorn—or simply ignored—entails understanding their concerns, expectations, family dynamics, social networks, earning and spending patterns and much more. Only then can companies that seek to insert LIS in modern economy value-chains address such issues as how to deal with such realities as cash scarcity, insufficient infrastructure, lack of access to public services, everyday crime and political conflict.

A vast majority of Latin Americans, both urban and rural, are classified as poor. Standard market measures or national statistical data can provide useful indicators of prevailing earnings, household composition, or education levels, but are hardly sufficient to convey the economic and social dynamics of specific population groups. Traditional marketing tools do not reflect the pulse of the comings and goings of an informal economy that is today the chief source of income for the region's low-income communities. How can organizations obtain a better grasp of who the LIS are, in order to effectively engage them as consumers, suppliers or partners? How can corporate business shed long held beliefs in order to build value-chains that take into account factors that influence LIS behavior vis-à-vis the modern economy?

#### BUILDING AN ENDURING RELATIONSHIP WITH LOW-INCOME SECTORS

Developing a sustainable market initiative with low-income sectors requires organizations to deal with a wide range of issues in areas such as distribution, payment and financing. Although these issues represent traditional business concerns, they are colored by the harsh living conditions that prevail in poor communities. Once again, building an enduring relationship requires deep understanding of everyday LIS concerns and dynamics, as well as taking into account forces that have kept them excluded from mainstream society.

In any organization, changing old ways of doing things encounters resistance. Take the case of AES-EDC, where bill collection had long been made either through a local bank or at company offices. After the company signed up its first batch of paying customers in a barrio where lamp-posts had long been tapped for free power, it

faced a dilemma. The government-regulated tariff for minimal use of electricity in poor communities was US \$0.80; but in that barrio and many others, the cost of public transport for dwellers to reach the nearest EDC-AES office and pay their bill was US \$3.50! Unless the company came up with an alternative payment scheme, few of the new customers (of which few dealt with banks) were likely to keep making payments.

Venezuela's Cruzsalud provides another example. Getting started to sign up its first low-income customers for prepaid health care services was not overly difficult; but getting them to keep up monthly payments over time for a contingent service they might or might not come to need, proved to be a challenge. After six months, only one-third of those who initially signed up continued payments. To encourage former customers to pay overdue charges, the company accepted emergency service calls—and handed them a past due bill once the emergency was over.

A key question is how to implement market initiatives that reconcile the “formal” world of companies that deploy conventional business practices with “informal” practices generally employed by Latin America's poor. One path is to listen to the LIS community spokespeople themselves. When Colcerámica proposed to the Usme community in Bogotá that a local co-op be set up to market its product, community leaders explained they already had their own organizations. Subsequent use of these organizations to sell tile worked effectively. Developing a value chain with LIS might entail processes that are commonly employed by the poor, but may as yet be untried by the organization leading the market initiative. In LIS communities, fairly complex market transactions—such as those involved in drug-trafficking—operate through word-of-mouth and social networks, never on paper. Can mechanisms such as LIS social networks be tapped by corporate-led market initiatives?

Cemex provides another example in which distribution and billing arrangements had to be designed from scratch. Here the company made use of a traditional Mexican LIS savings plan, known as *tanda*, whereby a group of ten persons contribute a weekly amount for ten weeks to a communal pool. Every week, using a random method, a different person may draw the accumulated amount to spend at their discretion. Com-

panies can learn valuable insights from longstanding customs and institutions employed by the poor. Indeed, such customs facilitated the growth of Latin America's flourishing informal economy in catering to LIS. Companies that rely on unfriendly, often intimidating business practices when dealing with LIS, pass up an opportunity for promising market growth.

For instance, an ordinarily reliable LIS customer may justify not paying a bill on the grounds that a family member has been killed by a youth gang, and money is needed for the funeral. Organizations must take into account how low purchasing power and lack of disposable income have an impact on commitments made by LIS consumers. New procedures may have to be set up to adapt to LIS income streams. Banks have long relied on trust in extending a line of credit to an established business, but no bank and few companies are likely to extend credit to an informal economy supplier. How can managers develop trust with an LIS supplier if they seldom set foot in the community, or even when they do, tend to keep their distance?

By operating in the heart of LIS communities, Cruzsalud learned to innovate in health care service delivery. Teams of physicians and nurses on staff often visit nearby slums to promote their service; goodwill generated by the practice shields staff from threats to their safety. Similarly, a fleet of compact, fully equipped ‘ambulettes’ helped attract potential customers as they maneuvered the narrow alleyways of Caracas' LIS communities.

There is no doubt that organizing LIS suppliers presents a special challenge to companies that seek to do business with them, owing to the small size of individual operations. Starbucks faced such a challenge when it sought out poor coffee growers in Chiapas, Mexico. A 1992 Harvard Business School case, authored by James E. Austin and Cate Reavis, describes how Starbucks negotiated long-term agreements with a few, carefully selected growers organized as cooperatives to reach the required volume of coffee. If the volume had not been increased, the operation would have been impossible to run.

Cooperatives in Latin America, however, don't always work out when the goal is to build reliable export supply. To be sure, successful examples of cooperatives

may be found, including some that group rural farmers and others that operate in global markets; but the operating culture of cooperatives does not always fit well in a business environment. The social as well as productive nature of “co-ops” often breeds interpersonal rivalries.

Regardless of the challenges inherent in building new value chains, solutions cannot be engineered top-down. Experiences in developing new markets, such as that of Colcerámica, show that their key to success was actually proposed by the Usme community. Cemex found its passkey to market development by adapting a long established local custom in poor communities. AES-EDC in Caracas also drew on suggestions by community leaders as it deepened its involvement with LIS power consumers. For companies such as these, the greater the involvement, the more they stand to learn.

Opportunities abound for companies, civil society organizations and cooperatives to engage productively with low-income groups as consumers, suppliers and partners; and by doing so, induce social change. Yet developing socially minded market initiatives requires a holistic understanding of why and how low-income groups have long remained out of sight or unattended, in some cases even exploited, ignoring their productive potential. Organizations need to turn to what anthropologist Clifford Geertz describes as “thick description.” As Jean Paul Rivas, president of Cruzsalud, puts it: “to make this [operation] work...we cannot look at the poor from the expressways.” Given a fresh management approach and a good dose of courage, new value-chains that generate significant business and social value can be put in place. Should this not happen, however, business and society in much of Latin America may, sadly enough, continue to drift apart.

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*Henry Gómez is Professor Emeritus at IESA in Caracas, Venezuela. He has written widely on management innovation in public and private organizations, including the strategic objectives of corporate social initiatives. Patricia Márquez is Professor at the Center for Leadership and Organizations at IESA. She leads IESA's participation in the Social Enterprise Knowledge Network (SEKN) and currently coordinates SEKN's research project “Constructing Socially Inclusive Markets in Iberoamerica”*

# The Role of Government

## *LIS Market Initiatives and the Public Sector*

BY CARLOS RUFIN

**I**N CURRENT DISCUSSIONS OF MARKET initiatives oriented towards low-income populations around the world, the government is often like the empty chair around a table. We all know its occupant exists, but choose to ignore its existence. To some extent, this is understandable. It is precisely the failure of many governments to alleviate extreme poverty that creates the urgent need for alternatives. Yet, the government will make its presence felt whether we like it or not. Market initiatives for low-income sectors ignore the government at their own peril.

The role of governments in market initiatives can range from active opposition to active collaboration. Therefore, participants in such initiatives must secure at least the government's neutrality. Let us consider each role in turn.

### THE GOVERNMENT AS OPPONENT.

The targeting of the poor by the private sector is fraught with issues that can bring companies into conflict with the authorities. One major source of potential conflict involves concern for the vulnerability of the poor in regards to the private sector, especially multinational corporations. A second source has to do with the contrast between political logic and business logic.

There is no question that the role of market forces and multinational corporations in the economic development of Latin America continues to be contested terrain. Many Latin Americans are disappointed and even angry with market-oriented reforms, at least in some countries. Opponents of market forces in Latin America, like opponents of globalization in Europe and North America, argue that markets and corporations exploit the poor rather than help them. When market forces are let loose, according to proponents of this view, global corporations can wield superior technological, financial and marketing resources to push expensive yet unnecessary products on the poor, at the same time creating a global pool of cheap labor by fostering competition among workers around the world. Businesses that

seek to reach the poor may find themselves attacked by governments acting under pressure from opponents of markets and private enterprise.

Water supply is a clear example of an area in which private sector control has been challenged. The fact that water is an essential element for human well-being is used to argue that piped water should be supplied free of charge, which in practice means that it should be paid for indirectly by taxpayers rather than by users. One of the best-known and most controversial cases is that of Aguas del Illimani in Bolivia. In 1997, this subsidiary of French multinational Suez was awarded a 30-year concession to provide water to the residents of La Paz and its poor suburb of El Alto. Community organizations in El Alto demanded and obtained, after violent protests, the termination of the concession contract by the Bolivian government in 2005. The conflict stemmed from the company's high prices, which left many families unable to obtain service. However, the controversy also had an ideological component. Protesters demanded that water be provided free of charge and rejected private ownership of utilities, threatening that the area's electricity distributor, Electropaz, owned by Spanish multinational Iberdrola, "would be next" to be expelled, as Alana Libow wrote in *World Indigenous News*.

In many Latin American countries, the political logic of clientelism is still pervasive, creating or increasing political risk for business firms. Clientelistic practices arise when voters "trade" their votes for private or local benefits. These voters decline to vote for party platforms promising improvements for broad segments of the population. Instead, the voters prefer to trust politicians or parties that can deliver handouts, have the neighborhood's streets paved or get a government job for a relative. In Latin America, as elsewhere, it is the poor who are typically most responsive to clientelism. For people who struggle everyday to survive, the value of a pair of shoes or a few pounds of rice may exceed the value of general prom-

ises of job creation and economic growth whose impact on the poor is quite uncertain. It may also be that for those with a low level of education, the promise of bricks and concrete to replace a cardboard house in the shantytown is far easier to grasp than talk about cutting the foreign debt or national sovereignty.

The effects of clientelism for companies targeting the poor are serious. First, their efforts may fail simply because the government is willing to supply the products at a lower price or even for free. Soluz Dominicana, which rented and sold solar panels to families lacking access to the electricity grid in the Dominican Republic's rural areas, saw its business undermined by giveaways of free solar panels by the government during the last presidential election campaign in 2004. Water and energy—basic needs that have often been supplied by state-owned companies—are among the most common currencies for clientelistic exchanges. However, vote-buying giveaways are by no means limited to these items. Reports of giveaways include anything to which the poor attach a high value—food, medicine, jobs, construction materials, clothing and even motorcycles!

Second, companies may attract the hostility of politicians for undermining party electoral bases. Seven years after privatization, electricity supply in the Dominican Republic is expensive and erratic. A major reason is the unwillingness of past and current Dominican governments to make people pay for electricity, including residents and businesses in low-income communities around the major cities, where electricity is in most cases not even metered. Political parties actively seek votes in these communities, leading to high levels of political mobilization and even violent protest over issues that affect the residents. Not surprisingly, distribution companies often prefer to either negotiate government subsidies or simply tack on the charges to higher-income consumers, rather than try to charge low-income residents directly for the electricity supplied to their communi-

ties. Unfortunately, rising oil prices and a depreciating currency can rapidly deplete government financial resources, leading to blackouts as utilities run out of money to pay for fuel.

In sum, government opposition is both common and damaging for pro-poor initiatives. Companies may have no choice but to convince and earn the trust of the population and the politicians as part of any effort to reach the poor, in order to subdue ideological hostility and clientelism.

#### THE GOVERNMENT AS FACILITATOR.

Government's facilitating role is perhaps the most obvious one, often as much through absence as through presence. Governmental institutions underpin the development of markets, from the provision of basic security—which ensures that the gains from market transactions are not appropriated by violent means or destroyed by violence—to the adjudication of disputes and the enforcement of common “rules of the game” for economic exchange. Developing countries typically suffer from the absence or deficiency of such institutions. In the slums of many Latin American cities like Rio de Janeiro, the government is effectively absent. There is no property register to grant legal rights to slum residents over the investments they make in their houses; rough justice is meted out by drug gangs because the police do not dare patrol the slums.

As a result, a major component of the efforts of business targeting low-income populations lies precisely in overcoming governmental limitations. To work in Latin America's slums, electric utilities often have to seek permission from local gangs rather than from municipal authorities. In the absence of a well-developed financial system, Mexican cement giant Cemex works with Mexican immigrants in the United States to enable their relatives in Mexico to use U.S. remittances to finance the purchase of construction materials.

Yet the fact that governments in Latin America are often so deficient does not mean that business should simply write off the government. First, the capacity of governments varies widely across countries, and even across areas within a country and among government agencies. Companies can seek opportunities where sufficient government capacity is present to make private initiative viable. Since its privatization

in 1997, the electric utility of the Brazilian state of Bahia, COELBA, has successfully harnessed resources from a variety of Brazilian government agencies and programs to reach poor communities in the capital city of Salvador. For example, it uses the funds from a federally-mandated energy efficiency surcharge on electricity rates to help its poorest customers install more efficient appliances and lightbulbs, thereby reducing their electricity consumption and, in turn, their electricity bills. In contrast, other utilities in Brazil use the funds to finance energy efficiency programs without a focus on the poor.

In addition, business firms can pressure and help governments to do a better job. They often have the contacts with government officials or the visibility to put pressure on governments to fulfill their obligations. In Buenos Aires, privatized electricity distribution companies faced the unwillingness of local, provincial and federal authorities to do anything about electricity supply for the poor. When the companies began to curtail supply to illegal and non-paying users, public pressure got the authorities to agree with the utility companies on a successful plan to help poor communities obtain legal and affordable access to electricity.

#### THE GOVERNMENT AS PARTNER.

A proactive stance by business towards government can, in fact, yield additional fruits. The government can be engaged as a partner or collaborator in the efforts to reach low-income populations. In addition to the facilitation of market exchange, the government can bring other resources to bear, from public funds to expertise or even credibility. AAA, a privately-owned water utility on Colombia's Atlantic coast, makes good use of this strategy. In an area notorious for both poverty and corrupt politics, AAA enhances the credibility of its efforts by working with one well-regarded federal agency, the Superintendencia de Servicios Públicos Domiciliarios (SSPD). SSPD ensures the compliance of utilities with government regulations, by handling consumer complaints. Its fairness and dedication to dealing with these complaints and discharging its function have earned it the respect of both companies and consumers. AAA does not hesitate to invite SSPD staff as impartial witnesses to hearings in the poor communities in which it

works. The presence of SSPD makes AAA's commitments all the more credible among local residents, as they know that the company faces penalties from SSPD if it fails to honor its promises.

In fact, governments around the world are increasingly turning to public-private partnerships for the provision of basic infrastructure as they grapple with growing demands on limited public resources. This means that private companies are likely to find a positive disposition in many governmental agencies. To harness the potential of governmental partnerships, companies need to gain intelligence about potential allies in government agencies at all levels and departments. They need to understand the motivations and constraints of government officials in order to hammer out viable relationships. For example, attempts to offer products to the poor at lower prices may require approval from competition authorities or regulators, as a multinational telecommunications company found when trying to make telephone service more affordable for the poor. Companies thus need to convince these officials that the pricing schemes have great poverty alleviation potential and are in the public interest. Moreover, they need to structure their initiatives in ways that do not conflict with existing laws.

To conclude, there are several good reasons to pay attention to the actions of Latin American governments when it comes to market initiatives for the poor. Governments can pose formidable obstacles that need to be addressed before any initiatives can succeed, but they can also make markets at the base of the pyramid more attractive by facilitating market exchange, and even become valuable partners for companies and other organizations engaged in these initiatives. Companies, NGOs and other actors wishing to extend the reach of markets to the poor cannot afford to neglect governments.

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*Carlos Rufin is Assistant Professor of Management and Faculty Director of the Institute of Latin American Business at Babson College. He received his Ph.D. from Harvard University. His current research explores the strategies of multinational companies for managing political risk and addressing the needs of the poor in developing countries.*

# NGOs and Socially Inclusive Businesses

*Within the Market, For the Mission*

BY GABRIEL BERGER

**I**N THE NONPROFIT WORLD, SOCIAL MISSION and market-based operations and financing are seen much too often as a contradiction in terms. Relating and aligning both dimensions of organizational performance has been perceived by many as incompatible tasks. SEKN research is looking at experiences of civil society organizations that challenge this engrained assumption.

Common wisdom would suggest that non-governmental organizations (NGOs) are not the appropriate institutional form to run market based initiatives, being best suited to operate social endeavors targeted to LIS and supported by public sector and donor funds. However, some cases demonstrate that NGOs can develop market initiatives themselves, achieving social purposes while generating social value for the poor.

In this issue of *ReVista*, most of the cases are based on experiences of corporations, in which community organizations are part of the ecosystem either as bridging organizations that facilitate reaching low-income sector (LIS) clients or as organizers of low-income persons working as providers of critical elements—e.g. raw materials, traditional techniques and know how—or as members of distribution networks.

However, as pressure to diversify income sources increases, civil society organizations have also looked for ways to provide services and sell products in the market, what has been labeled as “earned income strategies.” With the exception of those working



NGOs working with the poor in the Americas are now exploring market-based activities to advance their social mission. Above, scenes from the Construmex project in Mexico.

tions. Although there have been exceptions in the past to that generalization, NGOs now increasingly apply earned income strategies to fund their operations. Most of them, however, engage in strategies that are neither related to their social mission nor aligned to their social intervention methods. Here, we focus on what is still a minority group of NGOs that develop earned income strategies, and thus market-based initiatives, that are related or aligned with their social missions.

life. This approach is illustrated by one of SEKN’s previous case studies in El Salvador, that of Acosama, which provided water services to the poor, applying a fee-for-service model. In most cases LIS are the exclusive focus of the goods and services provided by NGOs, although in some cases the client base may include members of the middle class as well. Looking at a different field, NGOs have been critical in developing micro-lending operations that give access to financing to LIS in several parts of the world, charging interests for the loans provided. One of the cases previously studied by SEKN, Fundación Pro Vivienda Social, offered microcredit for home improvement in the outskirts of Buenos Aires, helping 5,500 families in five years, until the 2001-2002 crisis in Argentina forced the foundation to interrupt that line of work and focus on local development.

In other situations, NGOs developed market initiatives that do not target LIS as clients or customers. Rather, they involved LIS in their operations as part of their intervention strategy, providing employment or

**Non-governmental organizations (NGOs) throughout Latin America are developing market initiatives, providing micro-lending and involving Low-Income Sectors in productive processes.**

on formal education and health services, NGOs in Latin America traditionally have relied on donations of money, time or in-kind contributions, subsidies or contracts as the main source of funding for their opera-

NGOs can become involved in market-based activities as a way to advance their social mission by facilitating the access of their target populations to goods and services, thus improving their quality of

developing employment skills for people who have been excluded from the labor market. For example, NGOs working with former street youth often develop small businesses such as bakeries or small grocery stores. Youth receive opportunities to learn job-related skills as trainees or workers. Similarly, organizations working with the homeless have developed newspapers that are sold by their clients as a way to reconnect them with the world of work while at the same time generating income for them in a dignifying manner.

### To make market-based mechanisms in benefit of the poor effective, NGOs must review both their assumptions and their operating principles.

La Fageda, another of the NGOs currently under study by SEKN in Spain, shows how an organization can involve the mentally ill in productive processes such as yogurt production, giving them an opportunity to generate income and at the same time achieving other socially valued goals, such as a sense of belonging to a community, job-related habits, and the satisfaction of self-realization through work. In addition to the cases cited earlier in *ReVista*, the *Ropa Amiga* program in Spain illustrates this approach. These examples can be considered income-generating strategies that are intertwined with their social strategies. This approach might be familiar to a U.S. reader who has heard about Goodwill Industries.

Still, NGOs can develop market initiatives as part of their earned income strategies which are unrelated to their social mission, but the market reached by these operations might be totally or in part LIS. For example, several social agencies serving different beneficiary groups operate second-hand clothing and used household goods stores that are very successful as revenue streams to finance their core social service activities, such as employment training, counseling, income assistance and health services. However, their store clients tend to be LIS members, who find their clothing and other household items at very low prices. One of the cases currently under study by SEKN is the Salvation Army in Buenos Aires, which operates Escudo Rojo, a very successful store of used clothing and home items, garnering funds that cover a significant portion of its

annual budget. These kinds of initiatives can be seen as attempts to cross-subsidize other NGO operations, which are targeted to other social groups. However, a closer look indicates that they can generate simultaneous social value, helping the poor to have access to products that improve their life conditions, albeit as a positive unintended consequence of their action.

These and many other examples illustrate that the common wisdom about the apparent tension between social mission and economic results is not always right. Several

NGOs that serve the poor have managed to resolve that apparent tension.

Previous SEKN research on management practices of effective social initiatives suggests that working to achieve mission goals and economic sustainability at the same time tends to generate some “virtuous effects” for NGOs. Among these virtuous effects, SEKN research identified stricter measurement and reporting discipline, greater autonomy from donors, larger scale of operations and therefore social impact, and stronger financial position and organizational capacity (*Effective Management*, Ch. 10).

However, these effects were observed in NGOs operating in competitive markets that did not focus on LIS. The benefits observed in these NGOs cannot be necessarily extrapolated to those operating in different contexts. NGOs that offer goods and services to LIS or include LIS or other socially excluded groups as suppliers, distributors or workers many times emerge and formulate their approaches as responses to market failures. Therefore, it remains to be seen whether the same benefits observed in our previous research are accrued by NGOs operating in this kind of situation, in which markets do not yet operate, or where NGOs are creating, facilitating or stimulating the operation of markets.

A number of issues must be addressed by NGOs to make the market-based mechanisms that benefit LIS effective. They must review both their assumptions and operating principles. Setting prices for the services provided to the poor using marketing and

economic criteria is often considered by NGOs as “selling the soul to the devil.” The culture of providing goods or services for free or charging below market rates is strongly established in the nonprofit sector. Understanding that making poor consumers or clients pay fair prices can contribute to mission effectiveness represents a paradigm change for many. NGOs that achieve economic sustainability through market-based activities gain financial resources to pursue their social purposes. However, this kind of market-based initiative can also enrich NGOs’ social methods by contributing to the improvement or transformation of opportunities, capabilities, assets or well-being of LIS and other socially excluded groups. At the same time, by articulating the social methods with economic value generation, those traditionally considered beneficiaries of social programs acquire an active role in their social initiatives. This process generates other types of intangible benefits for them and for society as a whole.

Thus, success in achieving both financial sustainability and social mission goals require that NGOs engage in a number of tasks. First, they need to generate consensus about the importance of understanding and adopting economic and business-oriented principles and criteria as part of their decision making processes. Second, they must strengthen and professionalize management and operational staff through the acquisition of the technical skills needed to identify opportunities to develop and implement market-based initiatives that include the poor as part of the economic value proposition of the organization. Third, they have to examine whether their social methods that are at the base of their intervention strategies can create a role for the poor as workers, suppliers or distributors, creating social impact in new ways. Fourth, they should consider how to incorporate these approaches, not just as compromises to the economic—or business-oriented—world, but as means to foster their ability to achieve their social mission.

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*Gabriel Berger is a professor in the Department of Administration at the Universidad de San Andrés in Buenos Aires, Argentina, where he teaches about management of social purpose organizations and corporate social responsibility, and directs the Graduate Program in Non-profit Organizations.*

# Towards Social Inclusion

## *Do Strategic Networks Work?*

BY EZEQUIEL REFIGCO

CAN SOCIAL INCLUSION BE ACHIEVED through market-based initiatives? The consensus seems to be that companies cannot achieve this goal alone. Partnering is of critical importance, recent articles and case-studies published on the subject agree. A recently published book, *Untapped, Overlooked Profits from Underserved Markets* (John Weiser et al. San Francisco, CA: Berrett-Koehler Publishers, 2006) makes this point forcefully, “If you remember only one thing about this book, it should be: *the correct partnership is everything.*” Indeed, it is relatively uncommon to find cases of market initiatives targeted at low-income sectors (LIS) with companies acting solo, in a “business as usual” mode.

Business historians suggest that particular organizational arrangements are best suited for certain environments. If the massive middle-class post-war consumer markets were dominated by vertically-integrated corporations, it may be that the market initiatives targeted at LIS in the early 21st century will become the domain of collaborative, horizontal arrangements.

Engagement with the poor requires the construction of a new interface between the corporation and its social environment, one that may contribute to bridging previously decoupled social groups. This is clear even to those companies that decide to engage

not rely on any formal partnership, its value-chain depends on the cooperation of a group of individuals embedded in the communities CEMEX is trying to engage, and the company does not have direct control over these *promotoras* (See Arthur Segel, Michael Chu, and Gustavo Herrero. “Patrimonio Hoy.” HBS Case N9-805-064, Boston, MA: Harvard Business School Publishing, November 2004).

### “SOCIALLY INCLUSIVE STRATEGIC NETWORKS”: WHAT DO THEY LOOK LIKE?

Market-based initiatives have the potential of making a dent on the elusive quest for poverty alleviation, as the other articles in this issue of *ReVista* make clear. To make that happen, they will need to succeed where too many others had failed. Market-based initiatives targeted at LIS will have to create the conditions for market forces to flourish in environments where they have previously floundered. Such a goal is often too ambitious for any single organization to tackle individually: it implies a *tour de force* towards institutionalization, creating trust-based stable relations among reliable partners in highly vulnerable socio-economic environments.

The preliminary results of our collective research suggest that this is best accomplished through socially inclusive strategic

Strategic networks are horizontal arrangements in which all parties share responsibility for performance outcomes but lack authority with vertical control of the whole. Actions are coordinated through negotiated agreements and the alignment of incentives among all participants. The main traits of socially inclusive strategic networks are summarized below:

**Heterogeneous membership.** The movement to leverage the market in the fight against poverty began as a call to action to multinational corporations. For example, business professor and diplomat George C. Lodge’s seminal article “The Corporate Key: Using Big Business to Fight Global Poverty” (*Foreign Affairs*, July 2002) made an eloquent argument for this strategy.

Our research, however, shows that despite their undeniable importance, corporations are but one player in this field. These networks tend to be constituted by a number of non-traditional partners, from non-profits to social entrepreneurs, and from grass-root organizations to universities or cooperatives. Moreover, in some cases, these non-traditional actors are not just participating in these initiatives; they are *leading* them. The accompanying boxes review the dynamics at play in three cases: one led by a large corporation (Colcerámica), one by a cooperative (ARB) and another by a non-profit (APAEB).

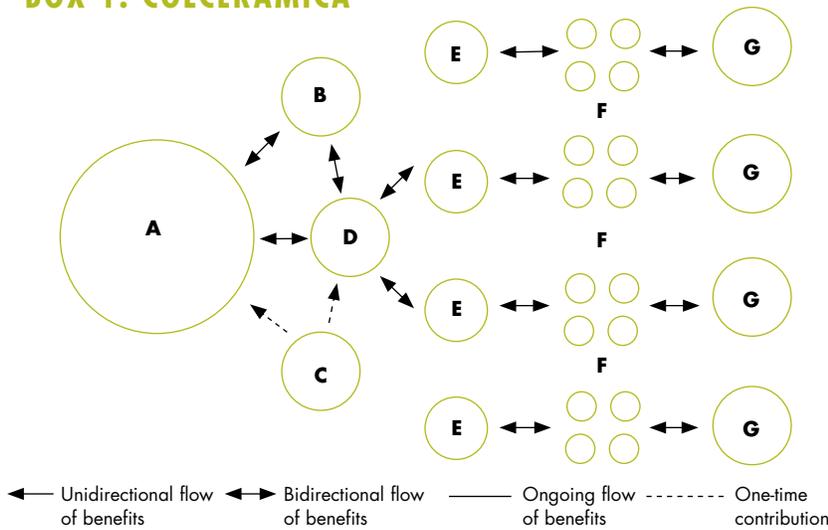
**Win-win.** Despite the pervasive presence of social sector organizations, these networks are not about disinterested donations; *they are about business.* In philanthropic relations, benefits flow sporadically—through, say, yearly donations of time or money—and mostly unidirectionally, from the giver to the receptor. In contrast, in strategic networks, benefits flow in an *ongoing* way, to *all participants* involved, as the diagrams in the accompanying boxes demonstrate. Everyone gives and takes in a balanced fashion, much as happens with any value chain: participants are summoned to join the network because they have something valuable to contribute to the enterprise and, in return, are rewarded.

Socially inclusive strategic networks are needed to bring the market closer to low-income sectors. These partnerships usually achieve that goal by removing barriers preventing the poor from engaging in mutually beneficial exchanges with the economic mainstream.

LIS unilaterally. For example, CEMEX’s well-known Patrimonio Hoy initiative relies on “*promotoras*”: low-income individuals who have developed a strong sales network within their communities to sell various products. Although Patrimonio Hoy does

networks that seek to bring the market closer to low-income sectors. These partnerships usually achieve that goal through the removal of barriers that had prevented the poor from engaging in mutually beneficial exchanges with the economic mainstream.

**BOX 1: COLCERÁMICA**



- **Corporation (A):** Colcerámica provided overall leadership of the initiative. Summoned all other parties to co-design a viable value-chain that would incorporate LIS. Designed and launched ad-hoc product-line targeted at LIS, substantially less expensive than upscale offering, but with comparable quality.
- **Social entrepreneur (B):** co-designed the LIS initiative; based on her knowledge of that group and its cultural and political context, helped to identify the best area in which project could be launched. Co-managed Community Organizational Nucleus.
- **Academic institutions (C):** a group of universities organized their students to carry out some pro-bono research work to assess the existence of a possible market among LIS, and to seize it.
- **Community Organizational Nucleus (D):** co-run by the company, the social entrepreneur and the community organizations. Defined collectively the modus-operandi of the value-chain. Provided forum where community organizations could learn from each other.
- **Community Organizations (E):** grass-roots organizations, focused on delivering social services and improving the infrastructure of poor neighborhoods. Characterized by strong local leadership and high credibility, team-orientation and collective decision-making. They co-designed the LIS initiative and co-managed Community Organizational Nucleus. Supervised compensation of promoters, following company guidelines. Administered revenues and showcased product line. Compensated on commission: 3% of profits.
- **Promoters (F):** citizens hired among LIS; they sell products door-to-door and provide technical assistance and alternative payment plans to consumers. Visible face of the initiative: they have the trust of their peers and unfettered access to their houses.
- **Consumers (G):** LIS, have access to products of a quality comparable to, but considerably less expensive than, more upscale offerings.

**Efficiency.** Social sensitivity is very much at play in most of these experiences, although the specific motivations that bring organizations to participate in socially inclusive networks vary from case to case. Some of them approach LIS with the legitimate goal of tapping new markets and creating value for shareholders (see Box 1: Colcerámica), while for others, the market is just a means

to empower a vulnerable group (see Box 3: APAEB). However, all are vibrant value-chains that deliver products in open markets at a competitive price and quality. In the eyes of the protagonists, the social dimension in these networks is no excuse for inefficiency. That idea is reinforced constantly by the discipline instilled by market competition. In most of these cases, the network leader

is constantly trying to explore, identify and disseminate throughout the network technical innovations and best practices to operate efficiently and improve the network's bottom line.

**Strategic dimension.** These initiatives are usually not part of an ad-hoc program to build reputation, but rather, inserted within the core value-chain of each of the players involved. This does not mean that LIS initiatives are necessarily the organization's most important program. As a matter of fact, that is usually not the case; most companies (especially large multinational corporations) are only timidly testing the waters when it comes to engaging the poor in their value-chains. What this does mean is that strategic networks link organizations in undertaking *what is central to their mission*, thus justifying their existence, even if the LIS-oriented program is only one among many. In some cases, the stakes at play can be high: constructing these networks can require substantial upfront investments, which may take a long time to yield returns. Getting good publicity is fine, but companies tend to demand tangible returns for their investment.

**Presence of a pivotal player.** These networks often revolve around one key organization, which bridges the whole system. "Bridging organizations" are conveners, who lead others to cooperate towards the shared goal of creating an economically viable and socially-inclusive value-chain. They mobilize others by "walking their talk," committing their resources in support of their vision. They channel innovative ideas, catalyzing the implementation of new solutions to old problems. The work of these organizations usually spans the gap that exists between the formal/developed sectors of the economy and informal/underdeveloped sectors. The organizations tend to link the for-profit world with the non-profit, and the large corporation with the small- and medium-sized enterprise, the cooperative or the social entrepreneur. They connect supply (producers) with demand (consumers), and the local dimension with the global. By connecting those disparate worlds, they strengthen the institutional and management capabilities of the LIS they work with. They must be prepared to cope with diversity, working towards the alignment of usually divergent agendas.

**Presence of market-builders.** These

networks are not about charity, but philanthropy does often play a critical role, particularly in the early stages. The construction of socially inclusive strategic networks usually entails working from scratch: for example, appraising unsatisfied demand or productive capacities; creating organizations or strengthening and formalizing existing ones; teaching accounting or tax regulations to individuals with little or no education. These are tasks that private companies may not be ready to take on themselves, leaving bottlenecks that block the potential of the poor. Targeted philanthropic investments therefore aim to jumpstart a synergistic cycle of economic-value creation and social empowerment. Once the bottleneck is overcome, as the accompanying boxes show, market-builders retreat and let the virtuous dynamic of the market take over.

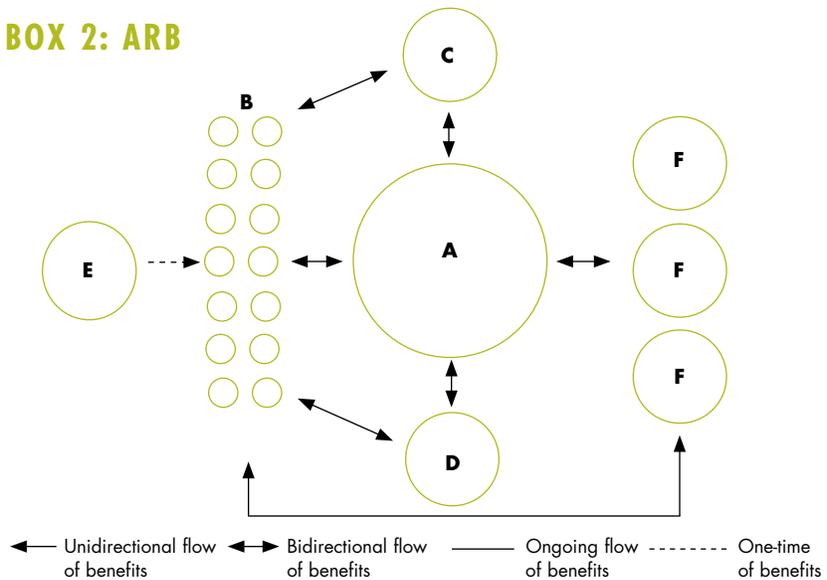
**WHY IS THIS HAPPENING?**

If the emergence of these networks is pervasive, there must be powerful reasons for it. Our study has not reached the point in which definitive conclusions can be drawn. However, even at this early stage, some underlying trends appear within sight. Not all of these apply to all types of networks: the dynamics at play in a company-driven network may differ from those at play in one led by a cooperative. Nevertheless, most of the analyzed networks share some common features:

**Reduction of uncertainty.** The successful integration of LIS into viable value chains certainly requires adaptability to highly unstable environments. Researchers have established that collaborative arrangements help to stabilize turbulent or new contexts, and the environments where socially inclusive market initiatives operate certainly fit that mold. For most of the organizations we surveyed, this is uncharted territory: the CEO of one organization admitted that at times he felt he was “gambling with his shareholders’ money,” given the uncertainties surrounding a wholly unproven business model that integrated LIS at its core. In such an uncertain environment, any organizational arrangement perceived to stabilize the context and bring predictability is usually appreciated.

**Importance of legitimacy.** In most cases, socially inclusive strategic networks bring together individuals, social classes, geographical areas or ethnic groups that hitherto

**BOX 2: ARB**



- **Cooperative federation (A):** the Asociación de Recicladores de Bogotá (ARB) is a “cooperative of cooperatives,” whose mission is to support its members. Provided overall leadership of the network. Externally, it exercises institutional representation and articulates the interests of the cooperatives vis-à-vis their stakeholders. That entails leveraging their collective weight to extract better terms of exchange in negotiations with suppliers, lobbying for appropriate regulation with legislative and administrative authorities at the local and national levels, and managing public relations to ensure positive attitudes in mass public opinion. Internally, ARB supports associated cooperatives in their formalization (for legal and taxing purposes), managerial and technical training, and overall empowerment.
- **Associated cooperatives (B):** ARB represents the interests of 2,000 families, which constitute around 70% of organized recycling in Bogotá. Each associated cooperative is formed by LIS citizens. Its members collect waste from fixed sources (residential and large scale) and from the streets. Cooperatives provide storing facilities where waste is aggregated to reach scale for the pulp and paper companies to pick up. Cooperatives are legally incorporated and pay taxes.
- **Large-scale (C) and residential waste producers (D):** the public agency in charge of urban waste in Bogotá offers incentives to maximize waste reduction by offering discounts in the taxes that cover the cost of waste recollection. This generates economic benefits to those who lower the volume of produced waste. This is most evident in the case of large-scale waste producers, although citizens also benefit from this through “multi-user” tariffs applied to residential areas which succeed in lowering waste through recycling. Waste-producers negotiate with ARB, giving their consent for this organization to pick up their waste.
- **Non-profit organization (E):** The Fundación Social has provided resources and overall support in the early stages of the cooperatives, as these evolved from being a loose collection of individuals to a viable organization. FS provided seed capital through grants that funded training and professional services, as well as the purchase of capital goods. FS’ policy is to distance itself from its mentored organizations, once these mature and become self-sustainable.
- **Pulp and paper companies (F):** Many companies use recycled paper in their production (cupboard maker Smurft, for instance, uses recycled pulp in about 40% of its supply). These companies had traditionally worked through intermediaries who captured large portions of the economic value created. Companies and cooperatives can now by-pass intermediaries: recycling companies create decentralized branches, close to the cooperatives that bring the collected material to the recycling facilities.

had largely ignored each other. Overcoming the inevitable skepticism—even mistrust—among participants is substantially eased by the presence of non-profits and social entrepreneurs, that is, those with credible field presence, track records and legitimacy in the eyes of all parties. At the same time, social organizations working with the poor through market initiatives need the technical know-how, financial clout, distribution channels and strategic insight that only companies can provide. This makes for complementary synergies that can only be captured through partnerships.

**Leverage existing social infrastructure.**

Given the importance of trust and legitimacy, most companies find that it is most cost-effective to leverage existing social networks instead of recreating them. Non-profits also find sense in the leverage of their own rich portfolio of relations, as well as trust built over the years on the ground—what some call “social capital”—as a productive asset. This strategy gives them access to economic resources while at the same time furthering their mission. Once you have built a strong network to help vulnerable individuals with one project, it makes sense to use the same network to launch another project—capturing what economists call “economies of scale”: as output increases, the cost per unit tends to fall. Moreover, that same network can be leveraged to move into other lines of activity that might be complementary—what the economists call “economies of scope.” Through these economies of scale and scope, social capital lowers the costs of doing business. In the vulnerable environments where LIS live, in which both state and market are weak, social capital becomes the only available cornerstone upon which new institutions can be built, thus becoming critically important. When the public utilities company Gas Natural BAN, which distributes piped-in natural gas in Argentina, decided to launch a market-based initiative targeted at LIS, they partnered with the Foundation for Social Housing (Fundación Pro-Vivienda Social, FPVS). FPVS had launched the first micro-loan program for housing in Argentina, building in the process a strong network of reliable customers and partners among the humble neighbors of Cuartel V, in the outskirts of Buenos Aires. The project—suggestively entitled “Strategic Partnerships and Social Capital”—received financial support from

**BOX 3: APAEB**

← Unidirectional flow of benefits    ↔ Bidirectional flow of benefits    — Ongoing flow of benefits

- **Non-profit organization (A):** provided leadership and articulated the entire project. Organized and coordinated production among members, identifying and exploiting market niches that would increase employment and income in its region. Led process of vertical integration, from the production of raw materials to industrial products. It regulates production levels among associates to assure price stability, as its considerable size makes it a price-maker.
- **Workers’ families (B):** being a non-profit, APAEB cannot distribute benefits among its members and must reinvest all profits. However, social value is created through high levels of employment and sizable increase in income per capita. In its 20 years of operation, income per capita in its region rose from US\$15 to US\$50. APAEB injects more funds into the local economy than the local government. APEB created 3,900 jobs in a city of 20,000, which had been stagnant for decades.
- **Diversified businesses (C):** APAEB launched different initiatives by which it integrated downstream, capturing a higher portion of the profits created along the value-chain. From being a producer of agricultural raw materials, it expanded into transportation, processing and ultimately, industrialization of sisal fiber. In addition, it diversified into businesses—including a tannery and dairy factory—that were socially desirable and/or synergistic with their core activities. Through these initiatives its associates were able to obtain prices 3.5 to 4 times higher for their livestock products.
- **International NGOs (D):** APAEB had little support from public agencies. Instead it received grants from international NGOs which were used as seed capital to launch major endeavors—such as a rug factory. Ongoing participation in NGO-led networks gives APAEB access to critical information, contacts and markets.
- **Educational institutions (E):** APAEB has created its own school, the Escola Família Agrícola, where the children of LIS peasants get an education, tailored to local needs. This includes exposure to local culture, the economics of rural life, sustainable use of natural resources, and hands-on training in agriculture, apiculture and others.
- **Media (F):** APAB has created a community FM radio station, which it uses to further its mission: it disseminates good practices as well as novel developments of interest to its associates.
- **Suppliers (G), distributors (H) and consumers (I):** benefit from EV created by a highly competitive value chain. APAEB is Brazil’s 2nd largest producer of sisal fiber.

the World Bank, and engaged various community organizations, the local government and the federal housing public agency.

Through this partnership FPVS learned that the social network it had built could be leveraged to launch additional programs.

In short order, it went from running just one program to running four, all of which relied on FPVS' network.

**Expert knowledge.** Longtime field presence often leads to unparalleled knowledge of the needs and the strengths of the poor, all of which makes grass-roots organizations, non-profits and social entrepreneurs, sought-after partners. Instead of reinvent-

tive to non-traditional partners can lower its overall cost. Most of these value chains operate on low profit margins per unit, which impose the need for low-fixed costs. Often, the investments required to bring the community partner up to par could kill the viability of the enterprise. However, as long as the projected network holds the promise of a positive impact upon a vulner-

**Building these networks is fraught with challenges, including the difficulties inherent in reshaping ideas, habits and relationship patterns, so that citizens who operated in precarious conditions can become productive members of a 21st century competitive network.**

ing the wheel, Colcerámica partnered with Bogotá's community organizations, widely recognized by their grass-root leadership, to co-manage their LIS initiative (see Box 1). Carlos Espinal, marketing manager and leader of Colcerámica's LIS initiative, recalls that this was not what he had in mind when he sat down with community members to "unveil" the company's project. "After listening to their leaders make the case for a partnership with community organizations, I asked myself 'Who is the expert here?' We should have been more humble and valued their perspectives more."

**Quest for simplicity.** Dealing with vast numbers of low-income customers or producers may be prohibitively complex and costly for companies. Partnering with organizations on the ground brings down the number of interlocutors. Moreover, closing long-term deals with an established non-profit or cooperative is easier and more effective than doing so with hundreds of individuals. Finding the right partner can simplify things to a large extent for any organization seeking to work with LIS. In 1993, Indupalma, the Colombian maker of African palm oil, decided to engage decisively with its neighboring communities and contribute substantially to the improvement of their living standards. The company quickly realized that it could not deal with 900 growers individually. Thus, it built a "community of enterprises" in which 20 cooperatives revolve around Indupalma, closely integrated with its value-chain.

**Externalize costs.** Opening the initia-

ble group, socially minded organizations will be eager to step in and contribute with their resources. The resulting loss of control can be more than compensated by having access to assets such as soft loans and grants. La Fageda, a Spanish maker of dairy products, employs many mentally handicapped workers, about half of its employees, taking work therapy to a new level. Only when work is done in a challenging and real world environment will it serve to reintegrate individuals to society, the company contends. The La Fageda program is not ad-hoc, but inserted in the company's core value-chain, which competes with highly efficient multinational corporations. The company does not receive any special subsidy. However, by employing handicapped workers, it has access to funds that public agencies channel towards this group. These funds are "horizontal," that is, open to anyone willing to employ handicapped individuals. For example, the Institut Catalá de Salut (Catalan Health Institute) offers a one-time grant for the creation of a permanent work position for a mentally handicapped individual, plus a subsidy of 50% of the minimum wage, and the whole cost of the company contribution to Social Security. For the government, it is a rather convenient deal, as the net cost of having that individual in a mental institution would be much higher. Instead of just hiring the minimum level (5% of payroll) mandated by law, La Fageda maximizes that logic, and taps fully into those resources to integrate a disadvantaged group in its value-chain.

**THINKING AHEAD.**

Strategic networks can reach out towards LIS. They could be a useful tool to bring some of the things we take for granted to places that have rarely seen them—as far as the remote corners of Latin America's hinterland, and as close as the urban slums of our large cities. They hold the promise of bringing LIS closer to the benefits of the market—opportunity and reward, personal and material growth—thus, improving standards of life in a substantial and sustainable way. When LIS are engaged as consumers, strategic networks can serve them by broadening choice and expanding disposable income; when they are engaged as suppliers or distributors, strategic networks can improve their management skills, so that they can learn to better leverage their assets for their own good.

At the same time, it is by no means clear that such a promise will be realized. Building these networks is fraught with challenges, starting with the difficulties inherent in reshaping ideas, habits and relationship patterns, so that citizens who operated in precarious conditions can become productive members of a 21st century competitive network. This may imply teaching accounting to the illiterate, or turning a subsistence farmer into a forward-looking entrepreneur. In the words of Edison Delgado, former Indupalma employee and founder of one of its associated cooperatives, "Changing your outlook, from being a worker to being an entrepreneur, a one-man enterprise, is quite hard."

Despite those difficulties, if that potential is to be realized, socially inclusive strategic networks could expand the contours of society, easing the flow not just of goods, services and money, but also of knowledge, information and ideas. In balance, they appear to be a concept worthy of consideration by those who work to improve the life of the millions of Latin American citizens who live in poverty.

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*Ezequiel Reficco is a Senior Researcher, and a member of the Social Enterprise Initiative at Harvard Business School. A Post-Doctoral Fellow at HBS between 2002 and 2004, he is co-author of Social Partnering in Latin America (2004), and co-editor of Effective Management of Social Enterprises (2006), both distributed by Harvard University Press.*

# Observations and Impressions: William James' Expedition to Brazil

**Maria Helena P. T. Machado (ed.)**, *Brazil through the Eyes of William James: Letters, Diaries, and Drawings, (1865-1866)*, David Rockefeller Center for Latin American Studies/Harvard University Press, Cambridge, MA, 2006, 228 pp.

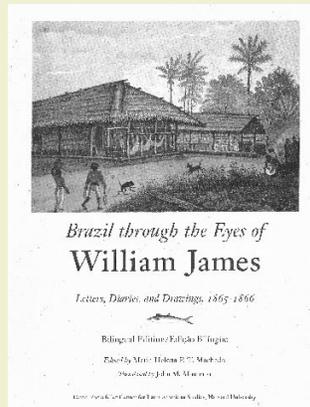
**A REVIEW BY BRUNO CARVALHO**

William James' journey to Brazil puts him in the company of other eminent "New Englanders" whose time there would prove to be life changing, like Teddy Roosevelt (who was born in New York City but attended Harvard College) and the poetess Elizabeth Bishop. Long before them, William James recorded his Brazilian experiences, and these documents are at last published under a single volume, *Brazil through the Eyes of William James: Letters, Diaries, and Drawings, (1865-1866)*, edited by Maria Helena P. T. Machado. By making a number of texts and sketches available in full and in Portuguese for the first time, this bilingual edition (with translations by John M. Monteiro) not only fills a lacuna to William James scholars, but should also be of interest to students of Brazil and of how it has been perceived by foreigners.

William James traveled to Brazil in 1865-66 at the age of 23, as a member of the Thayer Expedition led by Louis Agassiz, the influential director of the Museum of Comparative Zoology and professor at Harvard's Lawrence Scientific School. During the eight-month stay he visited Rio de Janeiro, Belém, Manaus, and several river villages along the Amazon basin. Armed with a healthy skepticism toward the goals of the naturalist enterprise from the very beginning, James seems to waiver in his

assessments of Agassiz, of the collecting expeditions, and of Brazil and Brazilians in general. Agassiz first strikes him "as one of the most fascinating men personally that I ever saw" (56) before he snidely notes the professor's "charlatanerie" (58) and that "never did a man utter a greater amount of humbug" (76) – but at last he settles for reporting the renowned scientist's "wonderful qualities" in letters to his family back home.

James expresses similarly mixed feelings about the value of the trip. He claims that arriving in Rio de Janeiro was "I think the day of my life on which I had the most outward enjoyment" (54) but later decides, "My coming was a mistake." Rio de Janeiro seems to have produced a dizzying effect on the second-year Harvard medical student, and one wishes his health problems (apparently smallpox and temporary loss of eyesight) had not gotten in the way of potential observations. James' immediate dazzlement with Rio's nature does not constitute a first or a last among the city's many visitors. After ascending the Corcovado mountain (where the ubiquitous art deco statue of Christ now stands), he remarks, "The finest view I ever saw [...] The sea and mountains and clouds, & forests, together, made a scene which can be neither imagined nor described" (59). Yet, these positive impressions quickly gave



place to frequent frustration.

The future philosopher seemed unable (or unwilling) to make up his mind about Brazil and its peoples: "The Brazilians are not so polite after all" (64) he quips, later writing: "Brazilian hospitality surpasses everything I ever dreamt of" (67). And although (as Machado's introductory essay contends) James at times "is capable of empathizing with the local inhabitants," he can also matter-of-factly describe a "wild Indian" kidnapped to serve as "cabin boy" in less-than-sensitive ways: "he is a real willing young savage & we hope, by keeping him low & weak to make an excellent servant of him for all the time we are on the Amazonas" (70).

We may speculate that some of James' contradictory reactions are not merely symptomatic of a 23 year old's first extended foray away from an absorbing family, but rather reflect the paradoxical realities of the places he visits. One familiar with 19th century Rio

de Janeiro, for example, can certainly understand how a North American visitor would comment in the same paragraph that "The town realizes my idea of an african town in its architecture and effect" and that "The streets in town & shops remind you so much of Europe." (54-55).

Despite his eagerness to embrace certain aspects of local life (such as sleeping in a hammock) and general interest in what he encounters, in his letters William James often gives the impression of having left his mind in the U.S. Nonetheless, the exploring expedition in Brazil did leave the future founder of Pragmatism with a few certainties: "I am convinced now, for good, that I am cut out for a speculative rather than an active life" (61). James displays a good dose of self-awareness and self-criticism, particularly with regards to his linguistic ineptitudes, feeling "almost [...] humiliated" at not being able to "utter [...] thanks in intelligible speech" (73). And in his diary he contrasts his boatman, Sr. Urbano, to "our damned anglo saxon brutality and vulgarity" (92). But in the end, among other things, his sojourn seemed to cement a perspective of the U.S., posited in contrast to a Brazil that might still inhabit the imaginary of some North-Americans: "I am beginning to get impatient with the brazilian sleepiness & ignorance. These Indians are particularly exasperating by their laziness & stolidity. [...] I had no idea before of [the] real greatness of [north] american energy" (77).

One does, however, occasionally catch him seduced by the rhythms of "life in the tropics," and even prone to feelings of saudades: "I dare say when I get home I shall have for a time many a pang of nos-

talgia for this placid Arcadia" (85). *Brazil through the Eyes of William James* also reveals a promise of life-long friendship (and an attempt at Portuguese) among his papers, in the draft of a letter written to João, son of James's host in Óbidos (a river town on the lower Amazon). Besides the wealth of material left by James, which includes the incomplete "A Month on the Solimões" and a list of Tupi-Portuguese-English vocabulary (with a translation for "My dear, will you marry me?"), this carefully annotated edition incorporates a map of Brazil with the expedition's

destinations, and a useful list of people, places and terms.

The volume also includes a comprehensive introduction by Maria Helena Machado, which provides background information about the expedition and its members, as well as about William James' personal life, ably weaving in prior scholarship and biographies. Her essay further situates such trips in the formation of young men among the upper crusts of 19th century Boston society, and contextualizes the Thayer expedition within contemporary scientific currents. Machado highlights the debates over

creationism (supported by Agassiz) and evolutionism (with which William James sympathized). She also brings attention to Agassiz's infamous role in the development of scientific racism (as a proponent of polygenism) and explains the expedition in terms of U.S. geopolitical and economic interests—arguing, for example, that Agassiz exerted his influence over Emperor Pedro II to further U.S. pressures to open the Amazon to free navigation. William James, however, seemed to remain either oblivious or disinterested in these colonialist undertones...

The private nature of most of James' Brazil papers in fact complicates the essay's view in that they make a "contribution" to travel literature—a genre presupposing a wider public than his.

Nevertheless, Maria Helena Machado places this journey to Brazil—central to William James' personal, intellectual and professional development—at the center of an important and useful publication.

**Bruno Carvalho** is a third-year graduate student in the Romance Languages and Literatures Department at Harvard University.

## State, Society and Police Forces

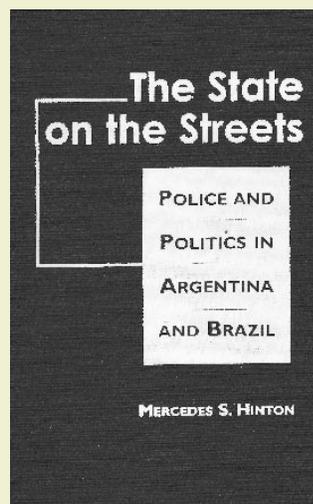
**Mercedes S. Hinton**, *The State on the Streets: Police and Politics in Argentina and Brazil*, Lynne Rienner, Boulder, CO, 2006, 235 pp.

### A REVIEW BY JOHN BAILEY

The most basic function of the state is to provide order to its society. Good states provide order with justice that is consistent with the citizenry's notions of fairness. The police are the peacekeepers among citizens and the gatekeepers of the criminal justice system. In daily life, for most people the police are the law. Hence people's judgments about democratic governance, integrity, justice and personal safety are shaped in good part by the police conduct that citizens see with their own eyes or through the mass media. What are the implications for the social order, then, when the majority of the citizens view most of the police as inept, corrupt, inefficient and untrustworthy, or even as lawless and brutal? With Chile as a notable exception, this is the unhappy

case of most of Latin America and of Buenos Aires and Rio de Janeiro, the specific cases presented in *The State on the Streets*.

For reasons we do not fully understand, increases in violent crime accompanied the shifts in Latin America toward democracy and market economies that began in the 1970s and continue into the present. The increases were more pronounced in some countries—for example, in Guatemala, El Salvador and Brazil—than others, but the overall pattern is clear. As is to be expected, perceptions of increases in violent crime create a sense of public insecurity, whether the homicide rate is comparatively low (5.4 per 100,000 in 1999 in the case of Buenos Aires) or high (37 per 100,000 in Rio de Janeiro). Yet probably



more important than the link between perceptions of violent crime and insecurity are evaluations of the effectiveness of the criminal justice system and especially of the police. Even with the comparatively lower crime rate in Buenos Aires, a 1999 survey taken in the met-

ropolitan area found that "86 percent of the population felt insecure and considered the likelihood of their being the victim of a crime within the following year to be high" (Hinton, p. 20). In general, throughout Latin America, opinion polls in recent years report that insecurity ranks among the top two or three problems cited. The same polls also report generally low evaluations of police and justice systems.

If democratic transition is associated with heightened insecurity, is it also generating greater capacity for problem-solving? On this Hinton is clearly pessimistic:

This book argues that notwithstanding differences in the scale of public insecurity, Argentina and Brazil share a common family of problems that have hindered the transformation of the police into an institution capable of providing the kind of public service befitting a democracy. Far from being exclusive to the police, such problems as lack of accountability and corruption are endemic at most levels of the Argentine and Brazilian

state (and indeed society). Civil society has not yet demonstrated that it is capable of organizing effectively to ensure the establishment of responsible governance of most core state functions. In both countries, police reform attempts have been framed by a political game whose principal components are uncivic attitudes toward public office, low levels of public accountability, and destructive forms of political competition. The book conceptualizes the political game and its pernicious effects on national life (Hinton, p. 11).

Even allowing for economic crisis, fiscal stringency and a variety of bureaucratic problems, for Hinton the key obstacle to police reform is bad politics. Elected officials lack the time and incentives to address deeply rooted problems of systemic corruption and criminality in police forces. Instead, they engage in high-profile actions such as periodic purges of corrupt police officers, the purchase of vehicles and technology, or consultations with celebrity law enforcement figures. Their purpose is not to address the underlying causes of insecurity but rather to cast blame on political opponents and to seek short-term advantage in public opinion and electoral competition. At the same time, the political culture fails to hold elected officials accountable for their inaction. The police are thus trapped in a perverse situation. "With impunity, backtracking, and betrayal of the rules of the game [by elected officials], to expect the police to have played their cards straight would be to pretend that they were not embedded in the context in which they operated" (Hinton, p. 194). Instead of seeking solutions, public officials engage in a "praxis of

expediency" to provide "an illusion of reform" (*Ibid.*)

Hinton leaves us with the sense that Argentina and Brazil are inescapably caught at a low equilibrium. The 2003 election of Néstor Kirchner in Argentina opened yet another round of expediency and illusion with still more purges of the police and military. Luis Inácio "Lula" da Silva, elected as Brazil's president in October 2002, launched a high-profile comprehensive plan to improve public security but failed to give it the necessary priority and political support. His new minister of public security lasted ten months in office, gang violence surged in large cities, and da Silva's government became mired in a series of corruption scandals.

A strong case can be made that the police and administration of justice are central to the quality of democracy. The integrity of the electoral system is a prerequisite for democracy

in its narrow, procedural sense, but the integrity and competence of police and courts provide essential assurance about fairness and trust in daily life. Only fairly recently have political scientists begun to focus on these actors, producing a literature that is more developed on administration of justice, taken largely as judicial reform. The police remain, however, relatively understudied.

In this sense, Hinton's book is a valuable comparison of police reform in two important cities. Like the orientation of most problem-oriented studies, her approach is eclectic, giving us historical background, analyses of data on crime, public opinion, and budgets, and detailed descriptions of the actors, decisions and dynamics of reform episodes. Her principal method is in-depth interviews, 165 in all, of a broad range of government officials and private citizens in the two countries. The result is an

impressive grasp of the realities of police work. For example, Hinton conveys vividly the pragmatic maneuvering of a newly appointed head of the Rio civil police in 1995. Recognizing that certain forms of petty corruption were inevitable, "he made a pact with the Grupo Astra—a clandestine and powerful group of detectives—setting the limits of what he would tolerate" (p. 135).

At the same time that Hinton gets the details right, she also grounds her book effectively in the mainstream work on the quality of democracy in Latin America. And if the thesis is pessimistic, it is a competently researched and well-reasoned pessimism.

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**John Bailey** is professor of government and foreign service at Georgetown University. With Lucía Dammert (FLACSO-Chile) he co-edited *Public Security and Police Reform in the Americas* (University of Pittsburgh Press, 2006).

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## Sex and the Continent: A Double Discourse

**Bonnie Shepard**, *Running the Obstacle Course to Sexual and Reproductive Health: Lessons from Latin America*, Praeger, Westport, CT, 2006, 215 pp.

### A REVIEW BY TIM FRASCA

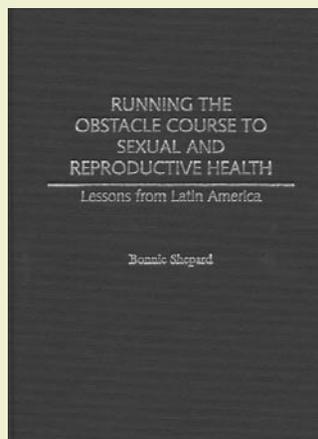
Although the idea of learning from Latin America is too often counterintuitive for readers used to viewing the world by default through the lens of the north, the continent regularly generates political and social phenomena later picked up and imitated widely with little recognition of its origins. Liberation theology, for instance, filtered northward in its heyday. Bonnie Shepard, who was

a Ford Foundation program officer for several years, suggests in her new book that Latin America's experience provides unique raw material for understanding the pursuit of sexual and reproductive health worldwide. Her case studies tracing the progress of relevant initiatives in Chile, Peru and elsewhere show contradictory forces at work in these countries in a stop-and-start process of

gradual change. Again and again, shifting political and economic conditions and innovative grassroots efforts bring in their wake promising possibilities of greater equity and improved sexual and reproductive health for citizens, only to bump up against deep-rooted resistance to change, sometimes structural, sometimes ideological in nature. In Shepard's reconstruction of these efforts, religious conserva-

tives and traditional elites do plenty of damage, which health advocates sometimes overcome and sometimes don't. As a participant in Chile's first non-profit AIDS advocacy network, I had many opportunities to reflect on these strategies with her and, upon seeing an early draft of her Chile chapter, encouraged her to sharpen her criticism of the state and nonprofit sectors' shortcomings.

Shepard, a 1998-2000 fellow at the David Rockefeller Center on Latin American Studies and later Senior Program Manager in the International Health and Human Rights Program at the Harvard School of Public Health, frames her discussion of reproductive and sexual rights and health issues with a description of the peculiarly Catholic 'double discourse' common to the region in which strict standards of sexual decorum are vigorously defended in the public sphere while exceptions are privately tolerated. This unspoken acceptance of hidden violations of strict social norms is vaguely shocking to our more Puritanical tradition which considers hypocrisy a grave shortcoming. But Shepard convincingly traces the coherent inner logic of this system which provides for human frailty through the safety valve of forgivable sins—especially for those who have the economic means to avoid the unwanted consequences. The paradox of right-wing legislators battling a change in the divorce laws even when they themselves are on their second or third marriages takes shape within a perversely rational universe in which people, especially men, are permitted or even expected to err in secret while upholding virtue and propriety in public. This stance is both exasperating and difficult to combat in



public debate as it both recognizes diversity and condemns it, applauds 'virtue' and simultaneously winks at 'vice.' One result is that individuals suffer more disease, unwanted pregnancy, poverty, discrimination and stigma while an alternative, rights-based discourse is undermined by the continuing grip of traditional religious beliefs, which are surprisingly potent even among those who do not behave accordingly.

In another chapter, Shepard discusses several issues that arise when dissimilar groups unite to advance their goals through networks, ad hoc action committees, coordinating councils or the like. While the advantages of unity are readily apparent—increased legitimacy and visibility, synergy among the cooperating groups, access to resources and training, more efficient campaigns—the author cautions that each of these advantages comes at a cost. Joint advocacy runs into the sensitive issue of confronting or criticizing governments that can affect participant organizations' survival; groups agreeing on one topic may vigorously disagree on another; network leaders gain access to key contacts and can benefit their own groups to the disadvantage of their competitors; growth of a network means additional labor that must be performed by indi-

vidual members for the benefit of the collective. In a series of detailed recommendations Shepard suggests that efforts devoted to reflecting on and addressing these knotty issues as early as possible will be rewarded as networking groups consider the sizeable investments implied by their strategy decisions along the way.

The heart of the book is comprised of two case studies: the lengthy battle for comprehensive sexuality education in Chile and a six-site Women's Consortium project in Peru designed to improve reproductive health services under the slogan "Let's Be Citizens—Not Patients!" These accounts probe a rich vein of political and practical issues arising from two well-conceived programs and the structural and political resistance that arose in response. The Peruvian initiative sensitively explored how to bring users and providers together in a non-threatening and yet critical way to improve service delivery. But it occurred just as the country's authoritarian leadership under Fujimori was coercing women into quota-driven sterilization campaigns, forcing the participating groups to make hard choices about their cooperative relationship with the state—and leading to bitter divisions among them.

Chile's saga of the pursuit of universal sexuality education is a more classically ideological set-piece battle, in which the minority conservatives mobilized with extraordinary single-mindedness to crush any threat to the privileged place of Catholic dogma on sex. The cleverly designed JOCAS program—that dispensed with written texts to avoid the usual controversies—was pilloried in a sustained attack by traditional economic and political

elites. Defenders of sexual and reproductive rights, even with clear majority support around the country, eventually were outflanked as the centrist government buckled under the high political cost of defending its program. Shepard reports that the JOCAS survive and are easily replicable at low cost while acknowledging that the government's failure of nerve has pushed sexuality education back onto local initiatives, undermining adolescents' right to this knowledge and training.

In her summary the author outlines recurring issues facing those seeking to improve people's sexual and reproductive health, including the intense controversies surrounding these topics but also many subtle and tricky problems of strategy and tactics: how to legitimize community representation through unelected non-profit leaders; how to build a coalition and develop a communications strategy; how to link one's efforts to regional or worldwide networks; how to sustain projects or programs in the face of other major changes taking place in Latin American societies such as health and school sector reforms. (She could have added the ongoing demographic transitions occurring throughout the continent that have influenced sexual habits.) The book, while not pretending to offer ready formulae for these complex obstacles, contributes to the discussion with a sober, meticulous and fully grounded analysis.

**Tim Frasca** is the author of *AIDS in Latin America* (Palgrave, 2005) and currently works for the Latino Commission on AIDS on HIV prevention and care issues among new immigrant communities in the southern United States.

# Seeking Success in Social Enterprise: Smart Practices by Social and Business Organizations

SEKN, *Effective Management of Social Enterprises: Lessons from Businesses and Civil Society Organizations in Iberoamerica*, David Rockefeller Center Series on Latin American Studies and Inter-American Development Bank, 2006, 299 pp.

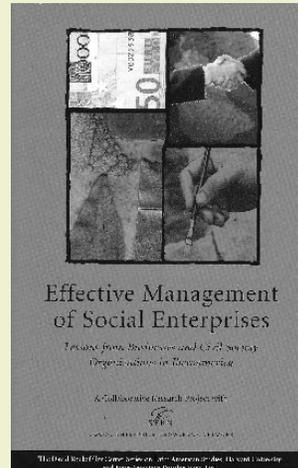
## A REVIEW BY SONIA OSPINA

This excellent book is the product of a collaboration of leading universities in Latin America and Spain under the leadership of the Social Enterprise Knowledge Network (SEKN) and with support of the AVINA Foundation. Social enterprise is defined as the explicit intent to create social betterment by mobilizing and skillfully allocating the resources of an organization, independent of whether the efforts come from Civil Society Organizations (CSOs) or from business companies that seek to serve their communities in innovative and effective ways. Members of participating institutions in the network contributed their field-based research to a common database from which they collectively drew analyses and conclusions to answer two important questions: what are the key success factors and smart practices that lead social enterprises with superior social performance to excel?; and what are the differences and similarities between the social enterprise practices of CSOs and businesses?.

To answer these questions, the team identified social enterprises regarded as excellent in a first round of inquiry. Then, using a common methodology and protocol, they developed in-depth case studies of the 20 CSOs and the 20 companies identified in Mexico, Central America, Venezuela, Colombia, Peru, Chile, Argentina, Brazil and Spain. These cases

served to answer the questions posed. The overall goal was "to identify smart approaches and practices from which both academics and practitioners can learn, as well as to point to important avenues for further research" (p. 5). The book is structured around a "mapping framework" formed by a set of concentric circles that include key factors influencing social enterprise management according to the literature: in the outer-most circle are contextual forces (evidenced in all chapters); at the core of the circles is value creation (chapter 10); then there are three integrative drivers surrounding the core: leadership, strategy, and culture (chapters 2-4); and five implementing mechanisms: structure, human resources, funding, governance, and performance measurement (chapters 5-9). After these factors are addressed in Chapters 2 through 9, Chapters 10 and 11 return to the concern with value creation and attempt to integrate the findings.

All chapters follow a similar format: defining the key managerial factor and its relevance for social enterprise; developing the analytical framework for examining it; identifying smart practices and drawing lessons. The contributions are thus theoretical, empirical and practical. Each chapter's analytical framework uses state of the art literature to engage the empirical discussions of how the management factor plays



out in both types of organizations. For example, chapter 2 applies neo-charismatic leadership theory to social entrepreneurship. It offers an elegant overview of the key variables and contingencies that may affect leadership roles, abilities and styles in the context of the developmental stages of the social entrepreneurship effort.

Contrasting the two types of organizations further enriches the discussion. For example, chapter 3 increases our understanding of strategy for social entrepreneurship by illustrating the different challenges that business and CSOs face. While businesses need to improve on increasing social value, CSOs need to move toward building more economic value). Clearly, businesses and CSOs must look to one another to address their shortcomings. This is complemented with the argument in chapter 10 that the most promising way to generate sustain-

able social value in both types of organization is by aligning the social and economic value each has the potential to generate.

The "mapping framework" offers a holistic view of social enterprise through the lens of the most relevant management factors posed by organization and management theory. Each chapter makes rich contributions. Some less studied areas advance significantly our practical understanding. For example, the analytical matrices presented in the Appendix of chapter 7 on financial viability describe the financial mechanisms used by each organization in the sample and offer practical detail that will delight a reader who appreciates concrete examples. In chapter 8 on governance, the authors discuss the practical implications of the finding that both CSOs and businesses feature an overlap between governance members and management teams, with board members engaged in managerial tasks and executives involved in governance processes.

There is also a broader learning around the research questions. In addition to the myriad smart practices described in each chapter, the first question is answered by proposing six "cross-cutting capabilities" that account for high performance in both CSOs and businesses: entrepreneurial innovation, capacity building, organizational

practices, the nature of the managerial challenges, and the convergence of practices in organizations as distinct as CSOs and private companies. In the case of Latin America, for example, it would be quite legitimate to ask how recent trends in the region – such as democratization, state modernization (including the opening of countries to international markets) and decentralization – have played a role in promoting social enterprise or how they have or have not impacted differently CSOs and businesses engaged in social efforts. The absence of this broader discussion contrasts with the book's rigor, breadth

and depth in the exploration of the micro-dynamics of the effective management of social enterprises. Granted, this is a management book. But isn't the trend toward social enterprise itself an important historical development associated with macro and micro trends?

Perhaps I am asking too much from a single book that represents pioneering work in a field in formation, such as social entrepreneurship. The rich empirical detail drawn from the forty cases is itself sufficient to make the book worth reading. This is one of the few empirical studies of social entrepreneurship efforts in Iberoamerica. Furthermore,

few studies – in any region – offer such a broad perspective based on systematic and rigorous analysis of multiple cases across multiple countries. Finally, the focus on two different types of social entrepreneurship—efforts in business and in civil society organizations—represents a valuable feature worth praising. The comparative angle helps to sharpen the distinct features of each type, while at the same time offering a view of what is common to social enterprise efforts independent of sector.

These accomplishments contribute to deepen considerably the knowledge base of the social entrepreneurship

field. This is a first rate book on a topic of great importance which offers substantive contributions to the literatures on organizational performance, social enterprise and corporate responsibility, as well as to the literature on management in Latin America. I can foresee its promise as a compass for future research, as a tool for higher education management courses and as a source of wisdom for practitioners.

**Sonia Ospina** is Associate Professor of Public Management and Policy and Faculty Director of the Research Center for Leadership in Action at New York University (NYU) Wagner.

## Reader Forum

Your recent focus on elections in the hemisphere and prospects for the region was well timed and thoughtful. The articles successfully added to our understanding of a dynamic and important time in the Americas, and struck the right tone of optimism leavened by a realistic assessment of the daily difficulties of democratic governance from Mexico to Argentina. Nonetheless, I was disappointed with the article on Nicaragua, which was less a discussion of the elections in Nicaragua and more a broadside against the United States since the private exploits of William Walker in 1853. Unfortunately, in the author's haste to condemn US policy while promoting strange conspiracy theories (e.g. leading nations will begin to dump the dollar as a reserve currency if Nicaragua fails to submit to US rule—huh?), she serves up a tired analysis that is years

out of date. To suggest, for example, that the Bush administration, following "a long line of US administrations," is "obsessed with controlling Nicaragua" is simply ludicrous given Iraq, Afghanistan, upcoming November mid-term elections, and 1,000 competing priorities in Washington, to say nothing of higher priorities in Latin America itself. Most disturbing, though, is the author's gratuitous and wholly inappropriate suggestion that former Ambassador to Honduras John Negroponte brought torture tactics with him from Honduras to Iraq and "secret prisons around the world." What credible evidence is there to support this breathtaking assertion? A more balanced and effective article would have discussed the election itself, with a forward looking analysis including a discussion of how Nicaragua's electoral outcome will impact its weak global competitiveness.

Regretably, the inclusion of this article with these and numerous other flaws mars an otherwise solid edition of *Revista*.

SINCERELY,  
ERIC FARNSWORTH

*Mr. Farnsworth was a State Department Nicaragua Desk Officer in 1993 and served as the policy director to the White House Special Envoy for the Americas from 1995-98.*

Mr. Coatsworth, in his Director's Letter in the Spring/Summer issue of 2006, says that "a quarter century ago [in Latin America] only Costa Rica and Venezuela were still holding regular, peaceful democratic elections." That statement ignores the fact that Colombia, one of the most stable democracies in the region, has held regular, peaceful democratic elections ever since a short-lived military dictatorship in

the mid fifties was peacefully overcome.

Colombia has suffered from an endemic political and drug-related violence, that makes it all the more important to have been able to maintain a well established and strong democratic tradition throughout very difficult moments in its troubled history.

SINCERELY,  
JORGE ACEVEDO  
UNIVERSIDAD DE LOS ANDES,  
BOGOTÁ, COLOMBIA

Letters to the editor are welcome in English, Spanish or Portuguese! Please send your comments, suggestions and complaints to: June Carolyn Erlick, 1730 Cambridge St., Rm. 206, Cambridge, MA 02138. <http://drclas.fas.harvard.edu>

# SOCIAL ENTERPRISE



## EDITOR'S LETTER

*June Carolyn Erlick*

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Harvard University  
David Rockefeller Center for Latin American Studies  
1730 Cambridge Street  
Cambridge, MA 02138

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