



INITIAL LEARNING AND GUIDANCE:
Embarking On Social Enterprise Initiatives



Dear Colleagues,

I am so pleased to share with you this initial learning document on CARE's work with social enterprises.

21st century NGOs need to combine high-quality development programming with the efficiency and scale of markets. CARE's Social Enterprise Initiative helps CARE respond to this reality. The objective is to incubate and scale models of operation that harness enterprise-based solutions for program impact, sustainability & scale.

Social enterprises are not new to CARE. The organization has long-pursued market-based approaches to poverty reduction. What is new is the decision to strategically incubate promising models that are emerging from our programs as enterprises in order to ensure long-term social and economic returns. CARE focuses on those models with the potential to reach scale and become game-changers in the fight against poverty.

In a fast changing environment, the work with social enterprises also provides CARE with the opportunity to access new financing mechanisms. While aid funding tends to shrink, the volume of capital provided by market-minded philanthropists and socially minded investors grows quickly and represents a new and fast-growing funding market.

Although the potential is already tangible, there is still a lot we don't know about social enterprises. This is still very much a new frontier, not only for CARE, but for the whole development community. CARE's efforts in the near future will be about exploring, piloting, learning and closely monitoring the benefits to the population we serve.

This report is not a policy document or a set of guidelines. It's the state of what we know, gathering and articulating initial learning from CARE's work and best practices from outside the organization. We hope this document will be useful.

Much thanks to those of you who have participated in the development of this report, to our partner Challenges Consulting for guiding us in this endeavour and thanks so much to all of you for your efforts in advancing CARE's work with social enterprises.

Sincerely,

Francois Jung-Rozenfarb
Sr Director, Social Enterprises, CARE USA

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Acknowledgements and Disclaimer

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DISCLAIMER

This document has been prepared by Ian Barney, Eoghan Mackie, Ken Bell and Alex Warrington at Challenges Consulting for CARE International/Enterprises Inc. The views expressed in this document do not necessarily represent the views of CARE International, nor does CARE International take responsibility for the accuracy of information contained in the document. Any recommendations presented refer to suggestions made by the author and have not necessarily been endorsed by CARE International.

Glossary

Term	Definition/description
Best Available Charitable Option	...tool to assess whether a social investment will “outperform” a plausible alternative.
Bottom of the Pyramid	...Is the proportion of the global population (approximately 4 billion people) who live on less than \$2 per day.
Business Model	... summarises the unique position that a venture has within a market place and costs and revenues associated with the venture.
Business Plan	...a document that summarises briefly the market in which the business sits, its marketing and operations plan with robust financial data and risk analysis to support the business proposition.
Corporations	...are businesses with their own legal identity.
Corporate Social Responsibility	...is about understanding your business’ impact on the wider world and considering how you can use this impact in a positive way.
Debt	... borrowed sum of money, usually with agreed interest rate and repayment terms, which can be secured or unsecured- against assets of the business enterprise.
Enabling Environment	...in this context, is the expression that encompasses government policies that create and maintain positive conditions to carry out business.
Formal Sector	...is the part of the economy that is taxed, regulated, monitored or included in the gross national product.
Equity	...ownership interest (usually shares) in a business enterprise.
Impact Investment /Social Investments	...refers to investments made to achieve clear social and/or environmental impact and a (often below market) financial return on investment.
Market based developmental interventions	...Development projects achieving social impact via engagement of the poor as resilient and creative entrepreneurs as well as value-demanding consumers
Memorandum of Understanding (MoU)	... a bilateral or multilateral agreement between two or more than two parties. It expresses a convergence of will between the parties, indicating an intended common line of action but is not legally enforceable.
Multinational Corporations (MNCs)	...corporations with a registered business or operations in more than one country.
Non Governmental Organisation	...are organisations that are not a part of the government and are not for-profit businesses.
Private Sector	...is non state driven enterprise
Smallholders	...are producers who are dependent on family, as opposed to non-family, labour (FLO)
Social Enterprises	... are “ventures that advance their primary social mission using business models and approaches “
Sweat Equity	...recognition (e.g. ownership stake) of the contribution (not usually financial) to the establishment of a business enterprise
Term Sheet	...the basic terms and conditions under which an investment will be considered
Trade Finance	...is money borrowed to finance a specific trading activity and usually secured against assets related to the underlying trade, e.g. contracts.
Value Chain	...is a chain of activities that an enterprise operating in a specific industry performs in order to deliver something of value.
Working Capital	...a measure of a business’ short term viability usually considered to consist of cash, stocks and short term debtors.



Aims of the document

The aim of this document is to provide an introduction to the potential contribution that Social Enterprise (SE) can make to CARE's programmatic objectives. It is also hoped that it will provide some general guidance to CARE programme staff embarking on market based development initiatives (MBDI) and considering their progression to a SE.

“It would be helpful to have a social enterprise ‘framework’ which encouraged us to ask the right questions and avoid the pitfalls.” Sarah Ralston, CARE Palestine.

The document is informed by consultation with a number of CARE staff (Annex 1). Almost without exception there was significant enthusiasm for the potential of SE to complement and reinforce CARE programmatic aims. The main benefit was seen to be the sustainability of program related work beyond grant funding. There was, however, an acknowledgement of a need for support and guidance to assist them in formulating SE plans.

Reassuringly, CARE staff did not want or expect a single rigid formula for the creation of SE but a clear and accessible guide that could raise awareness of the potential of SE to complement (not replace) existing programmatic objectives, highlight some of the challenges in developing SE and how to avoid pitfalls. It was also hoped that the document would begin to share and build on the existing knowledge and experience that exists across the CARE team.

As a result, this guide is designed to provide an introduction to SE. It will not attempt to present a SE magic formula because there isn't one. The Guide will encourage CARE staff to “give it a go”, to see the opportunity, think imaginatively about how you and partners might grasp that opportunity and not be afraid to seek help and guidance from your colleagues and others. There is a wealth of experience and resource for you to draw on. In many ways this report is about holding up a mirror to existing CARE work, and capturing and sharing some of that experience that CARE staff have accumulated in their work. Perhaps this could represent a further small step to establishing an internal community (Annex 2) of practice to support increased social enterprise endeavour.

**“Many are asking: ‘how do we embark on creating a SE?
We don’t have the ‘experience’.”** Sophie Chitedze, Access Africa.

BOX 1 JITA: A CARE Social Enterprise Success

In October 2011 JITA formally became an independent Social Enterprise limited by shares. It is jointly owned by CARE Enterprise Inc (CEI) and Danone Communities. The business had an initial capitalisation of Euros 1m.

The JITA initiative aims to enhance the livelihoods of poor women in Bangladesh. It does this by recruiting women as sales agents to distribute a ‘basket’ of goods to consumers in isolated, principally rural, locations. Women sales agents collect goods from JITA regional hubs; tailoring their basket to the demands of their specific customers. A commission paid by the manufacturers (e.g. Bata, Danone, Unilever and Bic) on the goods and services distributed covers the costs of the regional hubs and sales agent remuneration.

JITA emerged from the Rural Sales Programme (RSP) which was a donor funded project started in 2004. Between 2004 and the JITA launch in 2011, the initiative tested many different models and product ‘mixes’ before finding and settling on a winning formula.

JITA currently employs over 3200 female sales agents and hopes to increase this to over 12000 in coming years, establishing 400 distribution hubs.

“(JITA) can give significantly disadvantaged women, including those who are illiterate and innumerate,

an opportunity to earn an income they can live and rely on. This is no mean achievement.” <http://www.guardian.co.uk/sustainable-business/markets-empower-women-not-repress?INTCMP=SRCH>

In addition to the benefits of employment the project seeks to provide up to 10m Bangladeshis’ households with increased access to basic goods and services.

Saif Rashid, CEO, JITA, identified 4 key lessons from his leadership of the JITA development process:

- seek to demonstrate the commercial potential of a venture by generating income early in the project cycle;
- create the conditions where private sector partners and CARE both have clear incentive to invest time and resource in the venture;
- ensure that the ‘Team’ contains a mix of development and commercial expertise;
- Ensure that the conditions for experimentation, trial, test and failure exist. These conditions are rarely possible in conventional time bound development projects.

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Ref: Dolan, Johnstone-Louis and Scott. 2012. CARE Bangladesh Rural Sales Programme (RSP). Said Business School Cases.



Using this Guide

This guide is organised in 3 key Sections:

Section 1: CARE and Social Enterprise; introduces Social Enterprises (SE) and how they are emerging as a key approach in CARE's fight against poverty.

Section 2: Frequently Asked Questions; presents a series of questions and answers highlighting some of the key issues raised by CARE staff in the process of preparing this guide. In doing so it attempts to clarify the place and potential of SE in CARE's work.

Section 3: Building Social Enterprise in your Work; provides practical guidance to country staff as they navigate the challenging journey from Market Based Development Initiative (MBDI) to SE. It takes you through an indicative path to the creation of a new SE. On this path we have identified 3 key stages: *'Research and Design'*; *'Test and Refine'* and *'Launch and Scale'*.

A SE plan and a series of tools for CARE staff to consider as you travel on your SE journey, are presented in a separate document.

BOX 2 Enhancing the Livelihoods of Women in the Indian Cashew Sector

This venture aims to transform the role and improve the livelihoods of women in the Tamil Nadu cashew sector. The initiative has since 2009 focused on the provision of basic processing equipment, the building of skills and capacity amongst the women farmers and the establishment of 4 Producer Companies (new Indian legal form). The result has been a network of 4 cashew processing enterprises which are owned and managed by over 1000 marginalised women. A partnership with Wal-Mart India has helped to finance the work to date and also provide a market for the processed nuts. Key impacts include:

- A first of its kind in the cashew sector, with 100% ownership by marginalised women with little or no asset otherwise
- Socially marginalised women from lower castes have leadership positions for the first time as Directors in the Board of producer companies
- 150% increase in income compared to wage earnings as agricultural labour (most often with irregular and not so decent employment) previously

The 4 processing units/Producer Companies have "shown a strong tendency to achieve financial viability in a



short duration." In the next stage of the initiative, CARE India hopes to create a social enterprise that can help to consolidate and support the 4 producer companies (replacing the role CARE has played in the initial phase of the initiative). This will help to bring in professional capacity and financial resources to support the future growth of the processing units and to enhance penetration in new and value added markets. It is looking to recognise the role of partner NGOs, CARE and the 4 Producer Companies in the ownership structure of the new entity.

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Social Enterprise and CARE

What is a Social Enterprise?

Social Enterprises (SE) are widely considered to be “ventures that advance their primary social mission using business models and approaches”.

In the broad sense of the term, social enterprise or social entrepreneurship embraces a wide range of activities, organizations, and individuals including NGOs commercial enterprises and entrepreneurs that aim for social and economic value creation.

In this document and CARE’s specific context, Social Enterprise is meant in the narrow sense of the term, as entities that are ultimately financially viable through revenue generate from the sale of products and services. However the boundaries are blurry, and we anticipate that some of the social enterprises incubated by CARE could have hybrid business models, combining a mix of self-generated revenue and grants and other subsidies.

It is widely recognised that by identifying business opportunities that exist within development programs, SE has the potential to turn finite time bound aid interventions into sustainable market driven ventures that help to enhance resilience and self-reliance of communities over the long-term. By being financially viable, SEs can not only ensure the sustainability of a development approach, but also make it possible to attract private sector investments that will fuel the growth of the model, enabling replication and impact at scale.

SEs have the potential to contribute to poverty reduction in a number of different ways, for example:

- providing high quality employment opportunities for poor people (Box 1);
- purchasing goods or services from poor people (Box 2 and 3);
- by providing a good or service that addresses a particular developmental value with poor communities (Box 4)

“The whole community own the Milk Collection Centres (MCC) not 1 person. When the MCC makes a profit they reinvest for the community’s benefit. Social Enterprises are right for CARE and right for my country.” Samir Sedky, CARE Egypt



BOX 3 Innovation in the Egyptian Dairy Sector

This initiative aims to improve the lives of small holder farmers by enhancing the quality and quantity of their milk production and to increase their power in the milk value chain.

At the heart of the initiative is a partnership between CARE Egypt, Danone and existing cooperatives to establish Milk Collection Centres (MCCs). The MCCs provide technical support to farmers, purchase milk at competitive market rates and then sell to Danone at prices negotiated every 3 months under a long term supply agreement.

So far the venture has established 5 MCCs- 3 of which are making a profit. The next 3-year phase will seek to expand the number of MCCs and then create a ‘mother enterprise’ providing support and training to a larger number of MCCs.

The pilot MCCs have increased milk prices to producers by at least 10%; provided the local farmers’ organizations with a significant income stream (LE 15,000 profit margin/month); provided permanent employment for 6 persons; increased quality of milk produced in these communities; increased awareness of hygiene and hygienic practices; empowered approximately 450 women through trainings and increasing their household incomes; among other impacts.

CARE Egypt is currently seeking further grant support to fund the next stage of development. It is hoped that the emerging ‘mother enterprise’ will have the potential to become an independent social enterprise.

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BOX 4 Enterprising Palestine

SEED BANK

In 2006 The Seed Bank (SB) was established to provide Palestinian farmers in conflict affected regions with access to affordable new varieties of high quality, drought-resistant seeds and thereby increase the yield and resilience of their crops using a model of 'borrowing' seeds, multiplying them and returning them with interest post-harvest. The initial project supported with humanitarian funds focused on 3 communities. It now serves 42 communities through 26 CBOs. A follow up project in 2010 shifted focus to build the capacity of the SB's management, help to identify appropriate growth strategies and increase the inclusion of women. The business is now structured as a second tier cooperative jointly managed by the participating CBOs. It has diversified its 'offer' to farmers and appears to be a potentially viable commercial business. CARE is assisting the SB to look at future options. The project concept has been identified as a model by the Ministry of Agriculture and local agricultural organizations and is being replicated elsewhere in the West Bank.

SHEEP FARM

In 2010 CARE instigated an initiative to increase access to affordable high quality sheep breeding stock to sheep farmers living in conflict affected communities. 3 established cooperatives came together to manage a joint resource open to their members which breeds the sheep and processes milk, yoghurt and cheese, which is sold through a partnership with a private company throughout the country. The farm appears to be producing a profit and offering significantly higher quality and cheaper access to breeding stock (a third of what was previously paid). The initiative has resulted in other breeders replicating the business. The initial project comes to an end soon. The sustainability of the venture appears to depend on strengthening the management capacity of the initiative and formalising the relationship of the participating Cooperatives. External investors have expressed an interest in the venture.

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Why is Social Enterprise Important to CARE?

CARE believes that the development of SEs can:

- provide a logical extension of market based developmental interventions (MBDI), providing mechanisms for program impact, sustainability & scale;
- create a complementary model of operation and of financing, especially in countries with diminishing aid assistance and increasing private sector presence;
- encourage a more entrepreneurial approach, innovation and the incubation of real-game changers.

CARE's new programmatic approach will take a longer term (10 to 15 years) perspective of developmental challenges and ensure that its programmes are strategic and coherent. All interventions will be need or demand driven rather than be determined by short term funding availability. Developing SEs is one emerging tool or strategy to deliver our long term and strategic programmatic objectives.

CARE views the development of SE as complementary to but not replacing its existing approaches. Box 5, for example, highlights the contribution of SE to gender objectives.

The development of SEs is not new to CARE. What is new is the willingness of the organization to be more strategic and proactive in the incubation of these entrepreneurial approaches and to remain involved to ensure long term impact.



BOX 5 Social Enterprise and Gender

“Grouping women around dairy production generates solidarity amongst women as a group against local traders.” CARE Egypt

“This is a unique and first of its kind initiative in the cashew sector where 100% marginalised women are involved and the enterprises are managed by them.” CARE India

“(JITA) can give significantly disadvantaged women, including those who are illiterate and innumerate, an opportunity to earn an income they can live and rely on. This is no mean achievement.” <http://guardian.co.uk/sustainable-business/markets-empowerwomen-not-repress?INTCMP=SRCH>

What are CARE's Social Enterprise Operating Principles?

CARE is still very much in a learning process when it comes to SE incubation and development. Whilst there are no formal policies regarding the development of SE there are an emerging set of key operating principles which CARE staff should adhere to:

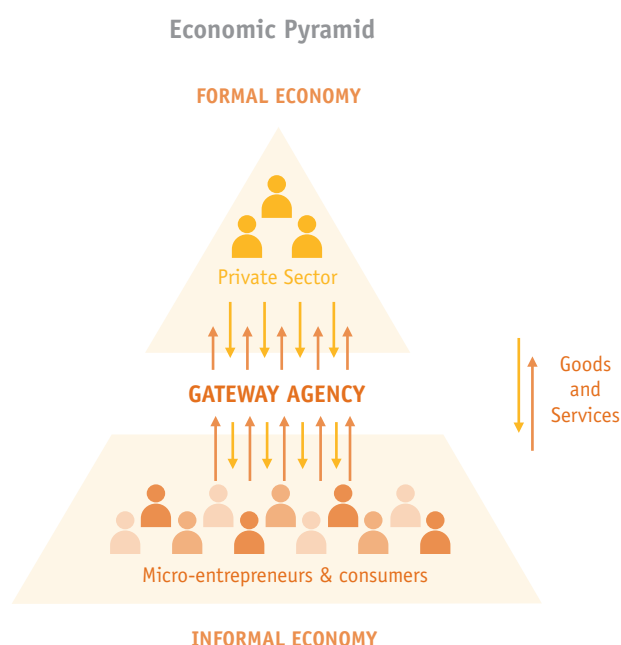
- SE must display programmatic alignment and proper “mission fit”;
- whilst the commercial viability of the business is crucial the social objective must be the paramount driver;
- SE business models should be designed in partnership with end-users;
- SE should strive to be financially self-sustainable and, where possible, have the ability to replicate at scale;
- the development of SE should not seek to replace or undermine the services provided by CARE partners
- CARE programme staff should proactively seek SE opportunities within their work and seek to write these into grant funded projects as early as is feasible to do so;
- Partnerships with established private sector players should be considered as early in the project cycle as possible;
- CARE is committed to learn from its experience in establishing SE and share this learning within CARE and outside to inform practice in this emerging area.

Embedding Social Enterprise in CARE's Programmatic Work?

Identifying opportunities to develop SE and embedding them within CARE programmes will be a key determinant of CARE's ability to unlock the potential of SE.

Currently the majority of potential SE emerging from existing CARE programs fall into 2 broad categories. Both of these categories build, to a large extent, on CARE's traditional role as a 'Gateway Agency' (Figure 1).

Figure 1: Gateway Agency



A Gateway Agency broadly acts to bring together poor people to enable them to either:

- supply goods and services to the formal market (e.g. connect smallholder farmers to profitable markets, add value to a basic commodity by processing);
- consolidate their demand so that they can access goods and services from the formal market (e.g. agricultural extension services, energy efficient stoves, financial services).

The launch of JITA in 2012 (Box 1) is a successful example of this approach.

CARE has identified 4 broad ways in which the development of SE can be built into programmes and the project cycle.

The development of a SE as part of new program or as part of the new phase of an existing program

This is probably the preferred scenario and will increasingly be the case. The potential development of a SE is identified as playing an important role in ensuring impact and sustainability of a MBDI. It is then included as a specific objective in a project proposal. This would include an initial description of the SE 'Business Plan' and an estimate of the activities and costs necessary to establish the SE (Box 2 and Box 3).

The development of a SE at the end or following the end of a program

This is a common scenario at this point of time. A specific program is about to end and the Project Team realises that a SE approach – which would replace the role that CARE has been playing - could potentially ensure long-term sustainability. Exploring a SE approach from this point represents some challenges: key staff with knowledge of the program have left or will be leaving soon, no budget is available to support the research and design process. The process will need to secure bridge funding and most probably some solid outside support. The period to design, test, revise will have to be shorter as there will be more pressure to make it work quickly. For example:

- in Zambia, CARE is considering ways to re-engage on the ADAPT program, which created a large network of 100 + agro-dealers, via a social enterprise approach;
- in Madagascar and as part of the CARE RANO HP program, which is about to end, CARE is considering the opportunity to transform a network of water operators into a social enterprise model.

Replicate a promising SE approach

There may emerge an opportunity to replicate successful models in a number of locations or sectors. This approach is likely to require the development of new partnerships and the raising of additional resources but it has the potential to impact more people more quickly than organic or iterative growth, e.g. current efforts to replicate the Rural Sales Program in Ghana to build on an existing CARE Village Saving & Loans program.

A specific country strategy or program aiming at supporting Small & Medium Enterprises

Increasingly some of CARE's COs see their role as an incubator / accelerator of social enterprises. The objective in this case is to play the role of technical assistance provider to small businesses (Box 6).

BOX 6 CARE In the Caucasus

"In CARE Caucasus, we have based our entire strategy around developing social entrepreneurs and local social change agents.

We have developed an annual training agenda to introduce the entire staff to social entrepreneurship. We have a monthly training session and invite our strategic partners and allies. I have been invited by Peace Corps, local organizations, CARE COs, CARE market oriented working groups, CI and other international organizations to share my own experience in SE." Thomas Reynolds, CARE Caucasus



What Funding is Available for the Development of CARE Social Enterprise?

The potential of SE to contribute to development goals and become profitable businesses has been increasingly acknowledged. This has led to an increase in the availability of grant funding to support the incubation of SEs and of debt and equity to invest in the SE when it becomes a more viable and independent entity.

It is important to note that most of the social enterprise opportunities currently part of CARE's program are at the early-incubation stage and won't be ready quickly for Impact Investing.

Annex 3 contains a list of potential donors who support SE development work and particularly provide grant, technical assistance to support the incubation of new SEs.

Similarly the emergence of Impact or Social Investment as a new investment asset class (risk and return characteristics) provides a significant funding opportunity for the development of SEs. Social Investments usually have the following characteristics:

- Long time horizons for the investment.
- Risk-tolerance.
- A goal of maximizing social, rather than financial, returns.
- Providing management support to help new business models thrive.
- The flexibility to seek partnerships with governments and corporations through subsidy and co-investment.

Recent reports (from the Monitor Group and Rockefeller/JP Morgan) estimate that the Impact Investment sector could grow to between \$400 to \$1000 billion in assets within the next decade.

Capital is available in the form of equity, debt, working capital lines of credit, and loan guarantees. Typical commitments for a social enterprise range from \$300,000 to \$2,500,000 in equity or debt with payback or exit in roughly seven to ten years.

Impact Investors are, however, a heterogeneous group. They will include those with an expectation of strong financial returns whilst others will focus more on the social return. They will also include those who want to maintain strong hands on engagement with the business (e.g. Venture Capitalists) and those who do not.

How Does CARE Support the Development of Social Enterprise?

CARE recognizes that social enterprise models have the potential to become game-changers in the fight against poverty. In order to facilitate the organization's long term involvement in those innovative models, CARE has formed CARE Enterprises Inc. (CEI), a for-profit subsidiary of CARE, to manage the organization's interests in these vital social ventures.

CEI is a subsidiary of CARE USA at this point of time, but it's envisioned that the structure will become a subsidiary of CARE International as part of the CARE Global transition plan.

CEI provides support along four core activities:

- *Strategic Relationship Management*: CEI is strategically involved in relationships with private and public partners, research institutions, social entrepreneurship networks and technical assistance partners to create a complete network to support SE development;
- *Support for Strategic Business Proposal Design*: CEI draws support from experienced personnel with helping to write strategic business proposals as well as grant proposals for the projects identified;
- *Support for Implementation and Innovation Facilitation*: CEI – directly or through partnerships – can provide technical assistance to the project on the ground and help to identify the most feasible solutions for operations, marketing and business development;
- *Knowledge management*: CEI will develop standardize knowledge management practices in projects to enhance learning across CARE.

Specifically, when CARE wishes to remain involved in a social enterprise as shareholder, CEI helps to ensure a smooth evolution of the successful project into a sustainable entity through identifying social investors to expand the model and managing the social venture to ensure long-term social and financial results.

CEI is governed by a Board of Directors which is currently mainly composed of CARE's senior leaders and Board Members. CEI is managed by a team composed of CARE staff, including representatives from the Program, Legal and Finance units.





Frequently Asked Questions

The following section aims to respond to a number of the questions raised during conversations held in the preparation of this document. In setting them out early in this document it is hoped that any fears or concerns regarding the development of SE approach can be reduced.

1. Is Social Enterprise a real priority for CARE? Doesn't it distract us from our core work?

SE should be seen as complementary to rather than replacing the existing programmatic focus. It's not an objective in itself, it's a new tool in CARE's tool box. It provides an additional model of operation that harnesses market mechanisms to achieve social impacts and to access new funding mechanisms which will enable CARE to fulfil its core objectives to a greater extent.

Through this guide it is hoped that the potential of SE can be better understood and some of the fear surrounding it can be reduced.

“Learn to fail quickly and not waste your time on things that just clearly are not going to deliver social value and operate in a financially acceptable trajectory. Sometimes it is a key subsidy that offers the comparative advantage to compete in the market. When a more complicated business is developed, experience leadership should be brought in from the industry to run the enterprise.”

Thomas Reynolds, CARE Caucasus

2. What are more important the social or the commercial objectives of a SE?

Both are crucial. Social objectives are the heart of the SE – its reason for existing. However, to survive and deliver the anticipated social benefits the SE must meet its commercial and financial objectives. A delicate balance between objectives is essential.

3. How long does it take to create a SE?

Setting up a SE involves a major commitment over a significant period of time. Bear in mind however, that a successful SE could run indefinitely, in contrast to a donor program which may last just a few years- so it might be time well spent.

Timescales vary case by case. Whilst there are dangers in moving too quickly to the establishment of a SE (e.g. without adequate testing and refinement of the SE proposition) there are also risks (e.g. missing a market opportunity, or losing momentum and energy) with taking too long in establishing a SE. The key message is to monitor both the developmental impact and business potential regularly to identify when to accelerate or decelerate the development of a SE.

4. When in a MBDI project cycle should SE be considered?

The project design phase is the ideal opportunity. The later that SE is considered the fewer options will be open to you!

For an existing MBDI consider if its commercial performance suggests the possibility of a viable future SE. That potential should be assessed, key stakeholders informed, and a 'Roadmap' to an independent SE developed.

Also consider SE when options are being assessed about how to extend a MBDI beyond the term of its existing funding.

“When designing agricultural service centres for an initiative (with CARGILL) we spoke to colleagues in India and Bangladesh. It opened our eyes to interventions we might not have thought of and reassured us about what has worked – even in a different context.” Susan Nour, CARE Egypt

5. What help is available to me to help in establishing a SE?

CARE USA's Social Enterprise Unit and other CI members' Private Sector Engagement unit can provide policy guidance, technical assistance, and advice about the role of lawyers and other professional business advisers.

You should also exploit Care's biggest asset - the accumulated and growing SE knowledge and experience of CARE staff. Learning to better document and share experience is crucial.

6. What is a Social Entrepreneur?

The term Social Entrepreneur has been given to the individual who will drive the development of a SE. Social Entrepreneurs are often seen as visionaries, innovative and resourceful individuals who have the commitment, skills and energy to overcome the many challenges and obstacles likely to be encountered on the path to the creation of a SE.

The Social Entrepreneur might emerge from a number of different places, for example, they maybe an existing CARE employee who sees and pursues the opportunity to develop a SE, an employee of a partner organisation (with which CARE works) or an individual recruited to pursue a specific enterprise opportunity.

7. How do I know whether I have the right blend of people to run a SE?

Creating sustainable SEs is hard work. Some SE will fail! Success is often the result of the determination and commitment of 1 or 2 individuals - who despite setbacks – ‘make it work’.

Your strategy to get the right staff and mix of skills will be crucial. It could include: building the capacity of existing staff by training, secondments or exchange with other CARE programmes with an active SE programme; proactive communications to raise awareness of and understanding of the potential role of SE.

External lawyers and advisers could supplement your project team at the relevant stages.

Once established, the SE is likely to have its own employees, including individuals recruited for their business experience.

“Negotiating with insurance companies is very different from negotiating with NGOs.” Senthil Kumar, CARE India

8. When are resource bottlenecks most likely?

Developing a SE will involve concurrent activities such as shareholder negotiations to create a SE; managing the predecessor of that SE, and planning its transformation.

Bottlenecks and stresses can be minimised by developing a comprehensive project plan to schedule activities, allocate resources, and determine when external help will be needed.

Anticipating likely activities and associated costs and then securing funding to cover these costs is crucial to avoid unnecessary bottlenecks. Also consider funding lead times in your planning.

9. Do we have the systems necessary to cope with SE?

Effective business systems are essential. For example, can you produce timely management reports covering sales and profit/loss; track debtors, and deal with the receipt of trading income? To minimise waste and duplication it would be helpful to build on the growing experience within CARE - initially by consulting CEI.

“It was difficult to work together in the beginning. Danone wanted to move quickly to issues of infrastructure and initially saw CARE as slowing things down in an effort to ensure ownership among the target group. We began in contradiction, but perspectives changed over time so that we now complement each other.” Samir Sedky, CARE Egypt

10. Is a SE always the answer?¹

No. Developing an independent SE might not be the best option or possible. Lots of activities are likely to remain charitable in their essence - there is often a Best Alternative Charitable Option.

¹ http://blog.acumenfund.org/wpcontent/uploads/2007/01/BACO%20Concept%20Paper_01.24.071.pdf

11. Will CARE be a shareholder in every SE being set up?

No, not in every SE. The most appropriate shareholders will vary case by case. In some instances CARE's key contribution might be as a SE facilitator rather than a shareholder.

CARE can continue to play an incubator / accelerator role at different stages of the growth, providing technical assistance (business development services) and facilitating access to capital. This role can be part of a broader in-country program to support small and growing businesses and needs to be financed by external funders, the enterprise itself or both.

CARE could, however, become a shareholder and Board member. This would involve transforming the investments made by CARE into the enterprise during its incubation period into an equity stake. Being a shareholder will make it possible to directly support the development of the social enterprise, ensure the pursuit of the social mission, more easily gather and share learning for replication at scale. In some cases, potential external investors may be reassured by CARE's ongoing commitment to the SE.

CARE taking a shareholding in the SE also provides a way for CARE to potentially generate unrestricted revenue in the future, from, for example, dividends or as part of an exit. Such income can then be reinvested in the development of new enterprises and the broader social mission of the organizations.

CARE has designed CEI to be able to invest and hold shares in emerging SEs. This model may in future be replicated in some other CARE offices.

“Human capacity is a key determinant of an enterprises’ success. Staff need to be prepared to work hard, be honest, transparent and be committed to the development objectives- e.g. the success of the enterprise and outreach. The collection centres now recruit 5 to 6 staff to fill 3 positions to ensure we get the right staff.” Susan Nour and Samir Sedky, CARE Egypt.

12. Does a SE necessarily have to evolve from a MBDI program?

No. It can be set up directly. Each approach has its advantages / disadvantages. Starting with a program gives more flexibility to find out what works and what doesn't; and then seek investor funding for an established business rather than an untested idea.

13. How important is working with Private Sector partners (I fear that we speak different languages and have incompatible values)?

Building good working relationships with private sector partners can be challenging. Learning how to communicate and work effectively with the private sector will take time, but achieving this is can be essential for the success of the SE.

Selecting the right partners is crucial. CARE's “ethical guidelines for engagement with corporations” is relevant.



SECTION 3:

A Guide to Building a Social Enterprise

The development of a SE can have many starting points, but it is likely that the process will go through similar phases. This guide presents 3 key stages in the development of a SE:

- Stage 1: Research and Design
- Stage 2: Test and Refine
- Stage 3: Launch and Scale

Each of these stages brings unique challenges, requiring different skills and resources. This section outlines these 3 stages and key steps within them. The steps are portrayed as neatly sequential but they are never neat or sequential. The reality is that they are likely to overlap and often operate in parallel with one another. It is possible, for example, that the 'First Trading Steps' will already have been taken prior to the 'Idea' step (perhaps as part of an existing MBDI). In this case the 'First Trading Steps' section should be skipped.

For each step in the process we pose a set of questions which you as CARE staff need to consider.



What are the key questions I need to answer during this step?

The importance of ensuring that appropriate resources are available at each stage is widely accepted as a key determinant of success. As a result each section will contain a brief summary of key 'People' and 'Money' needs. These change throughout the SE development cycle.



What are the key 'people' resources required at this stage?

How can management and systems encourage and support appropriate behaviour by staff at each stage?



What are the key financial resources required at this stage?

What should you consider to minimise (ensure appropriate) financial risk at each stage?

Each step will end with an 'outcome statement' to help the reader assess whether or not they are ready to move onto the next 'Step', for example:



I have read Section 1 and 2 of this guide and understand both the potential for SE and the limitations of this guide. If Yes proceed. If No feel free to contact CARE's Social Enterprise Unit.



Social Enterprise Roadmap summary table

STAGE	STEP	KEY QUESTIONS	KEY OUTCOME
RESEARCH AND DESIGN	The Idea	How will a SE contribute to CARE programmatic goals? Who? What? When? Where? Why?	The problem and its fit with CARE programmatic aims are articulated clearly.
	Market Research	Is there a proven demand and willingness to pay for the goods or service? Who are the competitors? Are there systemic market issues that might hinder your venture?	The market analysis supports the idea that a SE opportunity exists
	Initial Business Plan	Can we articulate the SE activity in a clear and compelling way that summarises both the contribution to CARE objectives and also the commercial viability?	There is an initial 'Business Plan', that articulates a viable commercial opportunity that can contribute to programmatic goals. This plan is approved by key stakeholders and funds have been secured.
TEST AND REFINE	First Trading Steps	Have you got the people, finance and systems in place to deliver the agreed BP? Can you manage costs and revenue in accordance with the business plan?	Within designated risk parameters, key elements of the business plan have been successfully tried and tested
	Review and Revise	What is performance against business plan objectives? How could the model be improved?	The venture can, based on qualitative and qualitative evidence, demonstrate its potential commercial viability and poverty impact.
	Business Plan	Can you articulate clearly the developmental rationale and the commercial viability? Can you demonstrate that risks are understood and managed and that the model is robust?	Key stakeholders support the business plan and commit resources to establish a SE.
SCALE	Transition	Are the human and financial resources in place and are the systems of the 'New SE' robust enough to cope with 'Start-Up'?	The venture now has the governance, finance and people in place to thrive independently of external support
	Start Up	Are all legal requirements fulfilled to establish the new SE? Are roles and responsibilities clear and understood by all?	The SE is formally established with separate legal status, adequate finance, effective management and clear governance structures.
	Growth and Scale Up	Do you have the correct people and finance in place to cope with growth? How can the enthusiasm of the 'Start Up' be maintained?	The SE has demonstrated an ability to grow income- generating a profit and delivering social impact. Further growth and impact is reliant upon additional investment or replication of the model.

Stage 1: Research and Design

Stage 1 consists of 3 key steps:



The desired outcome from Stage 1 is an initial business plan; secured resources & partnerships to ‘Test and Refine’ the Idea.

THE IDEA



**How will a SE contribute to CARE programmatic goals?
Who? What? When? Where? and Why?**

The key starting point for the development of a social enterprise is ‘the idea’!

Ideas can come from anywhere! They might emerge from an assessment of the market and identified blockages to CARE’s programmatic aims (strategic), out of existing project activities, in response to the need to consider the sustainability of project activity (reactionary), from the practice of another business or NGO; or as result of a flash of inspiration.

Whilst ideas might emerge from an individual’s insight, bringing together a group of stakeholders to discuss a particular challenge can create an environment in which solutions to problems are unearthed.

“We really appreciated the technical advice provided by CARE’s Social Enterprise Unit and also the fact that we have been allowed to be innovative in our thinking.” Sophie, Access Africa

An idea needs to be expanded into a brief and accessible narrative that attempts to define the ‘problem’ that the SE Idea will help to address. Within the SE Plan Template, there is a typical problem statement (Tool A) which encourages you to explain the Idea in terms of Who? What? When? Where? and Why?

This problem statement must make an explicit link to CARE’s programmatic aims. Without this it will not be possible to gain the level of institutional support and buy-in necessary to further the idea.





Creating space where staff can reflect and think imaginatively about how SE could enhance programmatic aims is important.

Providing a supportive environment in which the team is encouraged to think 'safely' outside of the box is crucial to the generation of new 'Ideas'.

Whilst ideas can emerge of any variety, it is often those that are supported by enthusiastic and committed individuals (a champion) that have the greatest chance of success. They may go on to become the entrepreneur who takes the idea forward.



Ideas are likely to emerge as part of existing grant funded activity or the development of a new project;

Minimal cost but managers/staff entrepreneurs need time to think;

Consider the need for seed funding to develop the idea further.

The earlier the 'Idea' can be articulated the better. Box 7 provides some examples of possible 'Ideas' by sector.



The problem and its fit with CARE programmatic aims are articulated clearly.
If Yes proceed. If No repeat.

BOX 7 Sectoral 'Ideas'

SE models have, for example, the potential to contribute to:

FOOD SECURITY:

- develop networks and micro-franchises that have the capacity to extend the supply of quality agri-inputs, financial services and extension services;
- aggregate and add value to the work of small holder farmers to meet quality standard or to process and connect producers to competitive and profitable markets.

HEALTH & NUTRITION:

- increase availability of essential health products and services;
- make quality health care financially accessible through mechanisms such as micro-health insurance or savings and loan products.

FINANCIAL SERVICES:

- increase access to financial services, through the development of innovative products or distribution mechanisms;
- establish micro-franchisees for the development of Village Savings and Loan Associations, distribution network for micro-insurance products.

CLIMATE CHANGE/CLEAN ENERGY:

- facilitate the introduction of clean energy products and solutions or smallholders' access to the carbon finance market.;
- establish micro-distribution networks for clean energy products (solar lamp, cook stoves);
- facilitate uptake of renewable energy such as small hydro-electric plant or bio digesters.

WATER AND SANITATION:

- facilitate sustainable access to clean water and services through network of water operators;

MARKET RESEARCH



- What is the reality of the market in which the SE will be situated?
- Are there systemic market issues that might hinder your venture?
- Who would the competitors be?
- Is there a proven need and a proven willingness to pay?
- Do you understand pricing and cost structure within it?
- Could this idea be implemented in partnership or as a support to local players?

Once the 'Idea' has been articulated there is a need to set in within the reality of the market place and test its underlying hypothesis. Is there really a business opportunity here?

This can be done in a number of ways including use of participatory market assessment methodologies and value chain analysis.

Such an analysis will look at the specific value chain and where value is added and by whom. Additionally it will identify key relationships that form the basis of the value chain with, and an assessment of, the external 'enabling' environment. It will be important to understand key 'external' factors that will affect the commercial viability of the intervention and the subsequent developmental impact.

“A good feasibility study is crucial- essential to succeed. You need a good idea of the market and the scale of opportunity that exists as early as possible in the process.”

“We found value chain analysis very useful. It was understandable to both business and NGO staff and it encouraged a more holistic assessment of the opportunity. It was very useful in explaining the opportunity and challenge to farmers.” Susan and Samir, CARE Egypt

The market research should lead to a better understanding of:

- the product / services provided by the SE;
- who the clients are;
- the size of the market;
- the pricing strategy (affordability and willingness to pay of key customers)
- the distribution mechanism;
- the specific role played by the SE;
- the potential revenue streams for the SE;
- any partnerships required

This information will form the backbone of the Initial Business Plan and Financial Projections. Where possible ensure robust quantitative data is collected.



In addition to a formal value chain mapping exercise also use your common sense. If there are similar venture in your country or another- what makes them successful or what made them fail- any insights that can help inform the design of your own venture will be valuable?

“MCC were made successful because we visited MCC’s across the country that had failed and learnt what not to do.” Samir, CARE Egypt

A mapping of key stakeholders (Tool G) by importance and influence will help to identify those actors that are important to consider in the process- particularly for those that are critical for its success. Developing relationships with key stakeholders early in the process (in a non-committal way) can help to increase their engagement in future stages of the process and speed up decision making. A simple Stakeholder Management Plan (Tool H) should be considered.



It is likely that additional support and secondary data may be required to adequately assess the market or VC within which the venture sits.

Depending on the nature of the market’ a multi-stakeholder assessment may help to bring stakeholders together and increase their understanding and ownership of the venture.



The cost of an adequate market assessment will vary considerably depending on the level of existing knowledge and experience in that particular market.

If resources available are constrained additional resource should be sought to conduct a more comprehensive market assessment in phase 2 (Annex 3 contains details of key donors).

Try to ensure that cost sharing is a key principle of any grant based MBDI to minimise the risks of potential future transition to SE.

If the market analysis does not support the hypothesis that it is possible to establish a viable SE then alternative strategies need to be considered. It maybe that the activity is never likely to be appropriate for a SE in which case a humanitarian / development route might be appropriate. It might be that the timing of the SE is not right in which case a longer term progress towards a SE needs to be considered.



The market analysis supports the idea that a SE opportunity exists.
If Yes proceed. If No then re-consider all options.

INITIAL BUSINESS PLAN AND ENTERPRISE ROADMAP



Can we articulate the SE activity in a clear and compelling way that summarises both the contribution to CARE objectives and also the commercial viability?

Are key stakeholders 'on board' and willing to commit the necessary resources?

Is there a Social Entrepreneur who has the energy and commitment to make the SE succeed?

Assuming that the market analysis supports the hypothesis underlying the 'Idea' there is now a need to map out in more detail the nature of the SE to which you aspire and the pathway to its creation.

The following steps outline an indicative roadmap to an independent SE. It is likely that the initial steps will emerge from an existing project or be incorporated into a new project proposal but there may be other options.

Whichever path is chosen the next steps are likely to involve the development of a basic 'Strategy' and initial 'Business Plan' (SE Plan Template) that outlines in simple language the commercial proposition but crucially the contribution that the SE could make to poverty reduction and CARE's programmatic aims.

“There are 3 broad ways to pursue SE opportunity: to build on grant activity where SE opportunity emerges; to work with existing SE; to collaborate with other players explicitly to set up a SE.” Senthil, India

Amongst the key elements of the initial Business Plan there should be a risk assessment matrix. The level of risk, and organisational attitude to this risk, are likely to be key considerations in whether or not the SE business plan is acceptable. Outlining key risks, their significance, steps to reduce these risks and mitigate them if they were to occur are essential information for senior managers.

This step in the process also provides an opportunity to reflect on the institutional capacity to cope with a commercial enterprise. If the plan is accepted, has CARE got the capacity to manage income and costs, receive and account for assets to manage inevitable cash flow challenges and provide timely management information to managers?

Engaging key stakeholders and building 'ownership' of the resulting plan is also a central component of this step. Whilst any resulting SE is likely to look quite different to how you imagine it at this stage, it is never too early to engage potential investors, donors and other key stakeholders in the initial discussion and feeling that they are part of the journey.

“We didn't need technical support but we did require conceptual support in thinking through the options open to us.” Susan, Egypt



Passion and commitment is required in significant quantities. There will be numerous obstacles to overcome and resistance from certain stakeholders.

It is critical at this stage to have a motivated “CARE Social Entrepreneur” working on the project and developing this road map. Outside support can also help, but a project manager should be clearly identified

It remains important to identify and influence key decision makers.



A key element of the initial ‘Business Plan’ will be the financial projections. As the venture considers buying and selling goods or services there are likely to be significant cash flow issues. Is it possible to finance these from existing reserves or do they demand securing trade finance?

It is unlikely that the business will be ready for social investments in its current form (with no track record) and is likely to rely on grant funding during the ‘Test and Refine’ stage. The ‘Business Plan’ will provide the basis for securing resource from existing programmes or seeking new funds.

An understanding, early in the SE process, of internal decision making processes (e.g. grant application approval and access to technical assistance) is important to speed up processes and fast track future steps. It takes time but it will be time well spent.

A good understanding of legal constraints that might affect the development of the SE is vital. It is likely that each country of operation poses different restrictions on CARE’s activities, e.g. ability to borrow, to participate in commercial risk taking activity. There might also be legal issues affecting the choice of institutional form that any new SE might take and limits to, for example, the possibility of securing foreign direct ‘investment’. A good appreciation of these factors now might save time in the long run. CARE staff should contact the legal unit at their CARE headquarters at the earliest opportunity in the process.

The Executive Summary of the business plan will provide the key information necessary to secure the finance to support the initiative and ‘Test and Refine’ the ‘Idea’.

Annex 3 suggests donors who have shown a desire to support the incubation of the SE.



There is an initial ‘Business Plan’, that articulates a viable commercial opportunity, that Bits the risk appetite of CARE and that can contribute to programmatic goals. This plan is approved by key stakeholders.and funds have been secured. If Yes proceed. If No discuss with stakeholders all the options to deliver the desired results.



Stage 2: Test and Refine

Stage 2 consists of 3 key steps. It is possible that 'First Trading Steps' might already have been undertaken as part of a MBDI. In this case progress to the 'Review and Revise' step.



The desired outcome of this stage is a full Business Plan articulating the potential for a viable SE supported by strong performance data.

FIRST TRADING STEPS



Have you got the people, finance and systems in place to deliver the agreed BP?

Can you manage costs and revenue in accordance with the business plan (viable/capacity)?

Are you getting timely and accurate information on costs and revenues- to monitor performance adequately?

The 'First Trading Steps' are often a time of great excitement. The 'Research and Design' stage has been successful and the venture is up and running but not yet an incorporated and separate SE. It will also be a stage of great learning and a test of whether the initial steps were accurate in their assessment of the market and the organisations capacity to manage a trading enterprise. It is very normal for this stage to reveal significant issues which require substantial refinements to the plan.

“whilst there is no ‘golden’ balance between social and commercial aspects, when we look at graduating a grant funded project to a social enterprise greater emphasis needs to be placed on commercial elements at the testing phase- refining cost and revenue drivers, assessing viability and moving towards a business plan.” Senthil, CARE India.

There may be a temptation to treat the venture as another grant funded project. This should be resisted and it is essential that progress against key performance indicators (KPIs) is followed to identify any significant deviations on budget, to manage risks and to see the potential of the venture as early as is possible. KPIs will not provide cast-iron answers to these questions but they will flag key areas to analyse and investigate further.

An Operations Plan should contain a brief number of KPIs to help focus scarce management resource on monitoring the progress of the new venture. These KPIs should help to monitor performance (against desired developmental and commercial objectives) and flag up any key variances for the targets identified in the business plan.

The earlier thought can be given to strengthening the commercial performance of the business venture the better.

Building the trust of commercial and CARE stakeholders will be a key challenge. Understanding the expectations of key stakeholders and delivering to them will help to develop such trust. Engaging stakeholders in an honest and open discussion about the challenges of establishing the business (managing expectations) and also the long term development benefits will be crucial.



The excitement of the Research and Design stage is likely to continue to provide adrenaline to the adaptable and resourceful staff team. The Stage 1 venture might have been the work of a small team- to successfully navigate Stage 2- others in the organisation are likely to need to play key roles, e.g. accounting function, greater governance/management oversight.



Ring fencing the finances of the venture from 'mainstream' CARE activities might be a sensible step to ensure risks are contained and the books are transparent.

Managing the costs and revenues of a trading venture may be new to some CARE offices.

This step is likely to answer many of those questions about capacity and is bound to highlight gaps that need to be filled. Whilst grant funding is most likely to support the initiative at this stage, there might be a need for greater trade finance to support the cash flow requirements of the business.

It should be noted that the availability for this type of finance for early stage enterprises in many of the markets CARE works in is a major bottleneck. Realistic options should be investigated as early as possible to avoid disappointment. Support to access finance might be required.



Within designated risk parameters, key elements of the business plan have been successfully tried and tested. If Yes proceed. If No, look for alternatives.



REVIEW AND REVISE



What is the level and nature of performance against business plan objectives?

How could the model be improved?

Is the balance between social and commercial objectives correct?

Do you have the right staff in place?

The venture is now up and running and it now enters what is probably the most important and critical stage in its development- 'Review and Revise'.

You have now had the benefit of trading and have the ability to test both the commercial assumptions and the impact this has on poor people. Many of the assumptions and ideas contained in the business plan need rethinking – a little or perhaps radically.

This is a positive and necessary step and should be approached with an open and creative mind. It relies heavily on the availability of solid commercial and developmental data. Sticking too rigidly to the original 'Idea' may be detrimental to achieving impact. Difficult decisions regarding future direction may be needed. Basing them on robust data (quantitative data where possible) is important.

The 'Review and Revise' step may involve a number of cycles of reflection and revision of the business plan. In the JITA case study, for example, (Box 1) the venture (then the RSP project) took many iterations before an appropriate model was found. In the case of agricultural activity this may demand that performance over a number of agricultural seasons be assessed to understand underlying performance and make appropriate corrections. The key message for you here is that this step could take 6 months, but it could also take 6 years – the approach will be determined by the specific SE in question on a case by case basis.

“The Danone (partnership) was not perfectly conceived in advance. It emerged out of trial and error. We saw what worked and what didn't and then revised the concept.” Susan Egypt

The 'Review and Revise' step is also crucial to lay the foundations for a successful 'Launch and Scale' Stage. For example, involving key stakeholders in the 'journey' – both rough and smooth- is likely to develop stronger relationships that will increase the venture's chances of success- so revisit and strengthen your stakeholder management plan. To save time and energy in the future it would also be advisable to clarify decision making processes relating to the approval of the 'Business Plan' and 'Launch and Scale phase'.

“If we (CARE) are to do this well, and in a way that's actually sustainable, we must think more creatively outside of our traditional development paradigms.”

Sarah Ralston, CARE Palestine

Whilst commercial viability will be crucial to the long term success of the venture it is likely to be the strong developmental impact that will convince donors, investors, potential strategic partners and other stakeholders to support it. With this in mind the 'Revise and Review' stage plays a key role in generating good monitoring and impact data to support the hypothesis that a SE will make a significant impact on poverty reduction. The challenge will always be proving the impact potential, as impact inevitably takes time. The answer again lies in having as much quantitative data as possible. To have this – parameters must be set right from the start and fine tuned in this phase.



This step is particularly demanding on people in the enterprise. There will be successes and failures, achievements and sets backs and 'people' will need to be resilient.

The demands on key staff will begin to evolve. Lead staff will increasingly need to manage a staff team, manage external relationships- including commercial ones and there will be an increasing need for technical expertise, e.g. supply chain management, marketing, accounts etc. The growth of the business and likely corresponding growth in the staff group is likely to demand a more hierarchical structure than previously encountered.

As a promoter of the venture CARE will need to assess whether the 'Social Entrepreneur', who has brought the venture this far, is the right person to take the business forward? You will need to consider providing training and mentoring of existing staff to build their capacity or possibly recruit additional human resource to supplement or replace members of the existing team. This can be a very challenging process. Asking an external actor (someone who understands the challenges of balancing commercial and social objectives) to look at the business and its capacity might be a helpful step.



As the business evolves and grows it is likely to stretch agreed risk management parameters. It might be advisable to revisit the risk assessment matrix and ensure that stakeholder expectations and risk are managed effectively.

The growth of the business might mean that the business outgrows internal CARE or project resources and additional Trade Finance is required to provide working capital for the business. This will be symptomatic of a general move away from grant funding to commercial debt as the venture begins to prove itself. The accumulation of assets might offer security for debt. There might be consideration given to create a separate legal entity to ring fence assets and liabilities.



The venture can, based on qualitative and quantitative evidence, demonstrate its potential commercial viability and poverty impact. If Yes proceed. If no, look for alternatives to SE to deliver the desired results.



BUSINESS PLAN



Can you articulate clearly the developmental rationale and the commercial viability?

Can you demonstrate that risks are understood and managed and that the model is robust?

The venture has been refined over a number of operating cycles and there is sense of confidence that it is both commercially viable and delivers strong developmental impact.

There is now a constraint to the venture achieving its potential impact on poverty (sustainability or scale) and you believe that creating a separate legal entity (a SE) is the best way to ensure its potential is achieved. You may have come to this realisation for a number of reasons, for example, the scale of business and level of risk do not sit comfortably within the CARE charitable entity; there is a real possibility of growing or replicating the business but this needs significant upfront investment to make happen; that the projects that have supported the venture up to this point are running out and you need to secure longer term funding to continue to support the work; the business can now see strong commercial returns and can and should stand on its own and not rely on grants.

The next challenge is to articulate this (both internally and externally) in a compelling narrative that will support and drive the next stage of the venture's development into a separate legal entity.

The 'Business Plan' should lead strongly with the developmental rationale. While commercial viability is essential it is the social impact that is likely to attract investors and link directly to the CARE Mission. Whilst fit with CARE programmatic aims has been the key driver to date, developmental objectives need to begin to reflect broader developmental objectives, for example MDGs and national development priorities.

We suggest that the 'Business Plan' is a 5-year rolling plan that includes: the development rationale; summary of the products and services to be offered; a marketing plan; an operations plan; a management plan and a summary of the financials including cash flow and risk assessment (SE Plan Template). You should use and build on your initial SE Plan.

The narrative should be compelling, concise and accessible. Where possible, strong quantitative information should support the assumptions across the plan. The document needs to receive full support at all necessary levels of CARE and key stakeholders in the organisation as previously identified.

"If I was to do things differently I would take less time and speed up the testing process. We wasted a lot of time! With a clearer sense of direction and better institutional support we could have made faster progress towards JITA. I also would like to have spent more energy on documenting the process for others to learn from." Saif, JITA



The writing of a 'Business Plan' is not 'rocket science' but there is a skill to know how to present the key elements of the SE proposition effectively. We suggest that CARE staff make a first attempt at the plan and perhaps consider some external support (from CARE or outside) (Annex 4) to scrutinise, challenge and refine the document. It is important that it is owned internally, preferably by the entrepreneur who will take it forward.



The process of writing a business plan is time consuming and is likely to require existing managers to divert their focus from day to day activities for significant periods of time. Some resource might be necessary to secure 'space' to pull together the 'Business Plan'.

Funds to bring key stakeholders together to achieve the necessary sign off might also be required. Contact CARE Enterprises Inc. for assistance with identifying and securing investors.

In developing the 'Business Plan' you may identify a need to attract external investors. This might be driven by the need for additional finance but could also include, for example, the need to benefit from an investors expertise, complimentary business or profile.



Key stakeholders support the business plan and commit resources to establish a SE. If Yes proceed. If No, discuss issues further with stakeholders to consider alternatives.

Stage 3: Launch and Scale

Stage 3 consists of 3 key steps. 'Start Up' represents the moment when the SE is created as a separate legal entity. This is likely to occur at any time after the development of the 'Business Plan' and during the 'Transition' step.



The desired outcome of Stage 3 is a viable and independent SE that can demonstrate a positive impact on poor people's lives.

TRANSITION



Are the human and financial resources in place and are the systems of the 'New SE' robust enough to cope with 'Start-Up'?

The 'Business Plan' has been written and there is buy-in throughout your organisation to the creation of a new SE. You might be forgiven for thinking the hard work has been done but there is still much to be achieved before the SE can stand on its own two feet.

The 'Transition' step aims to manage the shift from what is likely to have been a grant supported business venture to an independent entity capable of standing on its own.

A crucial task is likely to be the need to identify and convince potential investors to come on-board. This will require significant time and energy and create a possible distraction from the ongoing task of running the business. The development of an external 1-page 'flyer' highlighting the developmental impact and commercial viability can be a useful tool. This might also include a Term Sheet to guide discussions with investors.

The type of investors available to you will largely depend on the strength of the commercial proposition and the nature of the balance between commercial strength and developmental potential. Initial positive discussions with potential investors may require a Memorandum of Understanding (MOU) and/or Non-disclosure Agreement (NDA) to build trust between parties and enable a deeper analysis of strategic fit to take place. The ability to demonstrate strong social impact in the 'Test and Refine' stage might permit access to more 'Impact' or 'Social' investors than might otherwise be the case. An output of this stage is a shareholders agreement signed by investors.

“Need to come up with a conception of SE that respects the role of communities and local NGOs (traditional partners).” Senthil, CARE India

When considering investors and the capital structure of the 'New SE' it might be important to consider those partners that have contributed to the development of the new entity. It is a CARE Operating Principle (Section 1) that CARE should not “replace or undermine the services provided by CARE partners”, however, it is possible that the 'New SE' will assume a role traditionally played by an existing partner whose interests may be affected by the new SE. In such cases it may be possible to acknowledge their contribution to establishing the new enterprise (Sweat Equity) by granting them an equity stake in the 'New SE'.

If not clearly determined by the 'Business Plan', discussions with potential shareholders will inform the legal/organisational form that the new SE will take. There are likely to be a number of options with precise definitions varying from country to country. Perhaps the key definition is whether the new SE will be a for-profit or not-for-profit entity.

Administratively there are a number of significant matters that must be addressed if the venture is to become a SE with its own legal status. These include:

- staff contracts to transfer (employment legislation, will the terms and conditions be the same as now, what if staff don't want to transfer, pensions?);
- internal policies need to be agreed, e.g. Schedule of Reserve Matters (outlining key roles of Board, management), delegated authority with financial limits;
- a board needs to be identified and recruited;
- set up bank accounts;
- transfer assets.

Whilst many of these tasks cannot be completed until the SE is formally established there is significant groundwork to be completed to make this 'Transition' as smooth as possible. These processes can become extremely challenging to manage. Building a simple checklist of these plus many other matters that need to be addressed and seeking professional advice – especially on legal matters can save time and money in the long run.

Despite achieving CARE 'sign-off' in the 'Test and Refine' stage there will be inevitable delays and complications in finalising the set up of the new entity. In particular the refinement of the Business Plan and drawing up of legal documentation will be a considerable challenge. The more communication with key players and preparation you can do the smoother this 'Transition' will be.



Whilst vision and enthusiasm remain important characteristics of the staff group, the management of a strong process of transition demands a very organised and structured approach to ensure all issues are addressed and the new SE can start on the right footing. Transition takes place on top of managing the business and can stretch management resource significantly. Consider seeking external support (Annex 4).

Staff training in investment terminology and approaches would be helpful to ensure staff are able to engage in discussions from an informed position. It would also be good to remind staff of the need to manage sensitive information carefully.



There are likely to be significant costs (staff time plus professional assistance) in establishing 'New SE'. There may be a need for additional resource to run existing business whilst preparing for investment (this need should be considered as part of Stage 2).

Sources of finance include CARE's own resource which could be recognised as Sweat Equity in new SE. It might be possible to access grant funding or technical assistance explicitly designed to support the development of new SE (Annex 3).



The venture now has the governance, Finance and people in place to thrive independently of external support If Yes proceed. If no then repeat the transition process and consider seeking external support where needed.



START UP



Are all legal requirements fulfilled to establish the new SE, e.g. documents of incorporation, shareholders agreement?

Are roles and responsibilities clear and understood by all?

Has the transition plan been fully implemented? Was anything missing?

What additional technical assistance does the new SE require?

Does the new SE have clear staff development programmes?

There will be a specific and glorious moment in time when the SE is legally formed. All the hard work has paid off and the 'deal is done'. This moment can happen at any point in time after the 'Business Plan' has been agreed.

At the point of incorporation (investors sign an investor or shareholder's agreement and formal incorporation is confirmed by lawyers) the business venture becomes a separate legal entity. The euphoria of 'spin off' will soon be followed by the reality of managing a SE in what is almost inevitably a challenging business environment. Whilst your office, chair and desk might remain the same; things have changed!

Many of the activities identified in the 'Transition Plan' cannot take place until the SE is legally constituted. The immediate priority is, therefore, likely to be to finalise and embed the changes identified in the 'Transition' plan and dealing with the inevitable issues that will arise from this, e.g. staff contracts transferred.

There will also be gaps in institutional and staff capacity that require support. It is likely that the founding organisations (now shareholders) will need to continue to offer support to 'New SE in its formative period.

If not contained in the 'Business Plan' or Shareholders Agreement, it is advisable that 'New SE' begins to articulate clearly where they feel support is required. In some cases contracting in services (e.g. accounting function) from shareholders might offer a cost effective way to address capacity constraints.

In the same way as the role of staff is likely to change so the role of the CARE staff and offices that have driven the development of the SE will evolve. Whilst ongoing assistance is likely to be required, CARE staff are likely to need to take a step back and ensure that there is no conflict with the role of Directors.



There is an important need to keep people focused on managing the business post launch euphoria. Roles and responsibilities need to be very clear.

The 'New SE' is likely to have a slightly more formal structure (new job descriptions might be clarified and roles and reporting arrangements changed). These will take time to embed- and probably require revision. There is likely to be a need for intensive staff development, e.g. mentoring of 'new' managers.

Significantly the new SE will be run by a Board of Directors which will include new investors. This will create a new dynamic between staff and their new 'bosses'. Company Directors tend to be more engaged than Charity Trustees in the detail of day-to-day business, as they are protecting their investment and the potential future returns they hope it will generate



While the venture has largely been supported by grant funding with additional trade finance, the insertion of equity at launch of the new SE creates opportunity and challenge. There may be a desire (supported by the NGO culture of spending to plan rather than business approach of ensuring cost effectiveness) to spend the money rigidly to the business plan without due consideration for the state of the underlying business. Making a distinction between running costs of the business and investment will be helpful to ensure that resources are responsibly/appropriately utilised. The business might need to consider how best to 'receive' technical assistance if necessary.



The SE is formally established with separate legal status, adequate Finance, effective management and clear governance structures. If Yes proceed. If No repeat.



GROWTH & SCALE



Do you have the correct people and finance in place to cope with growth?

How can the enthusiasm of the 'Start Up' be maintained?

Are changing relationships with key stakeholders adequately managed?

The 'New SE' is now established and the inevitable challenges of a new start-up are being met successfully. If all continues to progress well we can now foresee a period of growth in line with business plan projections.



Recruiting and retaining staff is likely to become a major issue. Having launched successfully your staff are likely to become sought after. They are now operating in a different (more commercial) environment and might begin to compare their terms and conditions to colleagues within the private sector. How does the SE continue to motivate staff through the next phase of the SE's development?

Equally recruitment of staff to meet the needs of the growing business is likely to see you compete with conventional business. Ensuring new staff share 'New SE's' values and mission will be a challenge. Thorough staff recruitment processes, staff induction and training all become increasingly important



Depending on the success enjoyed in capitalising the business at the 'Set Up' step, finding the working capital necessary to support growth is likely to be an issue. Historic access to subsidised borrowing rates may be replaced by the chill of commercial reality. On the plus side growth suggests success and this should help to influence lenders.

Many successful SEs struggle to find necessary working capital and can soon be considering the need to raise additional capital in the business.

It might also be necessary to consider the possibility of initial investors exiting the SE.

Growth brings new challenges not least the need to finance the growth and to recruit staff with the appropriate skills and attitude for the business. Maintaining the delicate balance between social and commercial objectives remains a central challenge particularly as relationships become more numerous and complex and, for example, staff structures become more hierarchical etc.

It is also worth considering that scale can be achieved in a number of ways. It need not be about growing turnover year on year. Scale of impact may be achieved, for example, by influencing others in the sector, encouraging new entrants, helping to address a systemic failure in the market system. Being clear about how impact will be enhanced is important.



The SE has demonstrated an ability to grow income- generating a profit and delivering social impact. Further growth and impact is reliant upon additional investment or replication of the model. If Yes proceed. If No repeat.



ANNEXES

Annex 1: Consultation Details

Date	Name	Role
22/1/13	Marcela Hahn	CARE USA, Corporate Partners Unit
22/1/13	Senthil Kumar	Director Economic Development, CARE India
22/1/13	Samir Sedky and Susan Nour	Head of Agricultural and Natural Resource Programme, CARE Egypt
23/1/13	Alexa Roscoe	CARE International UK
24/1/13	Late Lawson	CARE USA, Economic Development Unit
24/1/13	Gifty Blekpe	CARE Ghana
25/1/13	Sarah Ralston	CARE Palestine
29/1/13	Vidhya Sriram	CARE USA
30/1/13	Gregory Brady	CARE Sri Lanka
30/1/13	Sophie Chitedze	Senior Technical Advisor Access Africa, CARE Tanzania.
31/1/13	Thomas Reynolds (email correspondence)	CARE Caucuses
1/1/13	Christian Pennotti	CARE USA, Economic Development Unit
7/2/13	Innocent Rutikanga	CARE Haiti
9/2/13	Saif Rashid	CEO, JITA Bangladesh

Annex 2: Some of CARE Staff involved in Social Enterprise Approaches

Name	Function	Email
Asif Uddin Ahmed	Director, PSE, CARE Bangladesh.	asif@bd.care.org
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Lauren Hendricks	CARE Access Africa	lhendricks@care.org
Farouk Jiwa	Sr Technical Advisor, Economic Development Unit, CARE USA	fjiwa@care.org
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Sammiya Tur Rauf	CARE Pakistan Entrepreneurship Development Advisor CIIP	Sammiya.rauf@pk.care.org



Annex 3: Examples of Donors Supporting the Development of SE

A social enterprise approach can be incubated as part of existing programs funded by any traditional aid or philanthropic donors. There are also an increasing number of funding mechanisms dedicated to specifically supporting innovative approaches. A few examples:

Research & Design / Test & Refine

- **USAID's Development Innovation Ventures (DIV):** open competition supporting breakthrough solutions to the world's most intractable development challenges; <http://www.usaid.gov/div>
- **Grand Challenges Canada's Stars in Global Health:** supports innovators in the area of global health at the design stage (\$100,000) level and 5 awards at the \$1 million level; <http://www.grandchallenges.ca/>
- The Gates Foundation's **Grand Challenges Explorations (GCE):** supports labour Saving Strategies and Innovations for Women Smallholder Farmers Challenge; <http://www.grandchallenges.org/Pages/Default.aspx>
- The **Rockefeller Foundation:** regularly funds innovative concepts that have the potential to transform the lives of billions working in informal economies across the globe; <http://www.rockefellerfoundation.org/>
- **Innovations Against Poverty:** an initiative of the Swedish International Development Cooperation Agency (Sida) provides matching grant for the purpose of exploring an innovation or a new market; <http://www.sida.se/English/Partners/Private-sector/Collaboration-opportunities/Challenge-Funds/Innovations-against-poverty/>
- **DFID's Business Innovation Facility:** provides technical assistance to the development of inclusive business models; <http://businessinnovationfacility.org/>
- IDB's new **"Program to Accelerate Businesses Providing Basic Services to Poor and Low-income Populations":** provides grants and technical assistance to the design and pilot testing of new business models and distribution channels for the low-income marketplace in Latin America and the Caribbean; <http://www5.iadb.org/mif/home/news/pressreleases/tabid/467/artmid/3819/articleid/13/new-partnership-to-develop-business-models-for-providing-basic-services-to-the-bop-in-latin-america-and-the-caribbean.aspx>

Launch:

- **Omidyar Network:** supports innovative social enterprises across multiple areas, including microfinance, property rights, government transparency and social media; http://www.omidyar.com/about_us
- The **Skoll Foundation's Awards for Social Entrepreneurship:** support entrepreneurs whose proven innovations have demonstrated impact on some of the world's most pressing problems;
- **Lundin Foundation:** supports grassroots initiatives that encourage sustainable community development through a mixture of grants and impact investments; <http://www.lundinfoundation.org/s/home.asp>
- The **Tony Elumelu Foundation:** focuses on bridging the gap between philanthropic and for-profit ventures and support small and mid-sized enterprises across Africa.
- **Accion Venture Lab:** provides seed capital and support to innovative financial inclusion startups;
- The **Eleos Foundation:** invests in social entrepreneurs who effectively implement high impact, early stage, pioneering market based solutions in the fight to eradicate extreme poverty.
- The **Africa Enterprise Challenge Fund:** provides grants and interest free loans to businesses who wish to implement innovative, commercial viable, high impact projects in Africa;

Grow:

- The Business Innovation Facility and Innovations Against Poverty's **Database of Financial and Technical Support for Inclusive Business**; <http://businessinnovationfacility.org/page/data-of-financial-and-technical-support-for-inclusive-businesses>
- The **ImpactAssets 50** (IA 50) : updated list of 50 firms selected to demonstrate a wide range of impact investing activities across geographies, sectors and asset classes; <http://www.impactassets.org/ia50/>

Impact measurement

- The **Small & Medium Enterprise (SME) Initiative** of Innovations for Poverty Actions: supports innovative research that builds a systemic body of evidence on the contributions of SME growth to poverty alleviation and economic development; <http://www.poverty-action.org/sme>



Annex 4: External Support Available to CARE staff

The following consulting firms have demonstrated their ability to support the development of poverty-fighting social enterprises.

Challenges Consulting (UK): is a pioneering organization focusing on strengthening small businesses by identifying opportunities for development and assisting with the implementation of viable business plans (<http://challengesworldwide.org/>)

Fairbourne Consulting (US): a business innovation firm focused on the design of distinctive and lasting businesses that thrive in developing market (<http://www.fairbourne.co/>)

Karisimbi (Rwanda): a socially-motivated consultancy that builds businesses by developing the management capacity of high-impact enterprises (<http://www.karisimbipartners.com/>)

Open Capital Advisors (Kenya): a strategy consulting firm that supports high-impact businesses, investors, and innovative solutions throughout East Africa (<http://opencapitaladvisors.com/>)

Shujog (Singapore): a research and capacity-building non-profit social enterprise seeking to foster growth, maturity and innovations to the SE sectors of Asia (<http://shujog.org/>)

Virtue Ventures (US): consulting firm bringing business practices to nonprofit organizations and assisting for-profits in their social endeavors. (<http://www.virtueventures.com/>)



Annex 5: Teaser Template

The concept note / teaser should be on one page. The target audience is potential donors (for a grant) or investors (capital investment) depending on the stage of development.

NAME OF THE PROJECT

Country: Indicate the country

Sector: Usually a traditional CARE sector (agriculture, water & sanitation, health, etc);

Stage: 3 key categories at this point of time: “Research & Design”, “Test & Refine”, “Launch & Scale”

Snapshot: Provide a summary of the opportunity (more or less 600 characters including spaces). Please also provide a picture. The opportunity can be a current project, an opportunity emerging from a current project or just a concept. Summarize the poverty issue addressed, if this is an existing project when it started and key indicators of success from a social and /or financial viability standpoint. Describe your SE, including your products and/or services and include your Mission Statement.

Social Benefits: (more or less 600 characters including spaces). This section should only concentrate on social impacts (current and anticipated). Please mention key impacts and include numbers of direct and indirect beneficiaries as much as possible.

Business model: (more or less 600 characters including spaces). Here a potential investor needs to understand how the social business can become viable. What are the key existing or anticipated revenue streams? How long will it take for the social business to become viable? Is the model easily replicable, scalable? A lot of this information will come from the assessment but try and provide as much information as possible.

Management: (more or less 300 characters including spaces). Please provide short bios and pictures of the SE management team.

Financial Projections: please provide here a five year sales projection using the Profit and Loss sheet from your SE Plan.

Collaboration Opportunities: (more or less 300 characters including spaces) Indicate any collaboration opportunity in terms of: funding (please precise in grants or for the most mature ventures in capital investment), pro-bono technical assistance (consulting services, MBA student), any other partnerships with products or services providers, buyers, other NGOs, etc

Annex 6: Tools

Several templates and tools have been developed to use in conjunction with this Guide.

The SE Plan template is the core resource and underpins the development of your SE. It is a narrative template with various sections that relate to the stages discussed in this Guide. You should work through it carefully and use the corresponding tools annexed to the Plan template to assist you in your planning. The specific financial tools are also listed here for convenience as they are in excel format, though they should be approached in the order suggested in the SE Plan template.

These templates and tools are by no means definitive, and we would encourage you to use other available resources and draw upon the knowledge of your colleagues to help you in this process.

Business Plan Template (Word) <https://careusa.box.com/s/kfl1xh1zopcmcuevmx3l>

Tool J Startup Expenses (XLS) <https://careusa.box.com/s/76oqeccvq5ewkl0gzpkt>

Tool K Profit and Loss (XLS) <https://careusa.box.com/s/ih65uehzvkr7he30tsuk>

Tool L Cash Flow Projection (XLS) <https://careusa.box.com/s/exksx4br6nos8rlzfyfv>

Tool M Balance Sheet (XLS) <https://careusa.box.com/s/h6zzdk35pnauguhkidw3>





Readers Notes



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Founded in 1945, CARE is a leading humanitarian organization fighting global poverty and providing lifesaving assistance in emergencies. In 84 countries around the world, CARE places special focus on working alongside poor girls and women because, equipped with the proper resources, they have the power to help lift whole families and entire communities out of poverty. To learn more, visit www.care-international.org.

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