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SUSTAINABLE SOCIAL ENTREPRENEURSHIP AND SOCIAL VALUE CREATION APPLICATIONS FOR THE FINANCIAL SECTOR IN SWAZILAND

THESIS SUBMITTED FOR THE DEGREE OF DOCTOR OF PHILOSOPHY

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ABSTRACT
Financial exclusion is a pervasive feature of developing countries that is viewed as a significant contributing factor to the socioeconomic ills of poverty and inequality. It results from market failure that creates deficit supply of financial services to sections of the population. Social enterprise finance institutions that include micro-finance organizations, development finance, cooperatives and informal groups, play an increasingly leading role as interventions to promote inclusion. The study examines the practices engaged by social enterprises in their mission to create social value using market interventions, to assess their capability in sustainably correcting for market failure. It probes the responsive strategies, actions and behaviour of these enterprises to the specific market failure conditions that exist in the financial sector. It also analyses the propensity of mission drift phenomenon among enterprises due to corporatization, and the conflict of missions faced by social enterprises.

A qualitative empirical analysis of 9 financial sector social enterprises from 42 respondents in a combination of individual and focus group settings in Swaziland was conducted. The results show that social enterprises have become adept at alternative risk management strategies to ameliorate market failure conditions. Strategies include alternative collateral, exploitation of common bonds, relationship building, customer clusters, loan disbursements to suppliers and complementary support services. Social enterprises are evidently heterogeneous in their in their bias towards either sustainability or social objectives. They fall into a continuum between a commercial orientation at one extreme and a social one at the other. At the commercial end dwells enterprises that have adopted more conservative market failure mitigation strategies and a more aggressive self-sufficiency position. This is reflected in a stricter selection of customers, less directed demand led services, close to market related service charges, and investment choices in more financially rewarding activities. At the opposite end of the continuum are socially oriented enterprises that have a broader customer base, services strictly directed at specific segments of the population and subsidized service charges.

ACRONYMS

ASCA	-	Accumulation of Savings and Credit Association
EU	-	European Union
CAQDAS	-	Computer Assisted Qualitative Data Analysis Software
DFI	-	Development Finance Institution
FSRA	-	Financial Services Regulatory Authority
FIEG	-	Financial Index Export Group
FINCORP	-	Financial Corporation
ISWIFT	-	Imbita Swaziland Women's Finance Trust
KZN	-	KwaZulu Natal
MIX	-	Microfinance Information Exchange
LMC	-	Local Membership Committee
LMO	-	Loan Monitoring Officer
MFI	-	Micro Finance Institution
NGO	-	Non-Government Organization
ROSCA	-	Rotating Savings and Credit Association
SACCO	-	Savings and Credit Cooperative Organization
SADC	-	Southern African Development Conference
SBS	-	Swaziland Building Society
SIDC	-	Swaziland Industrial Development Company
SMME	-	Small Micro Medium Enterprise

TABLE OF CONTENTS

ABSTRACT ii
ACRONYMS iii
TABLE OF CONTENTS iv
1. INTRODUCTION 1
1.1 Introduction 1
1.2 Background on Social Entrepreneurship 2
1.3 Social Entrepreneurship as a vehicle for financial inclusion 5
1.4 The context of the study 6
1.5 Pertinent Issues Raised and Problems 7
1.5.1 Poor performance of Social Enterprises 7
1.5.3 The duality of objectives and mission drift 8
1.5.4 Commercialization and Market failure 8
1.6 Research Gap Analysis 10
1.7 Objectives of the study and research questions 12
1.7.1 The commercialization of social entrepreneurship and mission drift 12
1.7.2 Financial sector social entrepreneurship and market failure 12
1.8 Importance and contribution of the study 12
1.9 Delimitations of the study 13
1.10 Definition of terms 14
1.11 Organization of the thesis 14
2. LITERATURE REVIEW AND CONCEPTUAL FRAMEWORK 16
2.1 Introduction 16
2.2 Conceptual Framework 17
2.2.1 Financial exclusion 17
2.2.2 The social Entrepreneurship concept 18
2.2.3 Market Failure in financial exclusion 20
2.2.4 Intervention approaches to market failure 25
2.2.5 The Social entrepreneurship intervention approach 26
2.2.6 Sustainable social value creation through social entrepreneurship 28
2.2.7 Critical analysis and proposition 32

2.2.8 The Mission Drift Analysis 32
2.3 Empirical evidence 35
2.4 The Swaziland context 39
2.4.1 Financial landscape 39
2.4.2 Sustainability and the social mission 40
2.5 Chapter summary 41
3. METHODOLOGY 42
3.1 Introduction 42
3.2 Research Methodology 43
3.2.1 Selection of the methodology 44
3.2.2 Qualitative research methodologies 45
3.2.3 Phenomenology research 46
3.2 Data Collection Process 47
3.3.1 Sampling 47
3.3.2 Sample size 48
3.3.3 The composition of participants 48
3.3.4 Data collection 49
3.4 Data analysis and interpretation 51
3.4.1 Transcripts and coding process 51
3.4.2 Analysis and interpretation 52
3.5 Quality Assurance Strategies 55
3.6 Ethical considerations 56
3.7 Challenges Encountered 57
3.8 Chapter Summary 57
4. SOCIAL ENTERPRISES MISSION 59
4.1 Introduction 59
4.2 The origins and mission of social enterprises 60
4.3 Mission analysis 67
4.4 The management of conflicting economic and social objectives 74
4.5 On Mission Drift 80
4.5.1 Crowding out the marginalized 80
4.5.2 Transformation of social enterprises and mission drift 80
4.5.3 Sustainability and mission drift 85
4.6 Chapter Summary 87
5. MARKET FAILURE MITIGATION 89

5.1 Introduction 89
5.2 Business Models Overview 89
5.2.2 Micro-finance Institutions (MFIs) 93
5.2.3 Cooperatives 94
5.2.4 Informal sector groups 95
5.3 Market failure mitigation strategies 96
5.3.1 Collateral 96
5.3.2 Customer selection and screening 99
5.3.3 Service Delivery Approach 100
5.3.4 Loan conditions 106
5.3.5 Loan management and monitoring 109
5.4 The External Environment 111
5.5 Chapter Summary 113
6. THE UNIQUE POSITION OF SOCIAL ENTREPRENEURSHIP INTERVENTION APPROACH 115
6.1 Introduction 115
6.2 The evolution of micro finance; a global outlook 116
6.3 Regulation for financial inclusion 125
6.4 Unique advantage of social enterprises 126
6.5. Models of social entrepreneurship in the financial sector 135
6.7 Chapter Summary 138
7. CONCLUSIONS AND RECOMMENDATIONS 140
7.1 Introduction 140
7.2 Summary of Findings 140
7.2.1 Models of social entrepreneurship 140
7.2.2 Sustainability and conflict in missions 142
7.2.3 Correction for market failure 143
7.3 Conclusions and future research 146
10. REFERENCES 150
11. ANNEXES 160
Annex 1 Interviews participant information 160
Annex 1 A summary of findings 162
Annex 2 A summary of the policies to minimize credit risk 167
Annex 3 Social Enterprises Customer Participation Structures 168

Tables

Table 1 Percentage (%) access to formal financial services by region 3
Table 2 Sample size 48
Table 3 Data Collection Methods 51
Table 4 Mission Indicator Variables by Type of Enterprise 68
Table 5 Estimated Average Annual Turnover by Social Enterprise 72
Table 6 Strategic Objectives of Social Enterprises Studied by Type of Enterprise 75
Table 7 Salient Institutional Changes Overtime by Enterprise 81
Table 8 Sustainability of Social Enterprises by Type 87
Table 9 Social Enterprise Business Models Overview by Type 90
Table 10 Collateral Requirements by Social Enterprise by Enterprise 96
Table 11 Reported Percentage Levels of Repeat Loans by Enterprise 105
Table 12 Financial Products by DFIs 106
Table 13 Collaboration between Social Enterprises and Other Agencies 112
Table 14 Summary of Government Intervention Initiatives 124
Table 15 Summary of Regulations for Development Financial Institutions 125
Table 16 Percentage Total Credit Uptake of formal vs. informal sources by market segment 130
Table 17 Comparison of social enterprises, Commercial and Philanthropic Institutions. 134
Table 18 Social Enterprises Response to Market Failure by Type 135
Table 19 Market Failure Mitigation Measures 143

Figure

Figure 1 Outline of the Research Strategy 43
Figure 2 A Summary of the Data Analysis and Interpretation Process 55
Figure 3 Banking logic and social welfare attributes of social enterprises 75
Figure 4 Factors influencing social enterprises financial inclusion business models 95
Figure 5 The evolution and outlook of microfinance 118
Figure 6 Features of social enterprises typologies 135
Figure 7 Models of Social Entrepreneurship 141

Information Boxes

Information Box 1 Historical Mission of DFIs 61
Information Box 2 Historical Mission of MFIs 63
Information Box 3 Origins of informal rural groups 67
Information Box 4 The target market and marginalization 70
Information Box 5 Management of the social and economic mandates 79
Information Box 6 The transformation of DFIs 82
Information Box 7 Cooperatives and mission drift 84
Information Box 8 The Structure and Strategic Approaches of Social Enterprises 102
Information Box 9 Financial services conditions for cooperatives 110

1. INTRODUCTION

1.1 Introduction

Social entrepreneurship remains a relatively new academic discipline despite a substantial amount of research. This delayed maturity can largely be ascribed to an elusive theoretical foundation. Existing work has focused mostly on definitions and conceptual considerations (Mair& Marti, 2005; Martin& Osberg 2007; Dees, 1998) and the exploration of the divergences between social and commercial entrepreneurship (Austin, Stevenson & Wei-Skillern, 2006); Certo & Miller, 2008); Dolnicar, Irvine & Lazarevski, 2008). Considerable studies have also been directed to untangling the quagmire of the dual and seemingly conflicting objectives of economic and social value creation that social enterprises must address in order to ensure their survival and continuity, whilst guarding against drifting from their definitive role (Auerswald, 2009; Di Domenico, 2010; Santos, 2009; Emerson 2003). The increasing prevalence of activities that fall into neither commercial nor welfare categories creates a need for academic clarity, understanding and the development of underlying theoretical principles to guide application and practice.

General theoretical dictates for various economic fields already exist in abundance; however research has not yet fully examined the contextual relationship and applications of such theory and the social entrepreneurship phenomena. The study is investigates the phenomenon against a backdrop of economic principles of market failure. Bateman (2015) describes market failure as an absence of trading markets which compel commercial organizations to shun social economies normally targeted by social enterprises. This study examines the nature and consequences of market failure on the social enterprises in the financial sector and conducts a qualitative analysis of how social entrepreneurship practice as embodied in the behaviour of social enterprises measures up against these consequences. The ultimate aim is to contribute in positioning the social entrepreneurship discipline in economic theory by examining social value creation in market failure conditions. In-depth interviews with managers of social enterprises in the financial sector were conducted to gather information on the methods by which these organizations meet the challenge posed by the conditions in this environment. The investigation extends to a review of the pressure to be financially self-sufficient and often consequential shift in the mission of enterprises albeit in the context of the solutions they select to mitigate the conditions of market failure.

This introductory chapter presents the background, position and significance of social entrepreneurship in general socio-economic development. A brief outline of the analytical framework on which the thesis constructs are based is made to demonstrate the research problems, and gaps in relevant existing studies and justification for this inquiry. The objectives and research questions used for the field investigation are also stated and explained.

1.2 Background on Social Entrepreneurship

The social economy has become a global priority in the agenda to solve "wicked problems"[1] ranging from climate change arising from pollution externalities, women and youth unemployment, widespread income inequalities and poverty emanating from imperfections in market resource allocation forces (Nichols, 2014). Social exclusion is a socio-cultural phenomenon that refers to inequalities arising from the poor participation of people or groups in the economic, political, social and cultural life of their societies (Noya & Clarence, 2008). This occurs as a result of problems associated with unemployment, poor access to financial resources, lack of education, and others. The social economy, particularly social institutions play an increasingly important role in fostering socio-economic inclusion. It consists of a broad spectrum of organizations that fall neither under the public sector or the private sector, and it is multi-sectoral in nature, existing in a variety of activities including environmental issues, economic and socio-cultural.

Poor access to finance has emerged as one of the most critical "wicked problems" in the society as significant segments of the global population often fail to obtain finance due to skewed distributions of financial assets and income. An efficiently functioning financial system is considered to be one of the foundations of economic growth as economies can only make adequate progress if financial capital is allocated to its most productive uses. Microfinance offered by social enterprises has traditionally been the dominant channel for providing financial services to economically marginalized populations. Social entrepreneurship and the concept of social value creation are defined as good works over and above economic value (Auerswald, 2009). It implies the provision and creation of welfare or socio-economic benefits over and above economic returns accruing to the service provider. Such initiatives are necessitated by the perceived inability of the populations to pay for services or offer the appropriate compensation and the existence of certain non-rectifiable challenges such as high transaction costs. Economic rationale dictates that activities that are not adequately rewarded are not sustainable and as such, social entrepreneurship would appear to be economically illogical. However, social entrepreneurship is widely practiced in the financial sector. Institutions providing financial services to the poor range from banks offering special programs to special purpose institutions in the non-bank sector. This study examines the practice of social enterprises against the backdrop of the stated economic rationale, focussing on the means they employ to successfully fulfil the social objective and remain financially sustainable.

Economic development is partially ascribed to the adequacy of financial systems as evidenced by higher levels of participation in formal financial institutions by populations in developed countries. In contrast, many people in developing countries, have limited access to financial services. Over 90% of developed country populations have bank accounts (99% in Denmark, 96% in Germany, 91% in the US and 96% in France) whilst in most developing countries only 20 to 30 % on average have bank accounts (Vighneswara & Vijayalakshmi, 2013). This is indicative of a correlation between access to finance and the level of development. In the European Union, survey show that 37% of the households in the lowest income category have no bank accounts whilst only 3% amongst those in the high income levels (EU Steering Group on financial inclusion Report, 2011). The Finmark Trust survey for Swaziland showed

[1] Nichols (2014) describes wicked problems as the socio-economic ills of societies that are not resolved by market forces. These include poverty, environmental degradation and financial exclusion.

that financial inclusion is higher in urban areas at 84% than in rural areas at 68% (Finmark Trust, 2014). Inefficient market resource allocation mechanisms and resultant income inequalities lead to low savings by the poor, which in turn leads to inadequate access to finance, trapping the poor into poverty (Kuznets, 1955).

Globally, there has been a significant increase in access to formal financial services with total exclusion dropping from 2.5 billion to 2 billion between 2011 and 2014, representing a percentage increase from 51% to 62%. (World Bank Group, 2015)[2]. However, some countries remain below the average as indicated in Table 1 below. Variations between high income countries and poorer regions also indicate the correlation between income and access. In Sub Saharan Africa, despite that access for adults is 34%, the rate is lower for marginalized groups such as women (30%), rural adults (29%), the poorest forty per cent population (25), and the youth (26%).

Table 1 Percentage (%) access to formal financial services by region

Region	Access	Savings	Borrowings
East Asia & Pacific	69	36	11
Europe & Central Asia	51	8	12
High Income OECD	94	52	18
Latin America & Caribbean	51	14	11
Middle East	14	4	6
South Asia	46	13	6
Sub-Saharan Africa	34	16	6

Source: World Bank, 2012

The significance of financial systems to economic growth however remains mired in the debate of the causal relationship between financial development and economic growth. At one extreme, a supply minded school of thought suggests that financial development promotes investment in high yielding economic activity by facilitating risk management, increasing asset liquidity and reducing trading costs (Levine, 1997). Financial systems are deemed critical to growth by identifying and finding productive investments (Schumpeter, 1909). An opposing view advises that financial development is an outcome of economic growth, hence strategies to develop the sector are a misdirection of resources better spent on growth programmes (Lucas, 1988). Financial resources are a response to increased economic activity and "where enterprise leads, finance follows" (Robinson, 1952; Padilla & Mayer, 2002). Growing economies are compelled to invest in financial systems to support stable growth.

Empirical research albeit patchy and largely country-specific, has also yielded mixed results. Choong, Yusop, Law & Liew (2005) analysed the stock market development correlation with economic growth in Malaysia and found a positive long-term impact providing evidence in favour of finance led growth. Ahmed & Malik (2009) used an econometric model to analyse the impact of financial systems development on the GDP of 35 developing countries found financial systems improve the efficiency in resource allocation rather than capital accumulation. Ndlovu (2013) using a

[2] Statistics obtained from the Findex database published by the World Bank

multivariate Granger causality test examined the relationship in the Zimbabwean context found a unidirectional causality from economic growth to financial development, concluding that developmental policies should focus on other growth factors. A SADC Research Paper (2014), employed quantitative and qualitative to study the 14 SADC countries obtained mixed results where-in half of the countries showed that the financial sector positively supports economic growth which was not evident in the other 7 countries. Nonetheless, the paper concluded that the sector is important for growth. A feedback hypothesis suggests a two way causal relationship between the two variables whereby a well-developed financial system lead to economic expansion which in turn stimulates demand for financial products and institutions (Luintel & Khan, 1999). The mixed research findings notwithstanding, a positive relationship between the two variables is evident and in order to attain sustainable economic growth, stable financial systems are significantly important, and will not automatically be in place as the economy grows. Rather a conscious effort must be applied to their development. The World Bank (2001) affirms the fundamental importance of financial systems to poverty alleviation and association to substantial improvements in the distribution of income.

A significant issue under scrutiny in this study is to determine the ability of social entrepreneurship to mitigate financial exclusion in order to attain the desired economic equality. Policy makers are taking cognizance of the contribution and potential of micro-finance to inform economic development strategies. The Basel Committee on Banking and Supervision Consultative Group (BSCG) define micro Finance as "the provision of financial services[3] in limited amounts to low income persons and small, informal businesses which are offered by a variety of formal financial institutions mostly development banks and non-banks, either as their core business or part of a diversified portfolio." (Basel II, 2010). Micro-finance, most visibly micro-credit, gained global momentum as pioneered by the famous Grameen bank model of Bangladesh founded by Dr. Muhammad Yunus in 1976. The bank utilized innovative methods such as group lending and peer pressure to provide financial services to the poor and reported a high performance in terms of repayment rates and impact. The Grameen model was celebrated as a panacea and a vaccine for offering poverty eradication solutions through financial inclusion of the poorest of the poor (Lawson, Mckay & Okidi, 2005). The concept was soon globalized as a potentially powerful development tool to uplift the economic status of the poor. Grameen Bank "clones" promoted and funded by international donors emerged in almost all developing countries, mostly in Latin America, Asia and Sub-Saharan Africa (Bateman, 2014).

The justification and opportunity for micro-finance emerged from the failure of market forces and commercial banks, which have consistently failed to reach all segments of the population. Development banks, micro finance institutions, mutual funds, savings and credit societies, community groups (stokvels, burial societies) are some of the institutions that have emerged over the decades, to improve access. Although none specifically purport to be social entrepreneurs, their involvement and participation in social endeavours qualify them for investigation under the umbrella of social entrepreneurship. Their main mission is to address issues of poor access to

[3] Financial services for inclusion include micro-credit, savings, transmission and transaction services, pension funds, insurance, and consumer literacy and protection programs.

finance and to facilitate the inclusion of previously disadvantaged populations, with the ultimate objective to eradicate poverty and improve living standards.

Criticism of the commercialized model has is fuelled by the continued escalation of poverty levels, increasing indebtedness amongst microcredit beneficiaries, and perceived enrichment of the service providers (Bateman, 2014). It would appear that the commercialization of micro credit resulted in the exclusion and impoverishment of the very people it was designed to assist. The fundamental economic principles and underpinnings of the model are therefore being brought into question. Firstly the linkage to poverty alleviation has been found to be lacking (Bateman, 2014). Financing the poor to engage in informal survivalist/wage substitution enterprises led to copy catting and local market saturation, hyper-competition, low product prices and poor business performance. Secondly the reliance of the model on achieving high volumes was not sustainable, resulting in the collapse of institutions when the "minimum efficient size"[4] could not be met.

1.3 Social Entrepreneurship as a vehicle for financial inclusion

The convergence between financial inclusion and social entrepreneurship is that the former is a popular and prominent manifestation of the latter (Rosengard, 2004). Financial exclusion relates to "a process whereby people encounter difficulties in accessing and using financial products and services in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong" (EU 2008, p9). Such exclusion maybe due to several factors on both the supply and demand side, including poor geographical access, inappropriate product offerings, inadequate information, high transaction costs, electronic, resource availability etc. The ultimate consequence is the failure of mainstream financial markets to reach certain segments of the population (Burkett & Drew, 2008). People may be excluded from services such as saving, credit, insurance, and making financial transactions. According to Burkett & Drew (2008) financial exclusion is a result of social exclusion. They identify poor competencies, capabilities and financial literacy as a reason for exclusion. People are excluded simply because they are unable to obtain and use information to make the appropriate financial decisions and choices about sources of finance, use of funds and financial record keeping. On the supply side, service providers may also be uninformed about which financial products suitable for the market and thus provide inappropriately. The second reason for exclusion is identified as failure of the market to influence an optimal and equitable allocation of financial resources, which limits trade and excludes certain sectors due to the high costs of products and services. The benefits of providing the service maybe lower than the costs involved and/or the excluded may exhibit high risk characteristics which disqualify them as potential clients.

Social entrepreneurship is an innovative process to resolve such financial exclusion and grasp previously unexplored opportunities in order to create social transformation to include the excluded or to achieve a social mission (Weerawardena et al 2006). This is pursued by social entrepreneurs who play the role of social change agents with new ideas, and adopt a mission to create and sustain social value (Dees 1998). Social entrepreneurs establish social enterprises which are essentially organizations dedicated to solving social problems, and providing good or services that are not adequately provided by the market (Di Domenico, Haugh & Tracy, 2010). Social

[4] This refers to the lowest number of customers that could be served without incurring losses.

enterprises as vehicles for financial inclusion have been popularised by the Grameen Bank (GB) model and adapted replicas have been attempted with varying success around the world.[5]The unique qualities of the model include the absence of collateral requirements for micro credit eligibility, small loan sizes with the prospect to additional loans upon satisfactory repayment, a group lending approach to exert peer pressure on borrowers, intense supervision of borrowers through regular group meetings and a participatory approach.

The social entrepreneurship phenomena is rapidly gaining global recognition with an estimated 3.2% of the working population engaged in social entrepreneurship activities compared to 6.2% in the commercial sector in the United Kingdom (Santos, 2009). Social enterprises are deemed a suitable vehicle for financial inclusion due to their social development bias. Dees (1998, p.1) regards the social entrepreneurship title as implying "a blurring of sector boundaries" as it "can include social business ventures, such as for-profit community development banks, and hybrid organizations mixing not for-profit and for-profit elements." Social entrepreneurship is therefore also practiced by numerous profit oriented organizations using a diverse range of approaches. For instance, global environmental degradation, natural resource depletion and increasing social challenges have given impetus to the triple bottom line concept, motivating organizations to adopt social mitigation strategies alongside profit-making. This manifests itself in social programs such as Corporate Social Investments (CSI), charitable foundations and company donations.

1.4 The context of the study

Most social enterprises including the Grameen Bank were founded on Western donor funds and subsidies. However, it soon became apparent that interventions reliant on free external injections without plans for financial independence could not exist in perpetuity. The idea of market driven social entrepreneurship saw the transformation of many social enterprises, ostensibly gearing them to operate on a financial self-recovery basis. Commercialization involved charging market driven service fees, raising deposits and intermediating, using commercially oriented business models, and incorporating NGOs into companies to sell shares to raise funds.

Commensurate ideologies that emerged with the commercialization of microfinance included the liberalization of interest rates, profit making, market related salaries and private shareholding. A shift to the commercialization of social enterprises accompanied by deregulation of the financial sector emerged. This was founded on the belief that access to finance was the main deficiency of financial markets and that improved access would enable the poor to engage in income generating activities to repay loans. Furthermore, a deregulated market would allow social enterprises to price their services in line with market risk and be able to make profit or break even.

The social economy evolved in association with a broader reaction to the narrow interpretation of capitalism economics which was based on rational behaviour geared solely towards maximizing benefit or welfare to oneself (Restakis, 2006). The social economy emerged as a means to take into account actual social conditions and to respond to the question of wealth distribution. A contesting position to capitalism, the Marxist ideology eliminates the private sector and seeks complete state control of the economy, providing goods and services. The social economy is a third way, straddling

[5] E.g. Equity bank in Kenya, The Banco Compartimos in Mexico, The Bancosol in Bolivia

both positions and running parallel, neither identified with the public or private sectors.

A plethora of social institutions have been expressly created to provide financial services to the marginalized populations such as Micro Finance Institutions (MFIs), credit and savings cooperatives, Rotating Savings and Credit Associations (ROSCAS), and other non-bank financial institutions. All such organizations seek to serve a market environment judged by mainstream service providers not to be viable, yet their objective is to do this viably, some seeking to make profit and others to break even. The fact that fundamental economic principles do not ordinarily allow these phenomena to exist and this is the paradox addressed by the study. The basic question relates to the feasibility of this quest by social enterprises and whether they are the optimal vehicle to effect social transformation and achieve socio-economic inclusion of the marginalized.

1.5 Pertinent Issues Raised and Problems

1.5.1 Poor performance of Social Enterprises

Microfinance Institutions (MFIs) have entered the spotlight for poor operational management practices and failing in their objective to ameliorate poverty. The Grameen bank model, an eminent example of inclusive financing, ,has been criticized by Tucker, (2006) for creating a debt trap for the poor by charging high interest rates, promoting a debt shifting practice through aggressive debt collection tactics and its sheer invasion of privacy of the poor through its peer pressure modality. Debnath & Mahmud, 2014) in an evaluation of the Grameen Bank microcredit scheme on household incomes found that a failure to contribute meaningfully due to the small loan sizes, short repayment periods and external factors such as poor socio-economic conditions and opportunities. Despite its shortcomings, the bank model has been replicated in over forty countries and consistently recorded repayments of above 90%. (Khandker, Khalily & Khan, 1995). Over 94% of its members are women for whom the employment rate increased from 6 days to 18 days a month under the scheme. Productivity in agriculture increased due to the increased adoption of high yielding seed varieties and daily wages in the sector increased by 30-40%. The independent sustainability of the Grameen Bank model is also questioned in that it has been reliant on external funding since its inception from the United Nations, then the Bangladeshi Government, and the US foundation either through grants and/or soft loans (Tucker, 2006). Hermes & Lensink (2011), estimate that about 70% of MFIs globally are dependent on donor funds and grants, and that less than 2% are completely self-sufficient. The Grameen bank has been lauded for its ability to leverage resources from private financial markets as well. (Khandker et al, 1995).

On the other hand, PRODEM a Bolivian non- governmental MFI that was commercialized and transformed into a shareholding bank, Banco Sol in 1992 sparked a debate on the whether it would still be able to fulfil the mandate of serving the poor, as commercialization entailed charging market rates for services provided (Rhyne, 1998). The Mexican Banco Compartimos, an MFI which made sufficient financial returns such that it offered an initial public offering in 2007 has also been criticized for enriching investors at the expense of the poor it purports to serve (Rosenberg, 2007; Ashata, 2009). In Africa, a study by Buckley (1997) on sources of finance concluded that significant and sustained positive impact of microfinance is not evident. He asserts that time series data showing consistently good microfinance

performance is not available and evidence is mostly anecdotal or inconclusive, and the microfinance movement is sustained by donor finance. His findings were that the source of start-up finance for microenterprises were own savings, family and friends, and that the inaccessibility of financial services is due more to structural socio-economic demand side problems such as lack of property rights, discriminatory regulation, poor infrastructure etc., than supply side constraints. He worried that the "hard selling of microfinance as a new anti-poverty blue print by microfinance evangelists" will cover up and "perpetuate social injustices, detracting from more appropriate interventions," and overlooks fundamental institutional sustainability challenges faced by MFIs. (Buckley, 1997, p. 1091).

1.5.3 The duality of objectives and mission drift

The microfinance crisis or industry collapse[6]could at face value be ascribed to individual institutional factors such as mismanagement, inefficiency, poor strategy formulation. (Bateman and Chang, 2012). However one significant common dilemma that has been difficult to resolve is the combination of social and commercial objectives in an environment characterized by risky markets. On the one hand, microfinance is expected to be a panacea for poverty and other socio-economic ills of societies, on the other, a number of MFIs have been compelled to adopt more commercial models in order to mobilize expansion capital and finance operations, and at the instigation of stakeholders such as donors, investors and Governments. The general consensus has been that MFIs should be run on a self-sufficient basis, despite being purposely located where markets function poorly (Di Domenico, Haugh & Tracey, 2010). Social entrepreneurship is expected to engage in self-sustaining trading and simultaneously create social value to mitigate the impact of imperfect markets.

It remains inconclusive whether there is unavoidable conflict in this endeavour, however. However a contentious phenomenon coined the mission drift has emerged, whereby MFIs move away from their social mandate towards a more commercial orientation for financial sustainability and capital mobilization. The choice of a profit making and non-profit-making objective by social enterprises impacts on their ability to create social value as they focus on economic returns in structuring themselves and activities they pursue. MFIs have come simultaneously to pursue double objectives of creating social value and economic value. This often results in a bias in focus towards the economic objective which sustains the organization, neglecting the social objective for which it was created. Underlying assumption is a trade-off between commercialization and social impact.

1.5.4 Commercialization and Market failure

The commercialization of social enterprises involves resorting to the same methods adopted by mainstream organizations and increasing the risk of mission drift. Market failure is the main problem and alternative means to resolve the issue of sustainability without mission drift requires the implementation of strategies to mitigate it, not avoid it through commercialization. The commercialized model essentially implies that viable markets exist in the midst of market failure conditions, a supposition that

[6] The collapse of the microfinance industry refers to the widespread over-indebtedness of microfinance customers, huge defaults, massive customer withdrawals and microfinance institutional losses that forced them to close down or restructure. This began in 2008 and meltdown episodes were observed in several countries that included Bolivia, Chile, Nicaragua, Morocco, and Pakistan. See http://www.microfinancegateway.org/page.aspx?id=71&nld=106

conflicts with all economic theoretical rationale. This study inquiry interrogates mitigation strategies that social enterprises engage to challenge this rationale, giving them a comparative advantage in sustainably combating financial exclusion over other interventions such as welfare strategies.

Critics of the model[7]propose that in the absence of viable demand amongst the poor, financial services must be directed to more efficient, growth oriented enterprises such as SMEs and that more subsidy oriented approaches should be adopted for direct poverty alleviation. This suggests that the appropriate response to market failure is a welfare oriented approach or that building alternatives outside the market is the only effective response. Growth oriented industries if supported may meet the objective of job creation and poverty alleviation in selected sectorial pockets, but their ability to permanently reduce structural inequalities and attain the desired social transformation is doubtful.

The disillusion with the Grameen Bank model notwithstanding, it remains imperative to establish workable models for inclusive financial systems to resolve issues of socio economic inequality and poverty. It is important to have sustainable institutions that will effect social transformation and create social vale on a long term basis by creating financial markets to mitigate the effects of market failure. Growth oriented industries if supported may meet the objective of job creation and poverty alleviation in selected sectorial pockets, but their ability to permanently reduce structural inequalities and attain the desired social transformation is doubtful.

This study will scrutinize social enterprise institutions to determine their handling of the issues of commercialization for sustainability, ability to pursue the original objective of financial inclusion in a market failure environment and finding social value in financial systems for poverty alleviation. The aim is to unearth the phenomenological dichotomy between economic and social value creation, to investigate the ability of social enterprises to thrive as hybrid entities and still prioritize the social mission. It interrogates the practical and theoretical viability of creating social value in deficient market conditions, and discern optimal alternatives to do so. This entailed an inclusive analysis of the mission, strategies, systems, processes and activities by which social entrepreneurship is uniquely capable of sustainably correcting this failure of the markets, in distinction to other forms of approaches. The outcome of the study has implications for policy setting, regulation, resource mobilization and other potential support, and may lead to leading to a more concise theoretical framework and benchmark models for optimal social value creation.

Austin et al, (2006) identifies the main impetus and distinguishing factor for social entrepreneurship as finding and exploiting entrepreneurial opportunity in market failure. The supposition is that social entrepreneurs are uniquely designed and positioned to overcome market failure conditions. The study was therefore obligated to examine the theory of market failure as it is applied to financial exclusion and how social entrepreneurship uniquely overcomes it to feasibly find and exploit the entrepreneurial opportunity.

[7]E.g. Tucker, 2006; Bateman, 2012

1.6 Research Gap Analysis

The research gap in the rationale of finding sustainable entrepreneurial opportunity in the realm of market failure is alluded to by several authors (Randal, 1983; Bator, 1958; Datta-Chaudhuri, 1990). Market failure is characteristically a low return, high demand area that is shunned by commercial operators yet it is the target focus area for social entrepreneurs. Much of the discourse regarding social entrepreneurship has concentrated on defining social value creation (Santos, 2009; Austin et al, 2003; Marti & Mair, 2006) It also dwells on the distinguishing the economic from social purpose in terms of the mission, motivations and focus of institutions and their profit or non-profit orientation (Dees, 1998; Marti & Mair, 2006; Austin et al, 2009; Santos 2009). Minimal attempts research has comprehensively analysed and clarified the theoretical comparative advantage of social entrepreneurship as a vehicle for the creation of social value while sustainably applying both market and non-market strategies and resolving market imperfections or its manifestations. Microfinance discourse has also traditionally centred on an analysis of the effectiveness of programmes and impact on poverty alleviation, in particular the perceived success or failure of the Grameen Bank model and its replicas (Buckley, 1997; Murdoch, 2000; Fotabong, 2011; Bateman & Chang, 2012). The concept of mission drift has also received considerable attention as a possible source and reason for poor impact of microfinance programmes (Copestake, 2008; Armenandiz & Szatarz, 2011; Mersland & Oystein-Strom, 2010). Practitioners and support agencies such as international donors have been prolific in generating program performance reports, statistical evaluation reports, strategies and ostensibly best practice recommendations. However, an analysis of the link between market failure as the origin of the financial exclusion problem, and the potential solutions applied has not yet been researched.

Although the dominance of the social value creation objective is clear, the means or optimal business model for attaining that objective as distinct from that of profit seeking entrepreneurship is yet to be identified. Auerswald (2009) asserts that every entrepreneur is a social entrepreneur and every market transaction creates social value, and that ultimately private firms create more sustainable social value. He claims that there are very few institutions that can match large firms in creating value and although measured in financial terms, non-financial residual value is substantial. Santos (2009) proposes that the distinction be made in how value is appropriated, not just created as some organizations appropriate value for sustainability purposes. This presupposes that social entrepreneurship create value using methods similar to those by profit seeking institutions and differ only in how the value created is distributed. Value is embodied in the price of services and appropriated as a producer or consumer surplus through trading. However, social enterprises seeking to redress the imbalance in service provision are also often compelled to respond to the causes of market failure by providing extraneous solutions such as financial literacy, business development services and tailor made outreach methods, changing the value creation method.

The extent to which microfinance social enterprises are structured and positioned to holistically and sustainably correct the underlying challenges of inaccessible finance, may justify them as the best vehicles for social value creation. Several institutional models have been used to try and provide financial services to the poor, including credit unions, development banks, credit and savings cooperatives, non-government organizations, informal sector entities such as Rotating Savings and Credit

Associations (ROSCAs), village banks and self-help community groups. All employ different business models. In Swaziland, the newly created Financial Services Regulatory Authority (FSRA) recognizes more than 60 non-bank financial services providers comprising credit unions, savings schemes and insurance companies, with many more operating in the informal sector (Times of Swaziland, 2014). In addition, some formal banking institutions provide a variety of services that target the poor. Social entrepreneurship strategies and enterprises in the financial sector vary in their approaches, legal structures, operational methodologies, sustainability and impact. They have been examined, critiqued and categorized however consensus on an academic foundation of what works remains elusive. (Fotabong 2011; Tucker 2006; Charities Aid foundation, 2008)[8].

Financial sector social enterprises operate in an interactive environmental context and markets. The impact of the internal and external environmental factors on the formation and operational decisions by social enterprises needs to be investigated. Financial institutions are subject to a variety of regulatory, supervisory and policy frameworks. Global financial instability has highlighted these requirements and the oversight on non- bank financial operations has increased. Basel III on microfinance activities and core principles for effective banking supervision raises questions on the regulation of financial sector social enterprises to minimize financial risk. The breadth of the microfinance spectrum of types of organizations exposes them to diverse environmental challenges which are also articulated in the study.

Although recognized as important, investment in financial sector social enterprises presents a challenge and requires "innovative models that ensure affordability for the end consumer without eroding sustainability for the enterprise (Asian Development Bank Report, 2012)" Choosing a model that strikes a balance between generating income and creating social impact is a major dilemma facing enterprises. General consensus is that the social entrepreneurship discipline has not yet been sufficiently and conclusively studied to stimulate and generate underpinning theoretical frameworks to guide practice (Austin et al, 2003; Emerson, 2003; Weerawardena & Mort, 2006) and is still at the nascent stage for academic exploration. The absence of a unified definition of social entrepreneurship also contributes to the "conceptual confusion" (Dacin, Dacin & Matear, 2010). Current theory is based on individual "idiosyncratic insights from a handful of case studies" case study phenomena which most often are biased around social entrepreneurship success stories ignoring failed efforts and institutions. Identifying social entrepreneurs in terms of definitive traits and behaviour is also debatable. Additional problems relate to the absence of universally accepted measurement foundations of SE performance. Yardsticks and benchmarks from commercial business activity are frequently employed, which raises questions about the distinction of social entrepreneurship as a discipline from conventional commercial entrepreneurship (Marti & Mair, 2006). The study seeks to contribute to the academic discourse through empirical validation in order to support the growth and maturity of the discipline.

[8] Fotabong discusses and critiques the Grameen bank model, the MC2 model, the FINCA village banking model, and the Non-Banking Finance Company (NBFC) model.

1.7 Objectives of the study and research questions

This study seeks to analyse social entrepreneurship in the financial sector to determine its contribution and performance, and the extent to which it is robust as a sustainable model for attaining financial inclusion by investigating the following sub-objectives:

1.7.1 The commercialization of social entrepreneurship and mission drift

The study interrogates the inclination of social enterprises to simultaneously pursue a commercial and a social mission, and the manner in which this results in a mission drift.

Research Questions:

- What is the form of conflict between economic efficiency and social purpose in the creation of both social and economic value for sustainability, competitiveness, survival and financial independence?
- Is corporatization and mission drift among financial sector social enterprises cause for concern in so far as it compromises social value creation?

1.7.2 Financial sector social entrepreneurship and market failure

The study qualitatively assessed the comparative advantage of the social entrepreneurship approach in relation to other forms of interventions in its ability to promote financial inclusiveness in the face of challenges embodied in operating in the realm of market failure.

Research Questions:

- How do financial sector social enterprises mitigate market failure and what is their comparative advantage over other interventions in correcting for this market failure?
- Does social entrepreneurship have an advantage over other forms of interventions in viably and sustainably attaining financial inclusion, and if so, what are the driving factors?

1.8 Importance and contribution of the study

Policy makers worldwide are prioritizing the development of the financial sector with more than 60 countries having initiated financial reforms in recent years (The World Bank, 2012). G20 leaders are increasingly committing to improving access to finance by poor households, rural and small enterprises. Towards this, a Financial Inclusion Experts Group (FIEG) was established and developed nine principles of inclusion underpinning the Financial Inclusion Action Plan from which countries are expected to base national action plans. Sub Saharan Africa Governments and international partners such as the IFC[9], CGAP, and Micro finance Gateway, continue to launch

[9] In January 2012 the IFC and the MasterCard Foundation launched a $37.4 Million Partnership for Financial Inclusion to bring services to an estimated 5.3 million previously unbanked people in Sub Saharan Africa. In partnership with the development bank of Austria, the Swiss Secretariat for economic Affairs, the program helps to develop sustainable micro finance business models that can

programs to increase access to finance. The World Bank, with the support of the Bill and Melinda Gates Foundation launched a FINDEX database to support the financial inclusion agenda by consistently measuring the use of financial products in the world, and began collecting data in 2011 (World Bank, 2014). Although the causal link with microfinance is not clear, a correlation between finance and income inequality is in evidence (Hansen & Jansen, 2010). The positive impact of microfinance is not yet competitive compared to wage employment in its ability to alleviate poverty, nevertheless, its impact is deemed to be long term and lack evidence due to poor empirical research. In order to enhance social inclusion, policy makers need to develop intimate knowledge and understanding of the social economy, provide it with the environment and the necessary support for it to thrive. The present study attempts to contribute to the dialogue relating to best practices that can be engaged to increase financial inclusion, in particular the practical and theoretical ability of financial sector social enterprises to operate sustainably and successfully given the market conditions under which social value is sought.

In so doing, this study also investigated the attributes that differentiate social entrepreneurship from purely commercial business, unearthed the phenomenological dichotomy between economic and social value creation and the ability to thrive as hybrid entities whilst prioritizing the social mission. This entails an inclusive interrogation of the mission, strategies, systems, processes and activities by which the practice of social entrepreneurship is uniquely capable of sustainably correcting market failure. The aim was to identify the underlying rationale and ideological basis for the approach adopted by social enterprises.

Field work consisted of in-depth interviews with to management of financial sector social enterprises s to obtain their vision and perceptions on the strategic and operational methodologies they use to manage their organizations. Of particular interest in was the understanding of managers about their mission and whether this was consciously harmonized with strategies and program activities to monitor mission drift, and how they perceived the impact of their organization in solving the social ills of the economy. Their responses are then applied to the research questions, cross analysed and interpreted to ascertain the economic rationale of social enterprise concept and its relation to traditional economic theory as it applies to the functioning of the market mechanism in an environment of market failure.

1.9 Delimitations of the study

- The study does not address the lack of consensus pertaining to definitions of social entrepreneurship as this has been sufficiently done by other authors (Martin & Osberg, 2007; Dees, 1998; Mort et al, 2004; Marti & Mair, 2006.; Santos, 2009; Peredo, 2006). Definitions are only identified and highlighted for the purpose of introducing concepts that at are studied in the research.

- The study is not a performance impact evaluation of financial sector social enterprises nor is it a measure of financial inclusion. It is limited to a qualitative inquiry into and an inspection of success in social value creation as

deliver large scale low cost banking services. See http://www.ifc.org/wps/wcm/connect/REGION_EX)

perceived by stakeholders and agents using selected signals. The study also precludes an assessment of measurement systems or types of indicators.

1.10 Definition of terms

1. Social value creation – creating beneficiation over and above that created by commercial enterprises for the greater good of society.
2. Market failure – whereby the market mechanism cannot be relied upon to optimally allocate resources to their most productive uses
3. Wicked problems – social ills such as poverty, pollution, environmental degradation, inequalities etc.
4. Commercialization of social entrepreneurship – whereby private business principles are applied in the mission, objectives, strategies and/or programs of social enterprises
5. Social entrepreneurship – a social value creation activity
6. Social enterprises – organizations, entities designed to create social value
7. Social entrepreneurs – individuals who create social value
8. Mission Drift – refers to when organizations move away from their stated mandate. Social enterprises may embark in profit oriented activities that compromise their social mission.
9. Social value – refers to a consideration of benefits beyond the individual cost and price of a transaction to the collective benefit and welfare to a society

1.11 Organization of the thesis

This chapter presents an introduction into the concept of social entrepreneurship, its significance and the purpose of the study. It further highlights the notable and pertinent issues and problems surrounding the concept in the context of the purpose of the study, which is to analyse social entrepreneurship in relation to existing economic theory, in order to determine its feasibility and potential to create social value. It also identifies gaps in existing research leading to the objectives of the study, culminating in the intentions of the design and field research.

The remainder of the thesis is organized as follows:

Chapter two reviews existing literature on social entrepreneurship and social value creation and the conceptual framework on which the thesis is predicated.

Chapter three details the research methodology used and the rationale for the adopted methods of investigation.

Chapter four reports on the bias of the enterprises towards either an economic or social mission, the motivations, implications for the management and achievement of objectives.

Chapter five analyses the approaches and strategies applied by social enterprises to mitigate market failure to create social value.

Chapter six provides an interrogation of the position of social entrepreneurship in development theory and the unique position of social entrepreneurship.

Chapter seven is an interpretation of the results against the backdrop of the motivation and significance of the study, providing a model of intervention for financial inclusion alongside conclusions and final thoughts on the meaning of findings.

2. LITERATURE REVIEW AND CONCEPTUAL FRAMEWORK

2.1 Introduction

Conceptual analytic reviews and debates regarding definitive boundaries dominate literature on social entrepreneurship (Dees, 1998; Boschee, 1998; Weerawardena, 2002; Marti & Mair, 2006). Scholars have extensively highlighted the identity crisis of social entrepreneurship as embraced by the definitive mission and choice of strategies and activities of social enterprises. Authors seeking to demarcate the study of social enterprises have analysed the distinction and fusion of commercial and social objectives, exploring the hybridization of objectives and actions with the profit or non-profit motive of as being central to the discourse on their definition and boundaries of the discipline (Emerson, 2003; Santos, 2009; Austin et al, 2006; Certo & Miller, 2008; Peredo & Mclean, 2006). Other authors recognize the diversity of social enterprises which cuts across human, economic and environmental fields leading to the possibility of different social entrepreneurship typologies and disciplines. Despite this, conceptual reviews and empirical studies have not delved into applications of the discipline in the various sectorial dimensions nor the distinguishing features of the different fields that may influence the nature of the enterprise and its approach in combining social and commercial objectives.

Financial sector social enterprises are recognized as the pioneers of the discipline of social entrepreneurship in practice and in conceptual development. Financial inclusion reforms are increasingly becoming a priority development tool to facilitate access to finance for households, small, micro and medium enterprises. International institutions such as the World Bank track global financial inclusion through country level demand and supply data, using measurement indicators and have used the data to develop strategies to increase access. Diagnostic investigations have focused on demand and supply challenges, with strategies being prescriptive reforms to address those challenges (Mahajan & Ramola, 1996). Attention has also been given to MFI performance as measured by financial indicators, sustainability ratios and to a lesser extent, impact. Limited attention has been given to the determinant conditions underlying and compelling the behaviour of the entities as they strive to provide financially inclusive services.

Seminal authors allude to market failure conditions as being the underlying cause of the socio-economic problems which motivated the establishment of social enterprises (Dees, 1998; Austin et al, 2006; Auerswald, 2009). Dees (1998) states that social entrepreneurs often operate in markets which do not always allow the entrepreneur to capture the value created. However, few authors proceed to interrogate and scrutinize the specific aspects of the market failures, their impact, and the manner in which social enterprises structure themselves and design their programmes to mitigate them. Social enterprises are more likely to transform social environments when they mobilise markets to function. It is important to determine the ability of social enterprises to do so or at least to mitigate the impact of these imperfections to attain their objective of creating social value. This requires social enterprises to identify the

exact conditions and develop mitigation strategies. Successful application may be replicated by the industry leading to benchmarks of success.

A significant number of authors also study the concept of social value creation as it is pursued by social enterprises (Dees, 1998; Emerson, 2003; **Santos, 2006**). Social enterprises purport to create social value using economic means to ensure their own sustainability and survival. Enterprises are compelled to mobilise resources and trade in competitive markets and simultaneously pursue social objectives. This implies a debatable co-existence of social and profitability objectives. The debate centres on the feasibility of equitably prioritizing both objectives without compromising or drifting away from the main social value creation mission. Mission drift refers to the commercialization of social enterprises resulting in a drift from its social purpose towards a more commercial agenda, thereby creating economic versus social value.

This chapter begins with the conceptualization of financial exclusion as a socio-economic problem and discusses the foundations and structure of social entrepreneurship as a responsive mechanism to the problem. The conceptualization of social entrepreneurship is described in the context of its position alongside conventional entrepreneurship and the distinction in their missions and mode of operation. The principles of market failure, its consequences, how external intervention into the market is justified and how it is manifested in the financial sector are investigated. This is followed by a discussion on interventions, focusing on whether they are adequately structured to respond to the market imperfections indicated. The chapter centres on social entrepreneurship intervention, investigating its features and unique position as method that using economic means to sustainably ameliorate financial exclusion, including is capability to do so without mission drift. Finally, an overview of the landscape of the Swaziland financial sector as the area of research is given to demonstrate the existing types of social enterprises.

2.2 Conceptual Framework

2.2.1 Financial exclusion

The European Commission defines financial exclusion as “a process whereby people encounter difficulties accessing and / or using financial services or products in the mainstream markets that are appropriate for their needs and enable them to lead a normal life in society in which they belong.” (EU15 Report, 2011) The financially excluded cannot access a variety of financial services including credit, insurance, savings facilities etc., and tend to incur higher service charges and transaction costs when they obtain access. Rigid procedures, poor outreach networks and narrow range of products offered by formal financial institutions have traditionally excluded some segments of the population. Despite voluminous empirical research into financial inclusion, important gaps remain. The best and most effective channels of financial inclusion to sustainably promote income equality and reduce poverty, and the best financial tools that meet the needs of the financially excluded have yet to be discovered (CGAP, 2012). The concept of market failure as a causal effect of economic gaps and ills of society and the manner in which this occurs has been widely debated (Randal, 1983; Zerbe & McCurdy, 1999; Winston, 2006). Market forces do not facilitate the fulfilment of societal financial needs as there are significant pockets of unsatisfied demand alongside deficits in supply. This is ascribed by some to the rational response of the market mechanism to trading conditions whilst others view it as the failure of markets. However the continuing and growing

magnitude of the problems of poverty, economic inequalities and environmental problems insinuate market imperfections. Leaving the market to its own devices is creating global instability and should not be ignored. An interrogation of the structure and functioning of the market mechanism as it relates to what is termed market failure is therefore necessary.

2.2.2 The social Entrepreneurship concept

The emergence of social enterprises has been in response to the limited success of government and philanthropic efforts to eradicate socio-economic problems including financial exclusion. Social entrepreneurship evolves and is derived from the foundations of conventional entrepreneurship whose main precepts are innovativeness, opportunity recognition, risk taking and reward. It is perceived as a variation or a branch of entrepreneurship that focuses on a social mission as opposed to private benefit. Social entrepreneurship harnesses innovativeness and opportunism to create and sustain social value or is "one species in the genus entrepreneur" (Dees, 1998, p.2). In the financial sector, social enterprise financial institutions strive to direct financial services to a previously underserved market on a commercial and self-sustaining basis in order to resolve problems of inadequate access to finance. Commercial entrepreneurship and social entrepreneurship are therefore driven by two very different missions. Certo and Miller (2008) also propose that the differences also exist in the way funds are mobilized and performance measurement methods. Commercial enterprises measure performance in financial terms whilst social enterprises do not have standardized measurements. Commercial enterprises mobilize funds from private sources using the promise of profitable returns whilst social enterprises have to attract resources on the basis of their interest to create social value, which is their reward.

Social enterprises are more market driven than traditional social philanthropic ventures, with the capacity to be financially self-sustaining whilst seeking to attain social objectives. They share the pursuit of revenue generation with market driven enterprises as they trade in commercial good and services, yet also share the goals of social development with philanthropic organizations (Di Domenico, 2010). Social entrepreneurship therefore faces unique challenges as it subjects and exposes itself to the vagaries of competitive markets by trading, yet by its very nature, aims to operate in poorly functioning markets. Market driven enterprises are compelled to shift resources to more economically productive uses or do not survive. Impact, performance and value created is measured by the amount of wealth or profit made. The paradox of social enterprises is that they are compelled to apply resources to poorly performing markets and measure their performance by the social impact they make and survive. This measure is in itself ambiguous in that it lacks veritable measurement tools and standards, and therefore the success or failure of these enterprises tends to be subjective. A popular integrative measure of performance is the balanced scorecard[10] which integrates financial measures with other performance indicators. Apart from the complexity of the balanced scorecard tool, it is fraught with implementation challenges. An important deficiency is the difficulty in proving some causal relationships between the elements mapped for measurement and the cause-effect relations are not connected time wise. For instance customer loyalty may or

[10] A balanced scorecard evaluates an organization from four different perspectives focussing on four sides namely financial, customer perspectives, internal business processes, learning and growth.

may not result in an increase in revenues. (Norrek (2000). Moreover, the tool does not consider the external environment factors in its analysis.

Social entrepreneurship therefore is an intervention that straddles two distinct disciplines, the commercial and social. Although widely practiced, the exact manner in which this is achievable in itself is subject to debate and can only be verified through empirical research. It is a relatively new area of study and phenomenon for which it remains difficult to articulate a specific typology of an optimal and best practice. The dominance of the case study approach to research up to date is indicative of a relative lack of uniformity in approaches and the absence of a theoretical common ground (Boschee, 1995; Alvord, 2004; Stalder, 2010; Pless & Appel, 2012)). The centrality of the social mission and objective to the concept is reflected in the majority of definitions focusing on the elements of the social purpose (Martin & Osberg, 2007; Dees, 1998; Weerawardena et al, 2006; Marti & Mair, 2006; Santos, 2009). The definitions ascribed to the concept tend to embody either the profit or non-profit stance as delineating commercial from social enterprise.

The typology is dictated by the priority given to either social or economic value creation. In social entrepreneurship economic value is a by-product of social value creation while the reverse occurs in commercial entrepreneurship. This embraces a holistic view of value in contrast to the dichotomy between economic and social value (Santos, 2006). The premise for this argument is that all economic activity creates value and such value improves social welfare. The difference between social and commercial entrepreneurship is a focus on value creation by the former and value appropriation by the latter. Conflict and trade off occurs between these two concepts. Social entrepreneurs focus on improving social welfare whereas commercial entrepreneurs are concerned with appropriating value. Emerson (2003) also proposed that value cannot be divided into economic and social but is a blend of the two, and the strength of social entrepreneurship is in the integration of social and economic approaches by forging the use of more effective business methods to improve the performance of social organizations. The argument seems to dispense with the existence of tensions or trade- offs between economic and social value creation. However one could argue that the concepts of value creation and appropriation in essence relate to the same dichotomy between social and economic value as where value creation relates to social value creation and appropriation relates to private value creation.

Social enterprises have been accused of falling prey to the phenomena of mission drift as they strive to balance their social and economic objectives. Muhammad Yunus, the founder of the Grameen bank denounces profit seeking by microfinance institutions and states that the it can never be compatible with serving the poor (Ayerbe, Bianchi, Michetti and Madrid, (2014). Seeking sustainability, social enterprises often find themselves adopting a mixed bag or hybrid approach whereby they pursue both economic and social objectives. In so doing, they engage in profit making endeavours and end up shifting their main focus away from their social motives. The mission drift discussion centres mainly on the incidence of its occurrence and whether it has a negative impact on social value creation. However empirical evidence, measurement and analysis of the effect of such hybrid on the mission position of social enterprises have so far yielded mixed results in gauging the incidence of mission drift (Ayerbe et al, 2014).

Other authors definitively emphasize the role of social entrepreneurship as a tool for alleviating social problems by finding innovative and opportunistic means to catalyse social empowerment and transformation that will be responsive to, and mitigate the against market imperfections which render the market mechanism unable to resolve these problems (Dees, 1998; Thompson & MacMillan, 2000; Marti & Mair, 2005)). Social value creation therefore points to creating new institutional arrangements, new markets, new technology, new jobs, increased productivity, and improved ways of enhancing social welfare. In particular there is a need to identify the most effective models capable of embracing such change for the sustainable delivery of financially inclusive activities. It is important to determine if socially transformative programs can be successfully pursued by commercial entities, Government or the non-profit sector.

The position of the social entrepreneurship discipline in economic theory is not yet fully established. The concept of social entrepreneurship means different things to different people. (Dees, 1998). Significant attention has been given to the definitional aspects and distinction of the practice from private entrepreneurship (Austin et al, 2006; Certo &Miller, 2008; Dees, 1998). Attempts to postulate social entrepreneurship as an independent field with its own theoretical underpinnings on the basis of their origins, relevance and theoretical foundations of their existence in welfare economic theory are scanty. Furthermore, empirical evidence is not readily forthcoming to test the theories advanced.

2.2.3 Market Failure in financial exclusion

2.2.3.1 The concept of market failure

In a perfectly competitive market, financial services are allocated efficiently and applied to the best investment opportunities at the highest attainable interest rates or prices. Services are traded competitively and the interest rates are determined by supply and demand. It implies a full utilization of resources such that any alternative allocations would result in a decline in utility or welfare benefits. This is Pareto optimal efficiency whereby there it is no longer possible to improve or find better welfare utility combinations (Besley, 1994). However, markets often do not function perfectly and divergence from optimal conditions results in inefficiencies in the allocation mechanism. The underlying assumptions and conditions required for Pareto efficiency often do not hold. Martin & Osberg, (2007) describe full efficiency as occurring only where:

(i) Markets exist for all goods and services, and all goods are tradable
(ii) Markets are in full equilibrium such that supply matches demand
(iii) Competition is perfect
(iv) Transaction costs or trading expenses are negligible
(v) All trading participants are perfectly informed

Furthermore, Pareto optimality does not automatically result in an optimal distribution of income and it maybe inefficient to alter or improve the distribution of income by imposing imperfect competition in a market (Tisdell, 1982). The various points along the utility possibility frontier all ensure maximum Paretian efficiency but the existence of more than one optimal combinations implies that the distribution of real income or utility mat differ in each case. In any case, perfectly competitive markets do not exist, therefore Pareto optimality is an ideal that exists only theoretically and one can only refer to conditions approaching Pareto efficiency, not its attainment.

The failure of the assumptions to hold results in a gap in supply and demand, and while imperfect competitive conditions brought about by monopolies and cartels result in a manipulation of quantities supplied distorting prices. Participants in the market may also engage in activities with spill-over utility effects on other parties in the transaction under question. Market failure therefore often represents a circumstance where the pursuit of private interest does not lead to an efficient use of society's resources or a fair distribution of societal goods (Zerbe & McCurdy, 1999). All these defects in the resource and price allocation mechanism represent a failure of the markets and have been cited as the root cause of societal ills such as poverty and socio-economic inequalities, justifying external interventions from governments and other institutions such as social enterprises and philanthropic organizations.

Stiglitz (1990) identifies six market failures, namely imperfect competition, public goods, externalities, incomplete markets, imperfect information and unemployment from macroeconomic disturbances. Other authors also identify transaction costs (Randal, 1983; Goodwin, 2005; Zerbe & McCurdy, 1999). Imperfect competition means that there exist conditions that deter the market mechanism from optimally allocating resources to their most efficient uses and achieving high levels of productivity such as where there are too few suppliers allowing them individually or as a cartel to influence supply and prices. Commercial financial institutions often withhold services to unknown markets without consideration of supply and demand factors, creating deficit supply and excess demand. High levels of unemployment, geographic constraints, and informal nature of the market also reduce affordability and willingness to pay cost recovery prices for financial services. This reduces the potential economic value accruing to financial service providers, discouraging them from extending services to those markets.

Public goods are not supplied in sufficient quantities by private markets as the cost of providing them maybe prohibitive due to their indivisibility and it may be impossible to collect charges for such goods. Financial services require information that they are not easily able to gather. In some instances trading markets are simply inadequate due to a mismatch of supply and demand, emanating from incomplete market information or high transaction costs that deter service providers from taking the risk required for trading. Externalities produce non- monetary effects whereby the utility of the affected party is influenced not only by activities under their own control but also those under the control of others. Macro- economic effects such as unemployment and poor economic conditions are generated by circumstances outside the financial sector but influence demand and access to financial services.

The concept of market failure has received significant scrutiny, analysis and criticism particularly as a justification for government intervention. Randal (1983) argues that market failure refers to the absence of markets which is a rational response of the market mechanism to prohibitive transaction costs in excess of gains from trade. Pareto inefficiency exists in all markets and where one institutional device fails such as the private sector, others including the government and quasi government will also predictably fail. If market failure means failure of markets to do as well as other institutional devices, we have to specifically define the instances in which these alternative devices do better than others. The argument is also that market failure causes a temporary disequilibrium resulting from failure to apportion rewards and losses from trade which in time would self-correct through the market mechanism. Randal does not dispute that individualistic markets fail to allocate some goods

efficiently but disputes the conventional analysis that is applied and the deductive logic which lead to the concept of market failure. He concludes that property rights can be established for public goods through vesting them in "appropriate collectives" to allow progression towards Pareto efficiency. Goodwin (2005) contends that the market failure concept lacks empirical foundations relying more on analytical methodologies and hypothesis derived from general principles and blackboard economics rather than observable facts.

The premise of those discounting the significance of market failure is that the gaps in supply and demand are rational and logical reactions of the market mechanism as it adjusts itself into equilibrium in response to trading activity. The second argument is that market imperfection is pervasive and all institutions operate in the realm of market failure as Pareto assumptions often do not hold and meaning that failure is ultimately a natural function and logical reaction of the markets. Therefore the establishment of specialist interventions to combat market failure is superfluous. However, despite these arguments, the consequences of market mechanism malfunction are increasing, indicating that imperfection is persistent and not self-correcting. Increasing incidences of poverty and other economic inconsistencies have seen the "visible hand" playing an increasing role to adjust and compensate for market inefficiencies. Social enterprises attempting to operate through the market mechanism predominantly in the realm of market failure are faced with the option of creating markets in order to survive or find themselves drifting towards functioning markets, thereby compromising their social mission. The absence of markets maybe a logical reaction to changes however the assumption of a self-correcting mechanism does not hold as the disequilibria observed has a tendency to persist and becomes a permanent feature.

One can also argue that development economics is founded on the prevalence of the failure of the market mechanism to adjust itself to equilibrium (Datta-Chaudri, 1990). Externalities have become a permanent feature in our economies, caused by inadequate savings to increase the necessary capital stocks for investment and resulting in a vicious cycle of poverty and the need for the overt intervention (Nurske, 1953). This implies that the social ills created by market failure become a permanent feature and mitigation interventions must be permanent as well. Hutton & Schneider (2008) note that in the wake of neo-liberal policies of de-regulation and assumption that market failure is a temporary problem requiring temporary solution, has been called into question by the financial recession of 2008. They surmise that markets are generally unstable, vulnerable to manipulation and market failures are not merely deviations from the rule but permanently embedded into market systems. State intervention through regulation is an imperative to continually redesign the functioning of markets.

An early economist observed that poor economies are unable to offer sufficient investment incentives and opportunities to promote industrialization or economic progress and that incomes were generally spent on consumption activities more than investment (Rosenstein- Rodin, 1961). He also argued that modern industries were subject to great indivisibilities and economies of scale, and he characterized the phenomena as generalized externalities. Scitovsky (1954) argued that such externalities arise only when interaction between economic actors is not mediated through market transactions, creating a serious obstacle for the growth of poor economies. Intervention into the market mechanism is required to allocate investment

as it cannot be relied upon to do so or to resolve them automatically to remedy poverty. The market mechanism can only be relied upon to take care of the production problems of an economy but investment allocation required a visible hand or external intervention.

Critical analysis of the investment allocation model addressed the exclusion of production and productivity from the Pareto efficiency model (Solow, 1994). He argued that economic growth emanates from efficient use of resources as much as it comes from efficient allocation, and the market mechanism cannot always be relied upon to solve production efficiency problems. Market failure is a serious obstacle to economic development but resolving investment allocation alone without attention to production and productivity issues is not sufficient. Production problems are not automatically resolved in response to market signals. Market failures in production include problems in learning capacities, productions techniques and institutional structuring bottlenecks. Interventions in the form of adequate policy environments and direct action support maybe necessary (Solow, 1994). Economies differ considerably in the abilities to innovate and assimilate new technologies. This means that directing financial services to under-served markets alone does not resolve the problem of exclusion. Allocating financial services does not solve the poverty related problems that prevent the poor from participating in the economy. Application of financial resources to gainful and rewarding investments cannot be resolved by simply availing those resources. The social and economic environment must allow productive activity.

2.2.3.2 Market failure in the financial sector

In the case of financial exclusion, financial services are not allocated efficiently in that the supply of financial services is withheld before Pareto improvements are exhausted. Services do not reach some segments of the population despite a high demand. Commercial financing decisions tend to disregard social returns such as economic participation and wealth creation for the poor, yet the market mechanism is not sufficient to support community based finance provision (Affleck & Mellor, 2006). There are four main observable market imperfections in financial markets (Besley, 1994).

1. Information asymmetry - the inadequate flow of information on both the demand and supply side creating an imbalance of power between buyers and sellers. Suppliers choose not to serve unknown markets and buyers may be less willing to transact without adequate knowledge of the products. This shrinks the markets and reduced creation of social and private value (Auronen, 2003). The features of an asymmetric market environment can include adverse selection whereby the price mechanism is eschewed in favour of the deliberate selection of less risky clients, and also a generally low supply of financial services because of the high risk (Besley, 1994). Counteracting measures such as guarantee mechanisms are common as potential loss prevention actions. Signalling and screening devices to identify less risky deals are also utilized. This results in a mismatch in demand and supply and a Pareto violation in that supply is not based on the best available investment opportunities. The failure of information symmetry also increases transaction costs, particularly when information is required which demands surveys and research. Participants resolve information asymmetry only if there is adequate incentive in that the benefit of the transaction is higher than the cost of obtaining information.

Financial institutions prefer providing financial services to customers who can satisfactorily provide the information they need while customers also prefer to deal with familiar institutions. Despite the use of adverse selection, counteracting measures and screening, deficits between demand and supply persist in the financial sector and social enterprises devise innovative ways to bridge the gaps. Financial exclusion is pervasive in poor countries and is considered a contributory factor is socio-economic marginalization and slow economic growth.

2. Poor repayment capacities - the inability of customers to repay loans due to poverty, the diversion of loan funds to consumption, or adverse unexpected occurrences. This is common in agribusiness which is frequently subject to uncontrollable vagaries of nature. Low unpredictable incomes disqualify those dependent on erratic seasonal employment, from formal financial institutions with structured monthly repayment. Social enterprises enact innovations such as savings led services to smooth out incomes and synchronizing repayment schedules with income. Community based solutions such as partnerships between small savings and credit community groups and formal financial institutions also bridge the inclusion gap.

3. High transaction costs – the costs of concluding a deal are aggravated by geographic distance, inadequate infrastructure and poor information, features that are common amongst the financially excluded. Transaction costs may be non-cash opportunity cost and indirect cash expenses that are outside the transaction price costs involving time, transport, payment and handling fees, communication, documents, security, food (Schreiner, 2002). Social enterprises are experimenting with innovative low cost service delivery alternatives including mobile money which has proved to be 19% cheaper than mainstream delivery mechanisms (Donovan, 2012). For the financially marginalized, additional costs include customer screening, loan appraisal and monitoring and loan repayment enforcement all of which impact on the pricing mechanism and can result in price discrimination.

4. Inadequate Collateral - MFIs target markets that are often unable to provide tangible and realizable collateral. Property rights are usually poorly defined making their registration difficult. For instance, the poor might not own property or land maybe communally owned with occupants holding only access rights.

5. High covariant risk resulting from to poor diversification is common amongst the poor. For instance smallholder farmers located in the same geographic region are likely to engage in similar livelihood activity, exposing them to the same shocks. Similarly the copycatting syndrome is prevalent amongst micro-scale enterprises where there is low business innovation and restricted business knowledge. A social enterprise directing financial services to a specific socially disadvantaged population might face a large simultaneous loan default.

6. Poor complementary markets - underdeveloped complementary markets infrastructure such as insurances, inefficient judiciaries, literacy level,

> property markets and communication infrastructure may be a disincentive to supply and demand. The difficulties in the realization of collateral due to inefficient judiciary also affect the ability to enforce the transfer and re-assignation of property rights between participants without cost. Enforcement in poverty- directed programs may also suffer under political interference and pressure. Financial Institutions want to operate in an environment of strong property rights established without friction and cost. These conditions are neither temporary nor can they be auto corrected by the market mechanism.

Although market forces inefficiencies are viewed homogeneously, there is substantial debate in justifying policy interventions (Randal, 1983; Besley, 1994). The theoretical justification, foundation and framework behind interventionist policies and their capacity to respond to market failure is difficult to pin point. The extent to which it is possible to correct the inefficiencies of a self- regulating regime of dynamic market forces is complex. Although market failure is common, it does not automatically mean that non-market resource allocation responses are the most effective form of mitigation (Tisdell, 1982).

Von Pischke & Adams, (1992) criticize government intervention and subsidy approaches on the basis that it is self-defeating to correct market failure with government failure and that subsidies create an unsustainable and insupportable welfare state. Market responses to improve competitiveness and create new markets are an option that may better restore Pareto optimal conditions. Besley (1994) argues that the transaction costs emanating from market imperfections in the financial sector could be accommodated through price discrimination and are not adequate justification for external intervention. However the issue of charging high interest rates to the poor raises ethical questions of affordability at the same time, pricing should ideally reflect the service cost, which is often higher for the poor due to factors such as higher credit risk and remoteness of customers. Economists identified inefficiencies in the allocation of capital resulting in low savings by poor societies resulting in a poverty trap or failure to accumulate capital. Kuznets (1955) argued that economic development is only achievable thorough a shift from the predominance of low productive agricultural activity to industrialization which requires high levels of capital investments.

2.2.4 Intervention approaches to market failure

The nature of market failure and its manifestations is adequately documented in the literature on economic theory, however, the search for effective ameliorative measures and suitable institutional framework continues (Bator, 1958; Randal, 1983; Tisdell, 1982; Besley, 1994). Theoretically any solution should ensure movement towards perfectly competitive market conditions to correct for market failure and improve income distribution. Furthermore, the benefits of that intervention costs must be greater than the costs (Zerbe & McCurdy, 2010). Traditionally, social problems that are not addressed by the market mechanism are addressed by the Government intervention which may seek to provide redress through public funding, subsidies or economic regulation such as interest rate fixing, licensing and taxation. However, significant scepticism about the ability of Governments to correct market failure prevails (Datta-Chaudhuri, 1990; Winston, 2006). Governments have been criticized for lack of vision, wastefulness, inflexibility, inefficiencies and all of which undermine their efforts to correct market failure (Winston, 2006). Governments can

also be sabotaged by politically driven policies representing dominant interests diverting their focus from areas of potential economic benefit.

Non market intervention such as donor and government measures implemented until the 1990s particularly in the area of rural and agricultural finance, failed because programs were poorly designed and focused more on outreach expansion through subsidized activities than efficiency and sustainability, distorting financial markets (Adams & Von Pischke, 1992). The market based policies of the 1980s onwards, promoted the liberalization of financial markets, but financial exclusion persisted under the stringent financing conditions and requirements of liberalized institutions. Subsequent regulation of financial institutions focused on consumer protection which increased costs of further exacerbating exclusion. Social entrepreneurship in the financial sector emerged as a result of this exclusion. Opportunistic financial enterprises capitalize on innovative service provision practices designed to overcome the problems associated with market failure.

The perceived failure of the Government in correcting market failure anomalies prompted the emergence of non- Government initiatives including philanthropic action and social entrepreneurship. Most philanthropic activities are not self-sustaining and their capacity to socially transform and offer a long lasting solution is poor. Social entrepreneurship distinguishes itself by bridging non-market Government and philanthropic interventions to resolve market failure, while profit seeking entrepreneurship at the other to ensure sustainability, survival and continuity. This has been described as social value creation through economic means (Mboko, 2013). The motivations for its existence are market imperfections, one of which is financial exclusion (Austin et al, 2006; Nichols, 2006; Besley, 1994).

Lack of capital as a major factor of market failure has resulted in narrow focus of interventions directed mainly at capital investment planning overshadowing other important aspects of market failure such the information gaps, poor infrastructure and weak market institutions. A theoretical basis concerning optimal intervention methodologies, responses, mechanisms and institutions remain elusive. As such development paradigms are constantly changing as they strive to achieve ultimate social value. Social entrepreneurship is one of those already practiced but still under development and study.

2.2.5 The Social entrepreneurship intervention approach

The concept of entrepreneurship is founded on the principles of creativity, risk taking and the exploitation of opportunities for personal gain or profit (Bull & Willard, 1993; Dees, 1998). Authors define entrepreneurship as actions which endow employed resources with wealth creation capacity while seeking for and catalysing change (Marti & Mair, 2006). This occurs when new combinations such as new products, new production or operational methods, new markets and new sources of supplies emerge (Bull& Willard, 1993). Profit or gain completes the concepts of entrepreneurial motivation to undertake risky ventures. Dees (1998) further analyses and describes what he terms business entrepreneurs as distinct to social entrepreneurs, as being subject to market discipline that compels them to shift resources to their most economically productive uses to thrive and survive. The most productive uses are customers who are willing and able to pay above the cost of production to create social. And if customers are unable to pay, resources are redeployed elsewhere. In contrast, social entrepreneurs define a social mission as being their central focus as

opposed to self-interest or gain. They do not have the leeway to redeploy resources even if they are unable to identify the best or most efficient application for them. Their area of intervention involves the very customers who are cannot pay.

Definitions of social entrepreneurship are numerous and varied but converge on a similar description, that of the concept as being entrepreneurial activity with a social purpose (Dees, 1998; Weerawardena et al, 2006; Alvord et al, 2004; Boschee, 1998). Social entrepreneurship interventions are different from either government or charity interventions in that they strive to create long lasting solutions, bringing permanent social changes to the communities or target market they serve by creating markets to mobilize economic activity as a means to promote inclusion. They are however different from conventional entrepreneurs in that their performance is measured by social impact instead of profit gain. The question is whether social value can be optimally created alongside trading and private financing arises as it appears to conflict with personal enrichment. Austin et al (2006) highlights that whilst the market demand is normally abundant for social enterprise products and services, resource mobilization is a challenge due to the poor remunerative nature of market failure domain, where social entrepreneurship opportunities are found. Moreover, multiple and diverse investor profiles and expectations that are common in social enterprises make them inflexible especially in changing product/services and target market.

The notion that social entrepreneurship can occur across profit and non-profit organizations defies the reason for its existence, which is the failure of commercial entities to serve the marginalized. It also assumes that social entrepreneurs have comparative advantage over commercial enterprises in exploiting remunerative opportunities through innovation and that theoretically there is a threshold of profitability below which businesses are reluctant to fall, which is the realm of social entrepreneurship. The relevance of the traditional motivational theory of profit maximization, as a fundamental entrepreneurial driver needs to be examined in the context of social entrepreneurship which seeks to combine social and economic objectives. The application of economic means to market failure situations implies a confluence of social and economic value creation that has conceptual incongruities which have not been holistically explored.

Although there is no consensus on the issue of profit making, it is recognized as a defining factor, either as being deliberately not pursued by or in expressing the need to balance profit and social objectives (Boschee, 2003; Dees, 1998). Austin et al (2006, p.2), defines social entrepreneurship as “innovative social value creating activity that can occur within or across non-profit, business or Government sectors.” Marti & Mair (2005) assert that social entrepreneurship can be pursued equally on a non-profit or profit basis, with the organizational set up depending on the social needs that need to be addressed, the ability or capital generation approaches, and the ability of activities to capture economic value. This highlights the context in which it occurs as a defining factor and raises the question of the extent to which social value is optimally created in these different contexts. Definitions should embrace the aspect of social empowerment, participation, and transformation, which is important for sustainable and permanent change in societies.

2.2.6 Sustainable social value creation through social entrepreneurship

The qualities of a business model that yields social value without conflict, whilst engaging economic applications is the foundation for social entrepreneurship as it also implies the creation of social value on a financially sustainable basis. The main mission of commercially oriented enterprises is to maximize producers' surplus for maximum reward to shareholders. Unlike a commercial entity, an enterprise with a social mission would forgo surplus maximization in order to maximize utility for its users or beneficiaries by setting the transaction price at a level considered to be affordable to the users. The trade-off occurs in the decision to either forgo surplus by the supplier to benefit the service users or appropriate it to itself. Such enterprises need to be proficient either in raising cost free capital or ensure that the price charged does not compromise the sustainability of the enterprise. Social enterprises commit themselves to enterprise activities necessary to uplift and positively transform needy communities, and direct them almost exclusively to them, rather than those based on market demand.

2.2.6.1 Economic and social value creation

(i) Value Creation

The ultimate measure of an intervention is in its potential and ability to create social value as opposed to private value. Value is created by producing and delivering goods and/or services at a cost that is lower than what the consumer is willing to pay. What remains after all production costs are paid is producers' surplus, usually referred to as profit. Consumer surplus occurs when the price actually paid for goods/services is lower than what the buyer was willing to pay, resulting in psychic value to the consumer. (Lieberman & Balasubramanian, 2007). The benefits of engaging in transactions by buyers and sellers accrue from this residual value and the sum of consumer and producer surplus constitute total economic value. Private value is described as the residual value after a transaction and is the motivation for doing business (Auerswald, 2009). Social value is beneficiation that goes beyond market activity and private value. Value is created through the transformation of inputs business activities and interactions to produce outputs that create or destroy value (IIRC, 2013). The outcomes of value are said not to be limited to the financial but extend to functional, emotional and economic utility, and are shared by all stakeholders including shareholders, employees, suppliers, consumers, the community etc. This implies a win-win situation, that value created is beneficial to all and excludes conflicts or trade-offs in the beneficiation, and that commercially oriented organizations also create both economic and social value. The IIRC perspective that questions the dichotomy between economic and social value creation is shared by several authors. Santos (2009) argues that economic value is inherently social as all value leads to increased welfare. The dichotomy is in value distribution between the social enterprise and its market.

Emerson (2003, proposes "blended value" and challenges the assumption that investment and return can only be expressed in financial terms but also in social returns values. He argues that investors must seek, and measure returns on the basis of both meaning that private investors should not seek only a financial return but also a social one and similarly, grant providers should seek for financial return. It is fallacy to define organizations as either profit or non-profit and new measures and concepts

to blend the two are required as opposed to viewing them as competing concepts. He however concedes that theoretical frameworks to understand, conceptualize and measure the proposed concept are inadequate and therefore fails to advance evidence of the possibility to simultaneously maximize economic, social and environmental returns and that trade-offs between these objectives do not occur in the process. Santos (2009) concurs that in definition, social entrepreneurship seems to be an integration of social and entrepreneurial objectives but rejects the notion that this means a combination of commercial and social missions. He argues that the outcome of either social or economic missions is value as defined in terms of increases in the utility or welfare of members of society. And that this is consistent with economic theory which defines social welfare as the aggregation of individual social welfare. However, the reasoning feeding into equating the sum of individual utility curves to those of a society is based on the unrealistic and impractical assumption of collectively similar individual wants and needs of society as a whole. Individuals within a society have different needs and welfare benefits cannot be uniformly applied. It is practically and markedly clear and acceptable that ordinarily, value creation amongst market led institutions relates to economic value or profit maximization for private gain, not social benefit (Fuller, Warren, Thelwal & Lincoln, 2011). The significance of the debate on the dichotomy of economic versus social value creation is doubtful as does not seem to resolve the issue of a trade-off between the missions. Although value creation implies an improvement in social welfare, the stated distinction between the two missions clearly relates to appropriation between producers and consumers surplus, and it also remains clear that organizations pursue one at the expense of the other.

Commercial entities are designed to maximize producer surplus maximizing shareholders welfare or private value. All efforts are made to be cost efficient and structure deals to minimize consumer surplus. Value given to the marginalized activities by commercial entities such as corporate social investment programmes are financed from producers' surplus and do not influence business decisions and activities. In contrast, social enterprises must embody the social mission in the strategies, programs and activities they pursue, which means that value appropriation is embedded and occurs simultaneously with value creation and are intertwined. Social value creation and capture begins at the target market selection stage and is present in the structuring of trading deals. This requires them to design programs and activities that will facilitate equitable sharing of value with their target market and may have a negative impact on sustainability if there is a trade-off relationship between value appropriation and social welfare generation.

The Charities Foundation (2008) identifies three basic models of social entrepreneurship. The first one named the profit generator is whereby a business oriented entity shares its profits or transfers all of it to a social impact activity. Corporate social investment, charitable donations, trading subsidiaries of charity foundations are examples of this model. The second, called the "trade –off model" is whereby the social impact activity is embedded in the business operations and a "trade-off" between profit and social objectives are managed. Microfinance institutions are often faced with this dilemma of either increasing social impact by reducing interest rates and finance charges to the poor or improving financial returns to the institution.[11] The last model, the "lock-step" model is one where the central

[11] A case in point is the controversy around the Banco Compartimos model

activity is a social one, which also happens to generate financial returns. This leads to the possibility or probability of earning financial returns to social activities. Researchers and analysts constantly allude to the inability of the poor to generate financial returns for the institutions that serve them hence the lack of interest by private business and necessity for social development focus (Seelos &Mair, 2005; Austin et al, 2003),. The positive correlation assumption in the lock-step model is often difficult to attain. The investigation arising from the second and third models is whether profit drivers compromise social achievements and vice versa. And if that is the case, whether there are innovative models to resolve the conflict.

(ii) Shared value creation[12]

Porter & Kramer (2011) propagate for the concept of shared value which involves the creation of economic value using practices that also address societal challenges, creating mutual benefits. They dismiss the notion of a trade-off between profit making and social value creation and assert that private firms should recognize and accommodate the interdependencies and connection between their fortunes and those of the communities in which they conduct business. Value sharing is not a redistribution of value created as most private companies currently pursue in their corporate social investment programs as periphery activity. It is about sharing in the creation of value by a reconfiguration of products and services to serve new needs, create differentiation and expand markets by recognizing communities as viable markets and placing social value creation at the centre of their activities. In shared value approaches, new technologies and innovative business models are the foundation.

To illustrate their assertions, Porter & Kramer (2011) give the example of Wells Fargo who developed products to manage customers' credit and budgets, assisting them to reduce their debts. Another example is that of low priced cell phones providing mobile banking in the Kenyan M-PESA programme where the company Vodafone signed up 10 million customers in three years. The Unilever direct to home distribution system has also created a pool of previously disadvantaged female entrepreneurs globally. The motivator for creating shared value is the realization of the long term negative impact of externalities to private firms and ultimate economic gains from harnessing community participation. Social enterprises should also desist from the perception and assumption of a trade –off position between economic and social value creation and be measured on their ability to create shared value.

2.2.6.2 Social value creation and market failure

A reconciliation of the theory of market failure and recent postulations on social value creation particularly that on the congruence of social and economic value is necessary to validate the theoretical framework and practicality of ensuing business models. Equating economic value with social value is retrogressive as the social challenges existed and continue to do so in the presence of such value. The social entrepreneurship proposition appeals to a non-exploitative side of private business on the presumption and promise of a win-win outcome. However, market failure

[12] Shared value creation relates to the creation of economic value by companies in a manner that also produces value for society in general, thereby contributing to the resolution of societal problems. An example is whereby a large agro processor collaborates with smallholder farmers by supplying them with inputs to ensure a good quality crop and output, thereby also increasing the value of their crop and his own product

manifests in the shunning of certain sectors by the private sector and contemplation of the same private sector responding to the phenomenon is somewhat paradoxical. Cook, Dodds & Mitchell (2003) argues that it is a false premise to attempt to empower the disenfranchised with market based incentives and economic theory dictates that spending must always be equal to the goods and services supplied, and if that fails to occur, the Government must intervene. They question the guiding economic theory behind balancing profit making and welfare activity, arguing that there is no economic case to justify social entrepreneurship in whether they create sufficient social value or in proving that they are efficient or effective. He concludes that a case for shifting from profit making or welfare has not been adequately stated and that it is not desirable to subject the disadvantaged to the vagaries of entrepreneurship and the assumption of social cohesion on which some social entrepreneurship programs are based are does not exist as entrepreneurial market contexts are inherently competitive.

Porter & Kramer (2011) also concede the importance of supportive socio-economic infrastructural conditions or development clusters to the shared value model and that inadequacies in the environment surrounding the cluster may be jeopardize the success of the model. Poor communication, transport, gender imbalance, high levels of poverty are all deficiencies that may threaten shared value creation and have to be addressed by companies to facilitate value sharing. They advocate for an environment that promotes private commercial financial services initiatives, but also acknowledge that where incidents of market failure persists, amongst the poorest of the poor, special long term endowments and trust funds managed competitively should be applied to vitalize financial markets for uses such as women's group lending, mobilizing savings and training. In the financial sector beneficiaries are expected to graduate from social economy institutions to commercial service institutions, based on the belief that the poor once economically uplifted must be mainstreamed into competitive markets. That also brings into question the competitive advantages and interactive dynamics between non-market institutions operating in competition with market led organizations, particularly in creating social value. This is in whether non-market institutions are more adept at responding to market failure or market-led institutions.

The Reference framework for financial inclusion of the World Bank (2012) articulates the best practice dimensions of financial inclusion as access, usage and quality. However, the relative impact and success of entities purporting to provide social value is difficult to test in the absence of standard measurement tools and indicators. The difficulties are compounded by the multi-sectoral nature of social entrepreneurship as yardstick may vary between sectors. The absence of universal performance measurement benchmarks for social. Performance is often benchmarked on commercial enterprise yardsticks. This may bias operational strategies towards commercial entrepreneurship.

In a nutshell, social entrepreneurship attempts to marry commercial and social objectives in order to sustainably resolve social problems created by the function of markets whose mechanism tends to favour efficiency in its allocation of resources, causing deficits of supply and demand in less efficient areas. The possibility and model of an optimally beneficial marriage between the two objectives s has so far been elusive in practice and does not have an underlying theoretical framework on which to benchmark behaviour of social enterprises. The study investigated empirical

practice of these enterprises to determine the implementation approaches they engage to resolve this dilemma.

2.2.7 Critical analysis and proposition

The ultimate responsibility for an optimal and effective response to financial exclusion remains unresolved. The corporate sector tends to relegate financial inclusion to the margins of business as it is not central to their mission nor their core business. It seems improbable that they can build up their corporate social responsibility programmes to implement and attain the necessary socio-economic empowerment and transformation either through shared value or CSI. Similarly, philanthropic action tends to be patchy and temporary. The main task of the public sector is to create an enabling environment and has been largely unsuccessful in implementing financial inclusion (Von Pischke, 2004). Civic society organizations or the third sector has assumed most of the responsibility for financial inclusion with sporadic positive performance out of which models of success and best practices have neither been uniformly applied nor achieved. Theoretical frameworks to establish principles and standards to guide the behaviour of the third sector are lacking. The study undertook a qualitative investigation of the systems of aims, approaches, activities and outcomes in microfinance social enterprises to determine the manner in which social value is created and the linkages between the types of value created and business capital, human resource, ideas, innovation processes, business processes, and interactions with stakeholders and the external environment. It also entailed an examination of the value creation drivers including financial drivers such as pricing strategies, operational efficiency, the sources of capital and others such as customer relations, societal expectations, governance and human resource mobilization.

Propositions

(i) Market failure results in inefficiencies in the allocation mechanisms a, particularly in the distribution of the economic outcomes, manifesting in financial exclusion of some segments of the population. However empirical evidence that proves that social entrepreneurship in the form of MFIs and other financial services entities provide adequate and sustainable responses is also inadequate and not an optimal solution as they are not designed and positioned to effect transformative and long lasting restructuring of the markets and to accommodate all segments of the society. Furthermore, there is no proof that it has a comparative advantage over other responses such as government intervention and charity. Business models that can be packaged and replicated are scarce despite some success, many more fail.

(ii) Simultaneous pursuit and management of both economic and social goals causes conflict and dominance of one mission over the other, translating into operational and implementation strategies difficulties and trade- offs between the two.

2.2.8 The Mission Drift Analysis

Social entrepreneurship is pursued by a diverse variety of institutions and many seem to adopt a whimsical and fluid manner of approach, dictated by changing circumstances. The social purpose or mission is unquestionably desired by social enterprise organizations, but most opt for a hybrid of profit and non- profit structure to fulfil sustainability objectives. Organizations pursuing both simultaneously may

conflict resulting in the obfuscation of its purpose. The Grameen Phone Company, a partnership between Telenor a private company and Grameen Telecom, is an example of such possible conflict (Santos, 2009). The Company was a social enterprise which successfully supplied low cost mobile phones. Telenor ended up refusing to cede majority shareholding to Grameen Telecom. Similarly the saga of Mexican Bank Compartamos allegedly sold its soul when it began prioritizing maximizing financial returns for its shareholders. These institutions found themselves altered by changing circumstances yet still defined themselves as social enterprises.

Dacin et al (2010) speculates on the logistical issues of the simultaneous management of contradictory social and economic agendas and multiple conflicting objectives, and that this may result in the subjugation of one agenda in favour of the other. The corporatization of social purpose organizations is a result of pressure emanating from inadequate financing, making the organization vulnerable to financiers' conditions (Rosenberg (2007). Financiers often require organizations to demonstrate that they are fit to be funded, compelling them to more competitive business like posturing (Dolnicar et al 2008). It may also result from changes in market opportunities, influencing organizations to exploit those opportunities.

Institutions are most likely to pursue and adhere to the social mission agenda at the initial stages but as they evolve and adapt to environmental circumstances, boundaries may become blurred as the organization grows and may compromise the social value creation purpose. Social entities undergo changes in terms of their goals, strategic direction, governance, capitalization, tasks, loan portfolio quality etc., as they mature that show the existence and extent of a mission drift. Managerial logistical issues and the practicability of handling multiple and seemingly contradictory pursuits arise. (Dacin et al, 2010). Uniquely identifiable institutional behaviour in terms of competitiveness, strategic planning perspectives, institutional philosophies, organizational structures, attitudes to marketing and image, human resource skills, time spent of administrative functions etc. may give distinction to the discipline, and optimal organizational arrangement and business models to create social value also identified.

Copestake (2008) defines mission drift as being retrospective changes in organizational direction to fit unplanned performance results. Microfinance institutions find themselves facing problems of financial sustainability, and shift their focus to wealthier clients demanding larger loans. This commercialization is often justified as cross subsidization (lending to the wealthy to reach the poor) and sometimes as a result of progressive lending or the target group demanding larger loans (Armendariz & Szatarz, 2011). Social enterprises should theoretically thrive in harsh economic conditions under which commercial enterprises struggle. Good performance in commercial entrepreneurship is rewarded through profit maximization and poor performance punished through financial losses, generally resulting in the allocation of resources into good performance areas. The same punishment applies to social enterprises, making it increasingly difficult to sustainably serve their social mission and marshal resources from investors under the poor performance conditions. They often resort to the same strategies and performance measures employed by commercial enterprises to resolve a non-commercial problem. Eventually they corporatize some of their activities, and target more attractive, less risky and remunerative markets and lose their mandate and identities.

The debate centres on whether these retrospective changes alter the social value creation face of social enterprises. Changing typologies such as that experienced by the Mexican Banco Compartamos present another dimension, implying changes in the mission and focus of institutions as they grow and mature or in response to changing circumstances. Striking a satisfactory balance between two conflicting missions may result in the prioritization of one over the other.

According to Muhammed Yunus, the founder of the Grameen bank, a change in the focus of microfinance results in a "crowding out" of poor clients in favour of wealthier clients, whereby the enterprise loses its focus in pursuit of profit and sustainability (Christen and Drake, 2002, p.10). Rhyne (1998) contends that one mission will always be a constraint to the other and that the complementary view is not possible as dual maximization of objectives is also not possible. The issue of contention is whether there is a positive relationship between commercialization (due to cross subsidization) and social value creation or a trade-off between financial viability and service to the poor. Do enterprises lose sight of their poor clients in pursuit of profits? Austin et al (2003), proposes for the acceptance and recognition of the multi facet nature of the phenomenon which may include profit orientation for resource mobilization and sustainability reasons. He however concedes that pursuing profit maximization objectives might be at the expense of social value creation yet at the other end, the challenge of resource mobilization for more socially oriented entities might also compromise the social impact purpose.

The emergence of hybrid organizations or the third sector gives credence to the concept of combining social and economic objectives, pursuing two bottom lines, one dealing with profits and the other social value (Emerson, 2003; Certo Travis, Miller Toya 2008; Battilana & Dorado 2010). Austin et al (2003) observe that social and commercial endeavours do not exist in a pure state but each has elements of the other. Social value can be derived from a purely economic enterprise and vice versa. The majority of authors seem to lean towards the mixed bag framework approach to social entrepreneurship where they allow for it to assume any shape necessary or desired. This assumes a balanced performance between the economic and social endeavours.

The discourse and debate on social entrepreneurship as an intervention to resolve socio-economic problems is wide ranging and inconclusive. First the phenomena of market failure which generates the need for intervention is itself under scrutiny as it is a prevalent condition faced by all institutions and there is a need to identify and justify interventions deemed to be optimal between market and non-market interventions. The existence of a dichotomy and conflict between social and economic missions' objectives by the social entrepreneurship is under debate yet the concept of mission drift is a direct result of such conflict. If the former does not exist then the latter should not be found. The problem is compounded by the absence of universally recognized and acceptable yardsticks to measure mission drift. The use of measures such as loan size, outreach to women etc. may be considered however, their use carries significant assumptions about the measurement of impact of services as they do not measure impact per se. The study examined the mission drift phenomena as perceived by the social entrepreneurs to identify its empirical manifestations and obtain evidence of its existence.

Propositions:

(i) Some form of mission drift is an inevitable phenomenon for organizational sustainability. By definition, market failure embraces the presumption of exclusion due to the inability to fully recover costs and make profit, and social value creation by definition implies the creation of benefits beyond private benefit. Only the pursuit of economic return can compensate for the losses made in serving the poor.

(ii) Social enterprises in the financial sector experience pressure from financiers in the form of funding rules and regulations, accountability and other administrative functions, and the pressure to emulate successful organizations such as commercial banks.

(iii) Social enterprises change their behaviour and culture overtime, spending more time and focus on rules and accountability functions at the detriment of the social mission.

2.3 Empirical evidence

As an emerging research domain, social entrepreneurship has historically been dominated by conceptual construct articles as opposed to empirical research (Hoogenband, Pennings & Thurik, 2010). However, evidence shows that increasing scholarly interest in the discipline has recently resulted in substantial empirical work. Short (2009) found that in a sample of 152 research articles on social entrepreneurship, 48% of these were based on empirical work. Similarly, Hoogenband et al study found that less than 50% of studies on social entrepreneurship are empirical and that 85% of these were case studies with small sample sizes, tending to be descriptive /explanatory and with minimal scope of generalizability. This is reflective of the budding stage of the discipline which has yet to establish strong and testable postulations.

Conceptual investigative attention has included analytical descriptions of the commonalities and distinctions between conventional and social entrepreneurship (Austin et al (2006); Mair and Marti (2005)). Also attempts at establishing definitive domain boundaries of the discipline on the basis of profit or non-profit nature, the mix of economic versus social value creation or trade- offs between economic and social objectives. Empirical findings so far exhibit discordance and inconsistencies that clearly indicate the need for more intensive research particularly that will yield testable benchmarks. This is highlighted in empirical investigation into the co-existence of social and economic objectives of social enterprises. Weerawardena et al (2006) tested the three entrepreneurial pillar attributes of innovativeness, pro-activeness and risk taking, in the context of social value creation in nine organizations of the Social Enterprises Network (SEN) identified four model social enterprises drawing key informants from the organizations decision makers comprising CEOs and senior managers for a holistic view. They conclude that social entrepreneurship "can be viewed as an abstraction" (p.33) of the three pillars within the limitations of the social mission, sustainability and the environment.

Similarly when Seanor, Bull & Baines (2012) conducted a qualitative study of two social enterprises in the UK, the European Social Fund and the Local Enterprise Growth Initiative, they found that that organizations did not perceive specific identities but multiple, flexible and dynamic identities depending on who they interact with in the external environment. Informants were requested to reconstruct the boundaries of how they view themselves in theory and in practice. They were asked to

identify areas of tension between social and economic perceptions and to explain being entrepreneurial in the organization. There was no identifiable smooth transition between social and economic agendas but an ebb and flow tending towards economic, reflecting a pro-market general environmental influence. Ek (2011) qualitatively analysed data from the Microfinance Information Exchange (MIX) on 1109 MFIs. The objectives were to determine variations between self-sustainable and non-sustainable MFIs in terms of efficiency and social focus. The findings were that self-sustainable MFIs were indeed efficient in terms of higher clients to loan officer rate, had larger numbers of clients or higher outreach but had larger loan sizes and less female borrowers indicating a mission drift. The studies indicate a general lack of co-existence and complementary relationship between social and economic objectives but a constraining one although some like Ek (2011) were indeterminate.

Weerawardena et al (2006) discovered that institutions are responsive to and bound by the social mission but are also operationally aware of the competitive environment and drive for sustainability. Parkinson and Howarth (2008) found that practice shows that social enterprises draw their legitimacy from social sources rather than entrepreneurial motivations as they are driven by obligation and collective desire for social change rather than entrepreneurial opportunity. This is confirmed by Santos (2009) who found that practically, domain issues are insignificant to the vision of bringing social change.

Rangan, Leonard & McDonald (2008) highlights the likelihood of mission driven social enterprises to be more innovative than competitors resulting in the emergence of new and more efficient entrepreneurial models. Weerawardena awards this to increasing competitiveness, however, it is more likely that innovation is driven by necessity created by the adverse market conditions in which enterprises select to operate. For instance in Africa where geographic distance and remoteness of target microfinance beneficiaries is a problem, mobile money transfers have proven to effectively reduce transaction costs. Structuring operational and business objectives to the adversities presented by the market conditions maybe a motivating factor that has largely been neglected by both conceptual and empirical research. Marti and Mair (2009), made findings similar to those by Elk above, whereby a case study analysis revealed “the continuous combination, recombination and redeployment of different practices, organizational forms, physical resources and institutions, making sense of contradictions, ambiguities and gaps.” (p. 431).

The fluid nature of social enterprises cannot be ascribed only to competitive tactics. Di Domenico (2010) conducted a case study of eight social enterprises in the UK using a qualitative approach to identify commonalities of behaviour in drivers of resource conditions and constraints. They found a “bricolage” approach by enterprises whereby they improvise and “make do” with what is available, refusing to be constrained by any limitations on opportunity. They envision a range of possible resource mobilization and operational processes rather than a definitive plan, making them flexible and adaptable to respond to situations as they arise, even blurring the boundaries between profit and non-profit making. Di Domenico found that the compelling motivation is to respond effectively to social welfare problems, which in turn drives enterprises to make money to survive and create value. Despite a clear social mission, the flexibility exercised by social enterprises allows their strategic orientation to lean more towards a gradual emergence of its roles and processes. Other important features in resource mobilization found were stakeholder participation and

leveraging on networks. Although the overarching mission of social enterprises is creating a social impact, empirical evaluation above shows that their actions and identities may be biased towards commercial tendencies more than the social. Robust debate exists on the dichotomy between the social and economic objectives and their co-existence and tensions caused by their simultaneous pursuit (Emerson, 2003; Santos, 2009). It emerges that mixed objectives only become an issue if trade-off between them exist such that one mission compromises the attainment of the other, especially as the findings indicate the dominance of the support economic mission which should be a side activity.

Battilana & Dorado (2010) explored the potential tension and conflict emanating from the multiple logics in microfinance hybrid organizations. They conducted a comparative case study analysis of two Bolivian microfinance organizations, the Banco Solidario (Banco Sol) and the Caja de Ahorro y Prestamo Los Andes (Los Andes). These were established as NGO microfinance donor supported organizations in the early nineties. In 1992, after a successful outreach, the Banco Sol decided to commercialize its services to mitigate the challenges of serving the poor, whilst still responding to financial exclusion. This entailed having to strike a balance between banking and developmental objectives and logic. The authors sought to investigate the coexistence relationships of such a balance.

The Banco Sol began operating in 1987 and commercialized operations in 1992 whilst the Los Andes was established in 1002 and commercialized in 1995. Using snowball sampling, the study conducted 78 interviews and principally sought to determine the commercialization logics and how the two organizations perceived themselves and their comparative performance after commercialization. Banco Sol which recruited more business oriented personnel and introduced new commercially oriented measures experienced staff management conflicts between the NGO oriented old members and the new recruits, which resulted in a 30% decline in the level of services. In contrast, the Los Andes, having learned from Banco Sol experience, hired only fresh graduates with very little experience and socialized them into the organizational operational culture of hybridization. They embarked on intensive training of existing staff and apprenticeship of new staff. Los Andes performed better than Banco Sol, had lower interest rates, lower default rates, and lower costs per borrower and more importantly boasted a higher outreach to farmers though not profitably so. This finding is in contrast to the improvisation or “bricolage” approach findings by Di Domenico (2010) and Elk (2011) and seems to suggest that a well formulated strategy has better potential for success whether the aim is to pursue a hybrid approach or commercial one.

The debate on shifting microfinance from social to commercial status has generated significant research on the result of such a shift in terms of the retention of the social mission. Amongst these, Mersland & Oystern-Strom (2010) uses the poverty proxies of average loan size, gender bias, group lending activity and the rural urban distinction in a study of MFIs drawn from several countries. On the basis of average loan size, mission drift was found to be insignificant amongst profit oriented MFIs. MFIs with higher profits and cost efficiencies tend to have lower average loan sizes and increased outreach. The relationship was stronger for increased cost efficiencies than higher profits, meaning that commercialization focused on reducing transaction costs avoids mission drift more efficiently than one focused on profit maximization. It has been similarly found that efficiency from commercialization results in a higher

outreach but larger loan sizes and reduced lending to females, and the use of commercial sources of funds leads to reduced outreach (Hoque, Chishti & Halloway, 2011; Hermes & Lensink, 2011).

Dolnicar et al (2008) studied the Australian environmental voluntary organization Bushcare New South Wales using a case study approach to determine the impact on institutional behaviour as a result of competitive funding. He explored the institutional changes resulting from competitive positioning, pressure and expectation to conform to other organizations and to fulfil changing funding rules and regulations. He observed that Bushcare slowly drifted away from the focus on their mission in favour of finance focused strategies, philosophies, competitive approach, market like actions and institutional structures such as hiring more business skilled professionals and ensuring compliance with funding regulations. The mission drift was evident in the choice of projects where were more aligned with funding rules than what society required. For instance, Bush care discontinued new bush clearing projects because it took too many years to re-vegetate. The empirical debate converges at the shift of approaches whilst the indicator variables are not yet fully determined. The use of institution size, maturity level as determined by the number of years it has been in existence and loan size as proxy for the poor and outreach needs to be scrutinized.

Demand studies on usage of institutions are also a good indicator of access to financial service by the poor to commercially oriented institutions. Finmark Trust has conducted substantial research on financial inclusion in the sub-Saharan region as part of their mandate to catalyse access to financial markets to the poor. Their main research focus has been on the demand side, comprising consumer surveys on sources of finance and the level of inclusion for the poor through Finscope consumer surveys. Such nationally representative surveys have been conducted in 18 countries, 15 of which are in Africa and 10 in the SADC region. In Swaziland, two Finscope surveys were conducted, the first being in 2003, the second in 2011 and the most recent in 2014. 3650 households are surveyed selected randomly throughout the country. The study indicates a high level of financial exclusion at 37% in 2011 which has since improved to 27% in 2014.The reasons for the improvement are not specified.

Buckley (1997) also utilized research undertaken in Kenya, Malawi and Ghana over a three year period from 750 respondents, to explore the role of microfinance on informal sector micro enterprises. He found that 80% of the micro enterprises obtain start up finance from informal sources (own savings, friends, relatives), and very few from microfinance institutions. Yet a significant proportion (>50%) had bank savings accounts, especially in the peri-urban areas. Over half the respondents were members of local ROSCAS or merry go round savings and credit clubs. He concluded that there is no evidence of the impact of microfinance institutions intervention and that they are not a panacea for credit problems in Africa.

Empirical work has clearly focused on the relationships between the main purpose of social entrepreneurship and the ability of the discipline to attain this mission in its defined environmental context. The entrepreneurial quality in the face of social concerns is questioned and the conclusion is often that social concerns are a constraint to the entrepreneurial dimension, and vice versa. A fresh perspective is necessary to try and ascertain how social enterprises can sustain themselves without compromising their social objectives. The study redirected research to the origins and cause for the social agenda, the failure of markets to accommodate some segments of the

population. Empirical evidence to whether the social enterprise model activities resolve these imperfections may provide guidance to a successful approach. Empirical work on the positioning of social entrepreneurship in market failure and how it responds to that unique environment to pursue the social agenda is scanty. Empirical work in Africa is dominated by demand side measurement of incident and impact analysis, such as the extensive research work undertaken by the Finmark Trust. Investigative work on the supply side phenomena is not in abundance possibly due to unavailability of reliable data.

2.4 The Swaziland context

2.4.1 Financial landscape

There are four commercial banks in Swaziland out of which three (First National Bank, Standard Bank, Ned bank) are South African banks and one, the Swaziland Development Bank (Swazibank) is local, and a building society, the Swaziland Building Society (SBS). In the last five to ten years, the Swaziland royal Insurance monopoly has been dismantled allowing for the liberalization of the insurance industry and the emergence of competitors such as Momentum, Metropolitan, Old Mutual and Lidwala Insurance to operate. Registered non-bank formal financial institutions include pension funds, the Swaziland Industrial Development Company (SIDC), The Financial Corporation (FINCORP), the Central Bank Guarantee Scheme, and Non-Governmental MFIs comprising the Inhlanyelo Fund, Imbita Swaziland Women's Finance Trust (SWFT) and more recently, the SWEET Trust. There is also a strong co-operative movement comprising a large number of registered work-based savings and credit cooperatives whereby employees pool their savings from which members can borrow at concessionary terms. The largest one is the civil service based Swaziland national Association of Civil Servants, followed by the Swaziland Association of Teachers. The police force, correctional services, and large parastatal companies such as the Swaziland Electricity Company, Swaziland Water Corporation. These organizations are also prevalent amongst private company based employees.

Multipurpose primary co-operatives are mostly rural and agricultural based, the biggest and strongest being in the sugar belt. These pool financial resources to operate commercial agricultural projects and also use their collective savings to leverage for loans from financial institutions, using joint liability and peer monitoring as guarantee. Multipurpose cooperatives with a strictly financial purpose are few and tend to remain small with a few exceptions such as the Asikhutulisane Savings and Credit Cooperative and a Lutsango LwakaNgwane Savings and Credit Cooperative, a politically based women's' organization. There have also been several failed Government credit schemes such as the Regional Development Fund, Constituency Empowerment Fund, the Community Poverty reduction Fund, The Youth Fund and others, some of which are currently being re-constituted and redirected in an effort to improve their successful implementation. Prior experience has shown for instance that such Government schemes perform poorly if utilized for individual or group enterprise projects, but do well if used for community infrastructural development. It has also become evident that vesting custody of these programmes within the government machinery exposes them to political abuse and inefficiencies, hence semi-autonomous institutions are the best vehicles to administer such programmes. Consumer lending organizations have also mushroomed in the past ten years and these are strictly client based and lend only to salaried individuals. Informal community based membership financial services organizations such as Rotating

Savings and Credit Associations (ROSCAs), Accumulated Savings and Credit Associations (ASCAs), burial associations, self-help savings groups etc., are also in abundance. ASCAs are usually established in a workplace or in a neighbourhood by the organizations participant beneficiaries. They pool together their savings and take turns to borrow from those savings.

2.4.2 Sustainability and the social mission

According to Finscope (2011) the commercial banks in Swaziland maintain a solid level of profitability by focusing on a conservative range of services and minimizing services to risky sectors such as smallholder agriculture and rural ventures. Banks account for only 54% financial access which is an improvement from 44% in 2011 (Finscope, 2014). Non-bank formal financial institutions on the other hand, which include microfinance organizations account for 13% access, also an increase from 9% in 2011. Informal sources accounted for the balance of 10%.

Non-bank formal institutions namely the Swazibank, SIDC and FINCORP were created by the Government to bridge the perceived demand gap left by commercial banks. The SIDC was established primarily to finance industrial projects whilst the Swazibank was to meet the agricultural credit demand. In the early 90s, the bank was declared insolvent due to an excessively poor loan portfolio and for several years thereafter faced a protracted restructuring process. FINCORP emerged in 1995, in the midst of the restructuring of the development bank and in response to an increasing demand from small and medium local enterprises which were also underserved by commercial banks. After a few years of development financing, FINCORP embarked on retail or consumer lending which has since overshadowed the development wing by more than two thirds in portfolio size (Annual Report, FINCORP 2014). The SIDC has recently also been downscaling to penetrate the development finance market in the face of stiff competition from commercial banks in the industrial space. Commercial banks are also under pressure to expand their portfolios into new sectors due to shrinking investment opportunities caused by the global economic downturn and increasing competition from the neighbouring countries of RSA and Mozambique.

NGO MFIs, namely Inhlanyelo Fund and ISWFT have both been in operation for more than 15 years. The former focuses on rural enterprise services using traditional structures for credit screening and loan collection. ISWFT is a membership based women's' financial services organization that offers savings, loans and financial literacy training. These MFIs both face financial self-sufficiency challenges with Inhlanyelo funds administrative expenses being met by the founder philanthropist whilst ISWFT has been steadily downsizing activities over the years. Co-operatives are also a powerful force in the financial market and their growth has prompted the Central Bank of Swaziland to investigate their potential to contribute to systemic risk. However, work-based cooperatives are the most dominant in terms of savings, reflecting the dominance of wage income in the economy. The informal financial services market is largely unknown due to scarcity of records and research. Money lenders tend to lend to salaried persons and are currently facing stiff competition from formal larger retail lenders. Retail lenders are also justly or unjustly acquired a negative reputation of charging exploitative rates that ensnare customers into a debt trap.

2.5 Chapter summary

In this chapter, the problem of market failure was discussed in relation to how it impacts on the allocation of resources and the problems it causes in the operation of markets. It was also discussed in relation to the problems it causes in the provision or trading of financial services, and how it results in gaps in the supply and demand of these services, contributing to economic problems such as income inequalities and poverty. Possible interventions that are used to resolve the manifestations of market failure were also interrogated in terms of the advantages and disadvantages, culminating in the analysis of the social entrepreneurship approach which is deemed to combine elements of both market and non-market strategies. The conflict that arises in vesting two seemingly opposite approaches in a single institution and the perceived dichotomy between social and economic values and the danger of market drift that may arise from pursuing both objectives was analysed. Some research that has been conducted on social entrepreneurship was highlighted to demonstrate areas for further research required and an overview of the structure of the Swaziland financial sector was provided as the area for empirical research.

3. METHODOLOGY

3.1 Introduction

The study focuses on the application of the social entrepreneurship approach to social value creation in financial inclusion and the overarching questions are the means by which social value is created by social enterprises. The overriding purpose is to determine an optimal social value creation typology to contribute to grounding social entrepreneurship as an independent discipline. Practical applications of social entrepreneurship exist in abundance but the concept lacks a theoretical foundation, and this exposes it to idiosyncratic interpretations, denying it the chance to develop a universal approach, best practice and benchmarks to ensure its successful application. A liberal quantity of studies addressing the definition and conceptual issues of the phenomena exists, in particular the distinction between social and commercial entrepreneurship, and whether the commercialization of social enterprises compromises the creation of social value. This study extends the agenda into an empirical inquiry of the incidence of mission drift among social enterprises and the manner by which different types of social enterprises pursue social value creation in the face of market failure. The study raises the following issues for investigation and discussion:

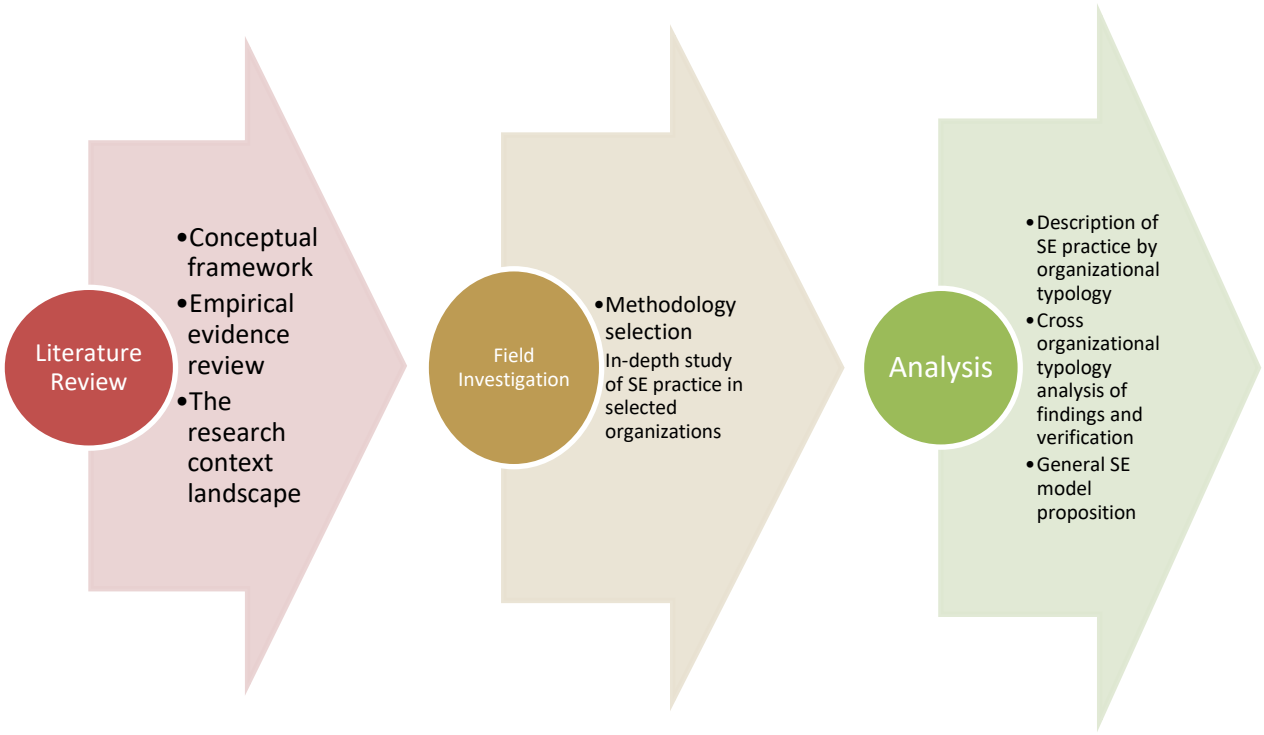
(i) Social entrepreneurship arises out of market failure, which by definition implies economic inefficiencies resulting from the poor ability of markets to allocate resources efficiently, permit efficient pricing, payments and distribution of goods and services. This is an area in which profit making entities do not find viable opportunities. How does social entrepreneurship find sustainable opportunity to exploit in this area? What is the exact nature of market failure in the financial sector and can its manifestations be sustainably corrected through social entrepreneurship? How do social enterprises correct for market failure conditions?

(ii) Social entrepreneurship is pursued through a continuum of profit and non-profit entities? Is it logically and logistically optimal to equitably pursue and maximize returns of profit and social value? Is pursuing one not at the detriment of the other? Are social enterprises prone to drifting from their social mission towards corporate entrepreneurship in the pursuit of cost recovery?

The study is a phenomenological investigation aimed at dissecting the economic rationale and underlying meaning of the ability to create value in the absence of viable markets by social enterprises in the financial sector. The phenomenological approach is designed to identify and highlight a specific phenomenon from information and perceptions of the main participants in the phenomena situation (Stan Lester, 1999). The focus is on the meaning in the structures of the shared experiences surrounding the social mission and the feasibility of cost recovery in pursuing it, business models that are engaged to mitigate the inherent nature of the market environment, exploitation of opportunities, generation and application of resources in social entrepreneurship.

The objective of this chapter on methodology is to clarify the methods and process engaged to conduct the study, firstly to justify the selected research design and explain how it was used to respond to the research question and to build up the resulting general findings. Secondly, the process followed to conduct the research as outline in figure 1 below depicts the various stages and steps taken in the investigation.

Figure 1 Outline of the Research Strategy



3.2 Research Methodology

Three distinct research methods emerge from literature, the quantitative, qualitative and mixed methods (Bryman, 2006). Quantitative is distinctly concerned with enumerating, measuring and summarizing observations in order to generalize, predict and explain (McDonald & Headlam, 2011). It is founded on the premise that reality is a concrete given that is external to and imposes itself on humans (Cunliffe, 2010). The reality of phenomena exists independently of our interaction with it and we need to employ the best methodologies to study it accurately in order to determine causal relationships, make predictions, build theories that will allow us to develop responsive adaptations to the environment in which it exists. Numerical data is collected through surveys and the emphasis is on samples that at representative of the population under research. Objectivity, precise measurement and analysis of data is paramount, and statistical significance analysis in order to make generalizations is important. Data is gathered mostly through self- administered questionnaires that have clear and simple questions that are usually closed and are the same for all respondents and generate a limited set of responses. Quantitative methodologies are useful in determining dependencies of variables to explain causal relationships and summarizing data for frequencies to determine the effect of a phenomenon and make generalized

predictions of behaviour, and are mostly relevant when theory is already well developed and can be easily tested.

In contrast, qualitative methodologies seek to understand phenomena from the perspective and interpretations of informants in their specific contexts. These methods are designed to unravel complex issues by eliciting organizational agents understanding. The researcher becomes part of the process as data transference requires his/her subjective perceptions, understanding and interpretation for analysis. The assumption is that information cannot be separated from the perceptions of the individual and reality can emanate from the perceptions and experiences of individuals whereby humans give meaning and reality to their surroundings (Cunliffe, 2010; Creswell et al, 2007; Onwogbueze, Leech & Collins, 2007). The method explores the individual understandings and how people construct their surroundings as they interact with it through subjective experiences and their perceptions of it. Qualitative methods are appropriate and useful in organizational management research such as conceptualizing organizational culture, examination of processes of organizing, issues of sustainability, race and gender. It recognizes the relativity of meaning or interpretations to specific contexts, time and the manner in which they are constructed, and that both humans and the environment constitute and are constituted by their surroundings in a reflexive relationship. Research designs under the qualitative methodology include case studies, grounded theory, phenomenology and participatory action research.

In some cases, a combination of quantitative and qualitative methodologies may be used to convey a sense of credibility, rigor and integrity to an investigation. Qualitative methods may be adopted to enhance explanations of quantitative results whilst quantitative methodologies can be needed to corroborate, complement and expand qualitative findings or to develop the method further (Bryman, 2006).

3.2.1 Selection of the methodology

Qualitative research is relevant in responding to the efficacy and practicability of social entrepreneurship to creating social value. It seeks to understand the manner in which this is achieved and challenges that may be encountered. Social entrepreneurship and social value creation are phenomenological responses to social problems and the research seeks to understand, describe and analyse how this phenomenon attends to these social problems in the given environment of operation, and relative to existing socio-economic theory. The aim of the investigation is to obtain insight into the social entrepreneurship and social value creation phenomena in financial sector organization. The sub-areas of mission or purpose, policy and strategy such as business policy, strategic planning and management, organizational structuring and development will be studied. The main focus of the study is to determine the ability of financial sector organizations to sustainably create social value given the non-competitive and non-remunerative demand market environment in which it chooses to operate, the extent to which entities succumb to the mission drift syndrome. This requires deep insight into perceptions and experiences on the concept of social value creation, and practices to attain it. As a relatively new discipline, social entrepreneurship is in the process of developing concepts and defining variables that can be considered reliable and testable through quantitative methods. These can best be identified through qualitative investigation of the practice, by obtaining and accumulating knowledge of practitioners' experiences and views.

3.2.2 Qualitative research methodologies

Despite a strong historical presence, qualitative methodologies still face a number of added barriers compared to quantitative methodologies (Bluhm, Harman, Lee & Mitchell, 2010). The dominance of quantitative research tradition which puts emphasis on logistical and quantitative vigour often places qualitative research in a position where it is reviewed and judged through positivist or quantitative methodologies lenses. It is therefore important when using qualitative methodologies to articulate and justify the methodological practices and their suitability to the investigation. Firstly, contribution to theory and knowledge accumulation must be clearly articulated. Secondly a high level of transparency of methods through a detailed and full accounting of how the research was conducted, analysed and reported is essential. A high level of methodological description allows for a hypothetical or actual replication of the study and is useful to determine the accuracy of conclusions and to contribute to the development of best practice (Lee, 1999). Evidence of vigour of the method used lies in the sampling and data collection processes and actual reliability of data gathered. The usefulness of the results and ability to suggest theoretical suppositions are indicative of its credibility. Therefore a comprehensive account of the sampling process, data collection, analyses and data interpretation that was adopted for this study is provided in this chapter.

There are five popular qualitative research designs namely narratives, case studies, grounded theory, phenomenology and participant action research (Creswell, William, Hansen, Vicki, Clark & Morales, 2007). Narratives basically give an account of a series of events and actions, usually chronologically connected, by collecting stories, reporting individuals' experiences and arranging their meaning to respond to research questions. Case studies investigate an issue or phenomena within the context of a specific case, responding to questions about that issue by describing and analysing the case. Grounded theory research generates a general explanation of a phenomena shaped by views of a large number of participants. The conclusions are most often suggestive and inconclusive. Phenomenology seeks to clarify the meaning, structure and essence of the lived experiences of people around specific phenomena (Johnson & Turner, 2010). Participant action research is a collaborative action between the researcher and participants to find a solution and effect change to specific social problems as equal participants. It often leads to the formulation of action strategies to resolve the problems.

Predominant methodologies in social entrepreneurship research are qualitative case studies (Stalder, 2010; Pless & Appel, 2012). The strength of the case study approach is generating ground breaking novel theory (Eisenhardt, 1989) which has been until now, relevant to social entrepreneurship as a relatively new domain. It allows for broader perspective through rich and comprehensive data collection, and the increased chance of creativity, new vision and theoretical perspectives. It generates fresh theoretical angles and new insights to existing research and is most appropriate for new research domains. Furthermore, emergent theory is already tied to evidence emanating from case study information such that most often times theory closely resembles reality (Eisenhardt, 1989).The weaknesses of the case study methodology include gathering too much data, over-broadening the research, and losing sight of important focus. Building theory from this approach may compromise the aspect of generalization since it is founded on unique individual cases that may limit the researchers' ability to transfer descriptions from unique phenomena to the general.

This arises from lack of determination of commonalities and distinguishing important relationships from those specific to a particular case under investigation.

Insufficient inference is deducted from case study material, such that research sounds anecdotal, yet the prevalence of some of the suppositions needs to be established as well. Building theory from case studies also relies to a certain extent on replication of logic (Eisenhardt, 1989) which may ignore the emergence of groupings of social enterprises with similarities in business models, patterns or approaches, trends, and common variations between categories of social entrepreneurship. It is important to explore any "observable and measurable regularities, laws, and patterns." (Cunliffe, 2010)

3.2.3 Phenomenology research

Phenomenological research has been selected for this study in an attempt to escalate social entrepreneurship enquiry from the over- contextualization of case studies to a wider range of respondent environments. Unlike case studies, it attempts to establish patterns and commonalities from information to propose common understanding and formulate a proposition of common principles underlying those phenomena. Phenomenology provides insights, capturing essential meanings of social phenomena, explaining concepts from new perspectives and is most applicable when a topic does not lend itself to quantification (Chi-Shiou Lin, 2013). It conducts reflective analysis of human experiences and views to derive meaning and the essence of the phenomena. It is designed to "explicate the meaning, structure and essence of the lived experiences of people around specific phenomena" (Simon & Goes, 2011, p1). Although as a qualitative design it is not designed to translate findings to inferences about the general population, by establishing commonalities, phenomenology is able to make contextual inferences and generalizations, contributing new general propositions or theories about phenomena.

Social entrepreneurship although a new academic discipline, has nevertheless been widely practiced and has taken a dominant position as a potential solution for the socio-economic problems engulfing the world. It is at the stage where it is important to gain more insights on the drivers, motivations and translate the existing practical experience into common understanding. Empirical phenomenological research was deemed to be most fitting for the study as it "assumes the existence of a structure in the shared experiences of a phenomena and its essential constituents", meaning that a study of the existing practice of social entrepreneurship as perceived and experienced by the practitioners enables the researcher to uncover and expose its essence and its conceptual reality (Chi-Shiou Lin, 2013). Phenomenologist researchers do not view human experience as an unreliable source of data rather they see it as the cornerstone of knowledge about human phenomena as it is the basis of all knowledge and behaviour (Morrissey, 2006). It generates testable information by illuminating the nature of the phenomenon, explaining paradoxical behaviour in conversation as learned from daily experiences, also informing future research. Giorgi (2005) described two elements of phenomenology as firstly the reduction of large quantities of data to smaller essential elements and secondly to a structural analysis that describes major themes and arguments within the data in order to extract new understandings from it. In the study, the use of quantitative analytical methodology

was limited to enhancing the analysis and interpretation of data through descriptive statistical analysis such as summarizations, percentages, averages, and cross tabulation of variables as and when it was deemed to be necessary and desirable.

3.2 Data Collection Process

Onwuegbuzie et al (2007) determines that in a qualitative approach, words from participants serve as sample units of data and therefore prolonged and persistent engagement must be the main goal. Non-random sampling is the selected method for this study to purposefully select informants that will provide maximum understanding of the phenomena under investigation rather than to generalize to a population. This is in order to obtain useful and deep insights to a phenomenon. A phenomenon usually resides with a specific category of the population or situation, and therefore precludes random selection and typically requires the researcher to sample very purposefully and select only respondents with experience in the phenomena (Nastasi, 1998). Therefore, whilst quantitative methodology seeks to generalize beyond the sample, qualitative methodology aims at in depth understanding of phenomena.

3.3.1 Sampling

The study elected to use Maximum Variation Sampling (MVS) **w**hich purposively selects a wide variation of respondents in terms of individuals, groups or categories offers the best opportunity to gather multiple and diverse perspectives (Nastasi, 1998; Onwogbueze & Leech, 2010). A new approach seeking to expand the theoretical foundation such as the social entrepreneurship domains derives maximum benefit from varied and unique ideas that are obtainable under the maximum variation sampling method. Financially inclusive organizations varied in terms of the approaches, strategies, systems, and processes employed, and the chosen sampling technique enabled the study to accommodate most of the categories.

Participants were drawn from financial sector entities with articulated social value creation missions as the core purpose of their existence and activities inclusive of development finance institutions, finance sector cooperatives, credit and savings organizations and community savings organizations. There is one development bank in Swaziland, and six registered non-bank financial credit institutions targeting micro and small enterprise development. There are also over a two hundred registered multi-purpose cooperative organizations most of which have a savings and credit component. A numerous number of small informal sector SCAs and ROSCAs comprising merry go round financing schemes or merely saving and credit exist. An important feature of the financial non-bank financial sector is the distinction between development finance and retail lending. The latter consists of financial products exclusively provided to salaried persons on the strength of a debit order or stop order arrangement over the salary to facilitated payments, including loan instalments in the case of credit extended. This is distinct from finance extended to unsalaried members of the public such as business proprietors where there is no simple assurance of repayment. Some organizations offer exclusively retail finance whilst others offer a combination. The study considers only those offering purely development finance or a combination of products as social enterprises since retail borrowers are all bankable. The sample consisted of non-bank social enterprises specifically designed and carrying the social mandate. Representation on the basis of organizational size, informal or formal sector, ownership structure, service delivery approach influenced the sample selection. There was a deliberate effort to include both formally structured

client based organizations and community based membership based entities in order to highlight differences in effect and influence by ownership.

3.3.2 Sample size

Qualitative researchers reject generalizations derived from increased sample size in favour of deeper and meaningful insightful data on a particular social phenomena or practice (Onwuegbuzie & Leech, 2007). In phenomenological research, the sample should be sufficient ensure comprehensive data gathering, however not too large as to impede thoroughness and analysis from each source. Creswell (1998) recommends interviews with a minimum of 10 people in phenomenological research, in this study, a sample of 40 persons from a minimum of eight organizations has been planned in order to facilitate the identification of phenomenal issues or factors and allow for a deeper understanding and analysis of causal and effects relationships. Two MFIS, Two DFIs, two cooperatives, two communities based Self Help Groups (SHGs) and one Accumulated Savings and Credit Association (ASCA) participated in the study. The study had intended to interview about five participants from each entity; however, due to data saturation and unavailability of participants, interviews were eventually conducted as presented in table 1 below. In total, 18 participants were interviewed on an individual basis whilst the balance of 24 people from three organizations was interviewed in informal group discussions. Although the groups were not properly constituted as focus group discussions the study deemed that the information gathered was accurate and perceptions expressed were representative of all the group members as participation in the discussions was high. More than 50% of the members on average contributed to the discussion and this was made possible through the use of the local language, SiSwati, giving all members to voice their opinions.

Table 2 Sample size

Organization	Number of participants planned	Number of participant	Number of organizations (Population)
MFI A	5	3	4
MFI B	5	3	4
DFI A	5	4	2
DFI B	5	3	2
SHGA	0	10	26
SHG B	0	9	26
Cooperative 1	5	2	236
Cooperative 2	5	3	236
ASCA	5	5	Unknown*
Total	40	42	

*These are informal (unregistered)

3.3.3 The composition of participants

Investigating issues of strategic responses, dimensions and positioning of organizations to incidents of market failure, organizational financial viability in relation to the mission of organizations, demands that informants must be able to capture and provide a holistic view. Therefore the targeted participants were CEOs of organizations and senior staff members, and committee members of informal

organizations. The DFIs which are the largest non-bank financial institutions were able to avail high level management staff members for the individual interviews. DFI A participants comprised of general managers from lending services departments who report directly to the managing director. DFI B participants consisted of two senior managers from lending departments and one senior finance officer. The MFIs had substantial gaps between senior management and middle level officers as they had lean and streamlined personnel structures. Both MFIs availed the managing director and two field credit officers for the interviews as these were the most senior officers available. Cooperatives also both availed the managing director and field credit officers, one form Cooperative A and two from Cooperative B. This was necessitated by the poor staffing of these organizations.

The informal self-help community groups (SHGs) could only be obtained on their regular meeting days so interviews were generally held with group members who were present during the meetings, hence the large numbers of participants. This was found to be convenient as convening them for individual interviews would have necessitated several and expensive visits their individual homesteads as they did not have formal premises. The SHGs did not subscribe to the committee structure so all members equally qualified as participants. The ASCA also selected from amongst members in a very informal manner and the committee posts generally consisted of a chairman, treasurer and secretary. Strategy formulation is vested with all members as decisions are all made at membership meetings. Since members live in the same locality meetings are usually well attended and an informal voting system is followed. Group sizes are generally between eight and 15 members for SHGs and twenty five or more for ASCAs.

3.3.4 Data collection

In qualitative research, a high level of transparency demands a comprehensive account of data collection methods used in terms of the sources of data, how it was collected, coded, analysed and interpreted (Bluhm et al, 2010). The central inquiry relates to the ability of financial service providers to pursue social entrepreneurship efficiently and sustainably within the socio-economic context of their target market, which comprises the socially and economically vulnerable. The principal aim of data collection was therefore designed to elicit evidence of achievement and gather perceptions from participants regarding optimal practice.

(a) Interviews

In view of the nascent stage of research activity in the domain, In-depth interviews with participants focused on their perceptions of the phenomena, as well as their experiences, feelings, beliefs and convictions. The precepts of qualitative enquiry is that these perceptions influence the formulation of strategy, systems, processes and outcomes of the organization and are therefore critical in the shaping of social entrepreneurship reality. The average duration of each interview was an hour as shown in annex 1. Although generally considered lengthy, flexibility was generally exercised in consideration of socio cultural informal niceties expected in African culture including light conversation and allowing for phone call and work related interruptions. A semi-structured questionnaire to respond to the research questions was verbally applied to provoke discussions. The questions were designed to obtain the perspectives of social entrepreneurship practitioners on the manner in which they balance the social welfare mandate with the need for financial survival, and whether

in their endeavour for institutional survival the social mission is compromised. Further to determine the means by which they attain the social mission in the adverse climate of market failure. The fundamental questions were as follows:

(i) Your organization provides financial services to target markets such as SMEs that are not normally served by mainstream financial institutions, what is the unique strategy that enables you to achieve that?
(ii) Mainstream financial institutions avoid the market sectors because it is not viable and profitable to do so, how do you sustain your organization and simultaneously attain your social mission.
(iii) Are any of the organizational activities done on a commercial basis and if so how do you guard against mission drift?
(iv) Is there any management conflict between the commercial activities and social activities
(v) What is your organizational comparative advantage over other financial service providers in pursuing and attaining the social mission of financial inclusion?
(vi) What are the challenges that your organization normally encounters in its quest to promote financial inclusion?

According to Kvale (2006), qualitative interviews are fundamentally a dialogue or conversation on an issue of mutual interest between the researcher and participant. Therefore the structure of interviews was designed to be informal in order to give leeway to the participant to discuss as broadly and as detailed as possible. Issues for discussion were developed in the form of an interview guide for use by the researcher to keep the interview within the general scope of the investigation, whilst it allowed the participants to develop and express their own understanding of the issues in their description of their experiences, beliefs, feelings and convictions in their own terms. The interview format also allowed for the use of supplementary questions to probe further during the interview in order to dig deeper on the participants' notion of the subject. The disadvantage was a sense of informality tending to creep into sessions which extended the time and threatened to compromise the comparability of interviews as participants used anecdotes to explain. This was controlled by reference to the basic questions which were similar for all interviews. The interview guide (attached in annex 2) serving as the basis of data collection was requested in advance by one participant but was otherwise largely used solely by the researcher to guide discussions. The Audio recording was requested of and individually permitted by all the interviewees. Audio recorded data was the main source of the transcribed data.

(b) Secondary data

Secondary data was gathered in various ways depending on the manner in which it was available in each organization. Documents availed included annual reports, strategic documents, financial reports, operational manuals, advertising brochures etc. Information sought from these documents related mostly to descriptions of the structures and operations of the organizations. Informal community based organizations generally did not have documented information. Data collection methods from the participant organizations were as documented in table 2.

(c) Observations

Field notes representing the researchers' observations as an integral part of the interview, were kept to document non-verbal communication data as described by Onwuegbuzie and Leech (2010) and to capture the researchers' experiences and reflexive data. The researcher documented observations on personal and subjective responses and actions.

Table 3 Data Collection Methods

Organization	Data collection method
DFI A	• Audio recorded Interviews • Annual reports • Strategic plan • Advertising brochures
DFI B	• Audio recorded Interviews • Strategic review and plan • Advertising brochure
MFI A	• Audio recorded Interviews • Impact evaluation document
MFI B	• Audio recorded Interviews • Operations manual
Cooperative 1	• Audio recorded Interviews • Financial report
Cooperative 2	• Audio recorded Interviews • Advertising brochure
SHG 1	• Audio recorded Interviews • Meetings observation
SHG 2	• Audio recorded Interviews • Meetings observation
SCA 1	• Audio recorded Interviews • Financial records

3.4 Data analysis and interpretation

The analytical method used was designed to transcribe data collected from interviews and extract from each unit of data the essence or meaning of the information gathered reducing the data to smaller units. These are then grouped by similarities of meaning and interpreted according to the manner in which they respond to the research questions. This is used to explain the investigated phenomena or specific research argument and was used to suggest the manner in which it should theoretically be addressed. The objective was not to prune or eliminate data units but to "distil or condense" data through systematic organization for ease of understanding, interpretation and presentation (Basit, 2003).

3.4.1 Transcripts and coding process

Audio recorded data was transcribed into the written word as stated by participants translated from the local language. This was arranged per organization and the

volume of transcripts varied by organization. Annex 1 provides a tabular presentation of the lengths of the individual interview times. Transcripts were then coded on the basis of the type of data provided as it responds to the research questions and fit into the conceptual framework of the investigation.

Coding was used to organize data for analysis and in identifying patterns (similarities, contrasts, anomalies, paradoxes, causations, frequency, sequence etc.) and converge towards general categorical propositions by finding commonalities or relationships of responses to research questions. A streamlined codes-to-theory model by Saldana (2010), was employed to group data by specific characteristics or affinities that determines a pattern. The model groups data into codes from which categories are generated and these are further patterned into broader thematic areas and meaningful concepts which laid a foundation for developing relevant theoretical propositions. The thematic areas that emerged related to:

- The manifestations of market failure encountered and the ameliorative measures taken by organizations to mitigate them
- Responses relating to the mission of organizations; the conflict that may arise between economic and social objective and the possibility of a mission drift
- Operational and impact differences between commercial and social interventions
- The impact of social interventions as a whole
- The influence of the external environment

Creswell (2007), an eminent author in qualitative data coding recommends that 80-100 codes should be generated and organized into 15-20 categories from which five to seven major themes or concepts are expected to emerge. This study generated above 150 codes due to the large volumes of data and about 19 categories which fed into the 5 thematic areas outlined above.

3.4.2 Analysis and interpretation

Phenomenological research generates a large volume of data from interview noted, audio recordings, secondary data, researchers personal notes, which is unorganized and without any linkages. Transcripts were developed from the audio recordings and other data as accurately and in their original format as possible. This is primary raw data obtained from interviews in a narrative form. The inherent subjectivity of qualitative research also is “dynamic, intuitive and a creative process of inductive reasoning and theorizing (Basit, 2003 p.143). Data analysis and interpretation begins in the field and data incorporates both the participants and researchers perceptions, feelings and emotions (Saldana, 2010; Basit, 2003). Therefore the process of coding demanded close intimacy of the researcher with the data, requiring a significant portion of manual data processing. Although electronic programs such as Computer Assisted Qualitative Data Analysis Software (CAQDAS), such as ATLAS.ti were considered, manual coding and analysis was preferred due to the unavailability of these programs and expense. Manual coding also afforded the researcher the invaluable familiarity with data that come with nuances of perception and personal experiences of participants. The analysis model used is a composite of coding and categorizing of qualitative data approaches. It has been used in various forms by several authors (Giorgio, 2005; Morrissey, 2006; Lester, 1999; Saldana, 2009).

Six major themes or meaning dimensions were identified from this examination, combined with the issues and research questions that emerged from the literature review:

(a) The Coding Process

The data from transcripts was then coded, meaning that it was summarized / reduced into words, sentences or texts that captured the core meaning of each data segment. Saldana (2010) accurately defines a code as "a word or short phrase that symbolically assigns a summative, salient, essence capturing and/or evocative attribute for a portion of language based or visual data" (p.3). Codes used were basically short phrases, concepts, ideas, keywords, themes capturing behaviours, events, activities, strategies, tactics, practices, conditions and meanings conveyed by participants. The main coding methods employed obtained from Saldana (2010) included the following:

(i) Attribute coding – this was used to highlight characteristics of the organizations and provided input to the background description.
(ii) Structural coding - This was used to identify similar concepts representing a topic that responds to a research question. These were similarly coded and led to establish a pattern and outcome.
(iii) Descriptive coding - Some coding was merely phrases to explain data and enable grasping and understanding of study issues. Such information was used mainly to provide background information on participating agencies.
(iv) In Vivo coding – Uniquely worded responses by participants were coded verbatim to capture the essence of an issue and manner of expression or if it could not be translated to general phraseology.
(v) Versus coding –this was used to code conflicting phenomena or concepts such as policies or discourse with patterns of social inequalities or injustices.
(vi) Evaluation coding – This type of coding was used to assign qualitative judgments on programs or policies by comparing, predicting, or focusing on patterned observations or responses on how phenomena compares to an ideal or standard
(vii) Holistic coding – sometimes it was easier to code by an already emerging basic theme in the data by absorbing them as a whole versus line by line. This involved lumping data into broad topics areas as a first step to seeking what it contains. This was done because the researcher has a general idea of the research questions under investigation
(viii) Focused coding – here the most significant and/or frequent codes from the 1st cycle and/or those making the most emphatic sense were collected into thematic sets.

(b) Categorizations

Patterns emerged from coded words or phrases that established certain commonalities in data, some reflecting similarities, others differences on the same topic, or causal relationships identified. These were grouped together to further reduce the data or rather to summarize further into a more succinct meaning or interpretation that explains these features of the data. Saldana (2010) refers to categorizing as "grouping similarly coded data into categories or families because they share some characteristics" (P8). For instance a transcript code reading "high costs prohibit outreach to rural areas" would be slotted into a category of "high transaction costs"

and “rural urban dichotomies” and this reflects an attribute of specific phenomena. Characteristics were not necessarily similarities but some were also conflicting experiences or statements or reference to certain relationships albeit on the same topic. For instance DFI respondents’ perception that they pursue a social mandate whilst others believe to be commercial. Approximately 19 categories were established from the coded data. This is pattern coding whereby data was grouped into inferred sets, themes or constructs.

© Developing a theoretical framework

This basically refers to the interpretation or transcending from real data to meaningful concepts and constructs / arguments that address or explain the phenomena under investigation. In this study, these themes had already been tentatively identified prior to data collection as research questions. However, the identification process and refinement continued throughout the investigation. A theme is an abstract entity that brings meaning and identity to a patterned experience and its variant manifestations. And as such, a theme captures and unifies the nature of the experience into a meaningful whole, interpreting data from concrete language into concepts of social science leading to a structural description of the phenomenon’s essential qualities, towards transforming multiple expressions into a thematic model.

In this investigation, the codified and categorized data representing empirical experiences was linked to what were deemed or judged to be corresponding previously identified themes, some of which emerged during data collection and analysis. These were interpreted to respond to the research inquiry and develop new descriptions derived and informed by research findings, of the behaviour of the phenomena within the research context. For instance, data responding to credit collateral was categorized under the organizations business model issues responding to the thematic area of the environmental market conditions in which social financial sector enterprises operate and the measures they employ to mitigate them. Models for sustainable financial inclusion for social enterprises pronouncing the most critical elements of sustainable business models were then suggested from the collective responses on the issue. It must be noted that coding for existing themes is not recommended by Saldana (2010) despite its prevalent usage as it is deemed to pre-empt the outcomes and “muddies the water” (p.13) of the empirical research. However, in this study extensive prior reading and review of literature generated specific questions that in turn formed the foundation and direction of the investigation resulting in pre-determined thematic areas. Phenomenology under study was therefore predetermined as opposed to grounded theory in which only the data generated can inform the resultant propositions.

The final and most defining step was the presentation of the concluding theory derived from the analysis. Social entrepreneurship is a new academic discipline, at the stage where phenomena is being discovered and explained. The study therefore served to document the new perspective that emerged from the study as its contribution to the

Figure 2A Summary of the Data Analysis and Interpretation Process



accumulation of knowledge on the discipline of social entrepreneurship, filling in research gaps and encouraging the expansion of thinking into new directions.

(d) Researchers journal

Analytic memos were compiled to document and reflect the coding, code choices and how the process of inquiry is taking shape, particularly the emergent patterns, categories and sub-categories, themes and concepts in the data. This is in recognition that all information captured and observed may possibly lead to theory. It also gave the researcher the opportunity to reflect on and write about connections between the codes, overlaps, flows and any problems with the study. An analytic memo also gave direction to how the study should proceed and the compilation of the final report.

3.5 Quality Assurance Strategies

The traditional quality assurance criteria of validity, reliability, objectivity and generalizability adhered to in quantitative research does not apply to phenomenological research (Higgs, Horsfall, & Grace, 2009). In quantitative research reliability of data is tested through assurance of the stability, correctness, accuracy and replicability of measurements used and their ability to yield the same results overtime. Objective questionnaire design and application assures neutrality of the researcher and ensures that data is not tainted or manipulated. Validity is tested using statistical analysis tools to determine the representation or generalizability of the result to the general population by testing the sample size and randomness. This gives confidence to establish general suppositions and generate theory from results.

As a qualitative methodology, statistical validity becomes irrelevant, but the robustness is in the indication and explanation of factors. The suggestions on the extent to which findings can be generalized may sometimes be restricted to the specific contexts from which participants were drawn (Lester, 1999). However issues of credibility, dependability and generalizability were addressed to ensure quality and soundness of the research. Credibility is assurance that the phenomena under investigation have been captured (as opposed to measured) as accurately and comprehensively as possible. Data collection was very detailed through prolonged

engagement of interviewees and information augmented by secondary data obtained from various documents such as annual reports, impact evaluations, brochures etc. The mode of operation was also partly observed amongst self-help groups as they permitted the researcher to sit in during their meetings. A diverse selection of informants within each institution, mostly from different sections, was interviewed to corroborate and confirm data. Tactics such as iterative questioning or restatement of questions in a different way to test the consistency of responses was used. Before commencing with the interview, participants were also given the choice to opt out of interviews if not comfortable with the questioning. This was designed to engender willingness and honest responses to questions as they were not compelled to respond. The diversity of the types of institutions sampled highlighted the variances between them, lending the investigation some generalizability albeit limited to the context under study.

3.6 Ethical considerations

Phenomenological study and analysis requires close and intensive interactive engagement with participating respondents. This is often more intrusive and entails personal interaction than in quantitative research, extending to greater ethical interaction (Steven, 2013). The potential ethical dilemmas in qualitative research relate to the subjective interpretation of the perceptions and insights of respondent participants (Orb, Eisenhauer & Wynaden, 2001). In the financial sector issues of confidentiality of information are at the centre of ethical consideration, however the researchers' subjective interpretation of the perceptions and experiences of informants on issues such as strategic and operational decision making, and organizational performance may also be a dilemma that needs to be acknowledged. It was important to determine areas of non-disclosure with informant organizations and to overtly clarify mutual perceptions and interpretation. The ethical principles and considerations observed were therefore as follows:

(i) Informed consent from the potential respondent organizations was sought and obtained.
(ii) The purpose and data collection process and recognizing the right of the participants to withdraw from participating was explained prior to the commencement of the interview.
(iii) The relationship between the researcher and participants to ensure the balance of power, exclusion of conflict of interests, exploitation or abuse of participants through undue invasiveness, indignity, personal embarrassment, physical discomfort etc., was ensured at all times. The interviews were held at the location of the participants' choice, often at their places of work and /or place of their regular meetings in the case of the informal organizations.
(iv) Possible reactions by participants to interviews such as responding defensively and in justification of past decisions were minimal and these were within acceptable bounds
(v) An undertaking to strictly use the responses for academic purposes only was taken.

Approval to conduct the study was obtained from the Wits University Human Ethics Committee in which an undertaking to uphold all the above stated principles particularly privacy and confidentiality of informants is given. Permission to undertake research was obtained from the organizations prior to data collection. Requests for audio recording of interviews was sought and obtained verbally before

each interview and participants were advised of their right to withdraw from the interview at any given point and time.

3.7 Challenges Encountered

Problems encountered during data collection were mostly delays in making the first contact for individual interviews. Administrative delays in obtaining clearance for ethical considerations due to lack of understanding by organizations of informed consent was a factor. Time commitments of senior personnel and unavoidable interruptions during discussions were a major problem. Audio recordings were problematic in discussions that were held outdoors in self-help community groups which did not have premises. Data collection methods had to deviate from individual interviews for the informal groups as they preferred to be interviewed as groups. This may have to do with lack of confidence in providing the correct responses despite assurance that there are no wrong answers. Institutions documentation of secondary data was disappointing as most offered only advertising brochures and information leaflets.

Data interpretation presented the most serious challenge to the investigation due to the large volume of data that required transcribing and analysing manually. Although time consuming, manually handling the data facilitated close familiarity with it and the researchers' attention was not diverted to computer software issues. The subjectivity in coding decision making embodied in qualitative research is also cumbersome and requires extensive reflection and contemplation that is time consuming.

3.8 Chapter Summary

The chapter is a description of the investigative methodology used beginning with a recap of the research purpose and questions and the suitability of the qualitative methodology to this research. This necessitates a brief analysis of qualitative research in particular phenomenology which is the selected methodological design. The study is a phenomenological investigation of social value creation in the absence of markets and the manner in which financial sector social enterprises mitigate the inherent nature of this environment. This is done by extracting meaning from the experiences and perceptions of individuals involved providing financial social services. Justification for the selected research methodology is also outlined in the chapter as fundamentally an effort to elicit the conceptual reality of the social entrepreneurial environment as opposed to testing existing concepts as these are not yet fully developed in academic discourse.

The purposive sampling data collection process engaged is justified as the need to select responded institutions with diverse experiences hence the sampling of informant institutions which consists of a variety of non-bank financial institutions ranging from large development finance institutions, savings and credit cooperatives to small informal sector savings groups. A total of 9 institutions and 42 informants were interviewed in a combination of individual and group settings, which is adequate for qualitative enquiry as it seeks more in-depth understanding of behaviour than to generalize findings to the population. The composition of candidates interviewed within each institution was outlined as comprising senior personnel conversant with strategic decisions to capture motivations for such decisions. Data collection methods were explained as a dialogue approach between the researcher and participants hence only guiding questions were used in interviews which were audio recorded.

Secondary data was gathered in the form of informative documents. The analysis coding method used to capture and categorize data into meaningful units and the manner in which the results or findings were interpreted to respond to the research questions leading to the formulation of suppositions to achieve the ultimate purpose of the study which is to derive new theoretical perspectives to social entrepreneurship was discussed.

4. SOCIAL ENTERPRISES MISSION

4.1 Introduction

By definition, all social enterprises have social value creation as their core mission either as a way of injecting funds into the excluded populations from external sources or mobilizing savings from the same populations for delayed investment. There is a diverse array of institutional models for financial inclusion as the study shows, using a variety of approaches. An important distinction between the types of enterprises studied is their origin, which determines their specific mission, structural make up and strategic approach, and often guides their evolution and transformation as they mature. The extent or degree to which social enterprises place importance in social value creation is heavily influenced by their historical foundation. This also accounts for significant differences in their strategy, objectives, organizational structures, culture, values, philosophies, processes and procedures embodied within their mission (Certo & Miller, 2008).

Social value creation using economic means implies a sustainable manner of delivering services to the marginalized or excluded and is an important aspect as it enables the enterprise to survive and fulfil its purpose (Ayerbe, 2014). The bias either towards sustainability objectives or social impact objectives may be perceived to determine the motivation and orientation of the social enterprise. Sustainability also implies an economically efficient approach which could be at the expense of the social objective, as it requires a cost recovery strategies often not affordable to the target market. The social enterprises pursue sustainability in different ways and different intensities, and it is important to ascertain whether the manner and the extent to which they do limits social goals differently as well. Such a bias may occur over time as the organization grows and influences its tendency towards corporatization. The prevalence of either features of economically efficient or social mission strategies, structures and operations of the studied organizations were determinant factors in deciding their bias. The study investigated how the different types of enterprises handle the management of the two seemingly conflicting objectives, looking for commonalities, divergences and the challenges that arise if any, and how they are resolved.

The features of social enterprises indicate that they conform or fit along a continuum between a commercial purpose at one end and a social mission at the other. The characteristics of a commercial purpose institution are in contrast to those of a social mission one, which suggests a trade-off between the two.

The chapter presents and analyses the mission of the studied organizations in terms of their fit to the continuum to ascertain their compatibility with their stated social intention as reflected in practical application; the extent to which they can be said to be commercial or social. The chapter firstly lays out the origins of the social enterprises in relation to the way in which they were formed, their original mission and the bias between social and economic efficiency as reflected by the characteristic indicators established in the continuum. This serves to analytically identify the types and models of organizations that optimize social value creation on a sustainable basis.

In order to establish the existence of conflict in the simultaneous management approaches or logics were studied to determine the extent to which enterprises adopted either banking logic or social welfare models.[13] The overlap between the two logics indicates the extent to which an organization is able to strike a balance between the two missions and outside this area is where organizations adopt one approach, abandoning the other. An analysis of the institutions strategic objectives as they evolved and matured shall be made to assess changes that may constitute a drift in their mission, the reasons there-of and its consequences to the original position of the institution.

4.2 The origins and mission of social enterprises

(i) Development Finance Institutions (DFIs)

These are social enterprises initiated to provide development finance on a self-sustainable basis, with initial capital allocated by the government in partnership with private local and international sources of finance which are used to capitalize the enterprise. In Swaziland, DFIs are non-bank financial institutions established at the instance of the Government as public- private sector partnerships. The studied DFIs both maintain government shareholding with a majority shareholding of 80% in DFI A and 39% in DFI B. (DFI Annual Reports, 2015). The founding partners are development investment organizations, one local and the other an international finance corporation both of which participated as a development contribution to the country rather than a rent seeking investment. The development financing mandate was the original and overriding objective in the formation of the DFIs, with the expectation that after the initial capitalization, they will attain financial self-sufficiency from business operations with the developmental activity being sufficiently yielding to cover the costs of operations.

These institutions were commissioned and structured to serve a clientele that has the potential to adequately remunerate them for services rendered, hence a certain level of economic efficiency was expected. The assumption was that some segments of the population were excluded by mainstream financial institutions for reasons other than the capacity to repay. These include information asymmetry, whereby customers such as new business owners do not have banking history in the country, and are not in a position to be informed and navigate the formal financial services landscape. More prevalent among SMMEs is the lack of business financial information due to their inability to keep records. New and small businesses may also lack the amount and type of collateral required by traditional financial institutions. Banks command the largest customer base with 54% of the country's adults holding bank accounts but only 7% have bank loans (Finmark, 2014). The mission of DFI A was specifically to promote entrepreneurship and small business development through access to financial services, whilst that of DFI B was to attract Foreign Direct Investment (FDI) by providing equity and loan finance to large scale new ventures. The mission reflects the social values of serving markets that are under-served and excluded, although the focus of DFIs is generally on those that have the potential to repay and reward the

[13] Battilana & Dorado (2010) distinguish between a developmental or social welfare logic as one that guided NGOs mission to help the poor; and a banking logic that requires profits sufficient to support on-going operations. A fear was that the latter would jeopardize the mission.

institutions. The formation of DFIs is a deliberate policy by the government that directs them to markets deemed to be insufficiently included by mainstream financial institutions and is a social mandate. Although state funded, the expectation of self-sustainability and reward to the social enterprise brings the DFIs closer to the commercial purpose extreme of the continuum. The DFIs employ extensive customer assessment and selection processes to screen for the potential to repay, thereby restricting financial services to the able.

Information Box 1 Historical Mission of DFIs

DFI A was launched in 1995 with the Swaziland government and a local investment company as the main investors with the objective of creating an institution that would provide access to financial services, mainly credit, to small and medium Swazi entrepreneurs. The initial capital base for the institution was E44Million in the local currency. The mandate of the organization is to:

(i) Finance and promote the development of Swazi owned enterprises
(ii) Create jobs and ultimately alleviate poverty
(iii) Provide access to credit for SMMEs
(iv) Support the provision of business advisory services, training, monitoring, technical advice and the development of other products and services for SMMEs ((DFI A Annual Report 2015). (DFI A Annual Report 2015).

The DFI simply makes a credit available to small business people wishing to finance new or existing businesses through a variety of financing options. The DFIs differentiation factor is the waiver of tangible collateral in the form of property and acceptance of movable assets, and its intensive credit appraisal systems.

In tandem, DFI B was established in 1987 to provide similar services in the form of venture capital to foreign direct investors (FDI) mostly large scale industries and property investments that were considered risky as they were mostly new or "green" projects. The main mission is to "mobilize domestic and international resources to ensure that serious entrepreneurs and enterprises are optimally funded to initiate and sustain their businesses." (Brochure, 2015).Initially a wholly Government owned institution, it was revamped and re-invented to give it autonomy and free it from the bureaucracy encountered by the government entity by bringing in non-government investment partners and incorporating it into a company with government and an international development agency as shareholders. The mode of operation for the DFI was to partner with foreign investors by taking up equity in newly established companies and/or providing such companies with long term loans. The strategy of taking up equity was chosen to allow the DFI to participate fully and completely in the company's operations, giving it access and partial control in business management decision making. DFI B was designed to focus on industrialization needs with the realization that large scale manufacturing companies are also an important contribution to economic growth. These were mostly foreign direct investors exploring new projects in a risky market and therefore often side-lined by banking institutions. (*Strategic Plan for DFI B, 2015)*

(ii) Micro-finance Institutions (MFIs)

MFIs refer to financial sector Non-Governmental Organizations (NGOs) that are independently initiated and established by civic society either as country chapters of larger international organizations or emanating from local private individuals. In the

case of the two MFIs under study, they were established at the behest of private sector individuals. The financial exclusion of women and rural micro entrepreneurs prompted the formation of NGO micro-finance institutions which were established and structured for the sole purpose of filling this gap in the market. MFI A was initiated by a local philanthropist in partnership with a commercial bank as part of its corporate social investment (CSI) program, responding to the inability of rural micro entrepreneurs to participate in the financial sector due to lack of acceptable assets to pledge as collateral. Micro entrepreneurs operate mostly in communally owned land which is not acceptable collateral to mainstream financial institutions as it confers only user rights to the owner and has no transferable title, severely limiting its tradability. Most small entrepreneurs are also first time business owners lacking banking history to prove their credit worthiness. Their geographic remoteness to physical financial facilities entrenches their financial exclusion. Although the majority of the population resides in rural areas, densities per area radius are low due to the scattered homesteads settlement model, making financial services branch formation also low, and outreach poor. MFI A boasts of over 10,000 customers located in the rural countryside of Swaziland spread over 300 out of the total 330 chiefdoms. The total fund in outstanding loans is approximately E15 million with loan sizes ranging between E1000-E25000.

MFI B was a began as a part of gender movement to increase access to financial services for women which were deemed to be inequitably accessible to due to a discriminatory marriage act provision which relegated women to a minority status, rendering them unable to unilaterally enter into contracts without the consent of their spouses. Women living in communally owned land are only conferred user rights to land through male kinfolk, not independently and unilaterally. MFI B provides services exclusively to women whilst MFI A is also exclusive to rural persons living in communally owned land known as Swazi Nation Land (SNL). A strong social motive was therefore behind the formation of these organizations and sustainability was a secondary consideration, resulting mainly from the fear of donor dependency and forced upon NGOs when such sources of funds were withdrawn. At the peak of its existence and operations in the 90s the MFI had more than 14,000 members until donors withdrew their support and capital, whereupon membership dwindled down to less than 4000 women today. Savings and loan portfolios also fell significantly from over E6 million and E4 million respectively to less than a million savings today and an almost non-existent loan portfolio. Lending is now confined to funds administered on behalf of other organizations such as the Government Youth Fund and others. The MFI provides services through groups called Local Membership Committed (LMCs) which are located in areas where the MFI is active dispersed countrywide. The number of LMCs has also declined from 38 to about 20 and members within LMCs fell from an average of 30 to 15 and less. Savings collected fell from E10, 000 to E3, 600 per LMC visit. Membership declined from a peak of 18,000 to now 3,600. Membership loyalty is strong due to relationships built over time, unfortunately the MFI can no longer deliver the needed services due to lack of funds.

The history of micro-finance is deeply rooted in such non-profit NGO programs and traditionally dependent on donor or state funding, the rationale being that the services are not affordable to the target group which consisted of the poor. However for a majority of NGOs, programs were threatened with termination when such funds were withdrawn (Rosengard, 2004). In the 1990s, micro-finance NGOs began commercializing operations by implementing banking logic that guided activities

towards making profit to support the continuation of programs (Battilana &, Dorado, 2010). This compelled NGOs to combine the developmental strategic and operational logic of serving the poor and that of profit making for institutional sustainability. Social objectives such as directed services or outreach to the financially excluded would still be maintained albeit on a self-financing basis. Indeed, a new micro-finance rationale emerged suggesting that sustainability of MFIs facilitates increased outreach to the poor, based on the assumption that the poor needed increased access to credit, not necessarily cheap credit (Ek, 2011). Although this shift awarded the NGOs the opportunity to raise funds from the commercial sector, it also made it necessary for them to apply more economically efficient strategies in the provision of services such as charging more market related interest rates and charges, and managing credit risk to minimize repayment default rates. By definition, this meant the imposition of more stringent conditions or requirements for access, which is in conflict with the social mission.

Information Box 2 Historical Mission of MFIs

MFI A was established after an international businessman turned philanthropist received numerous grant requests from rural people to start small businesses. He experienced difficulty in finding a dependable mechanism to screen and select the most deserving people to award assistance and ensuring that funds are applied to their purpose. In 1997 he experimented with a pilot project in one rural community, providing beneficiaries with seed capital for micro income generating projects using traditional administrative structures to identify them and to administer the services. The traditional structures consist of the community chiefdom inner council which is a committee that oversees governance issues of the communities. The rationale was that the committee is the most knowledgeable entity about the community and its people and has the social power to monitor and mobilize repayments. Thereafter he partnered with a local bank to establish the organization, injecting funds to meet both the capital loan base and to meet administrative expenses in full. The program was fully launched in 1999 and is operational in 300 of the total of 330 chiefdoms in the country.

MFI B was initiated by a group of lady bankers who were exposed to the Women's' World Banking (WWB) global organization when in attendance of an international workshop, and they brought the concept back into Swaziland with the intention to establishing a local chapter. Formally launched in 1991, its aim was to address the gap between genders, legal status of women, with the intention by providing access to finance exclusively to women. The envisaged linkage to the WWB failed as the MFI could not meet its requirements, however it continued to establish operations. The MFI has been financed by several international donor organizations in its lifetime, the last of which was the Kellogg Foundation in 2000. The MFI has been self-financing since then with mixed performance. It is a membership based organization that operates countrywide.

(iii) Cooperatives

As in most African countries, the cooperative movement is a deeply entrenched institutional practice dating before independence mostly in the agricultural sector. Cooperatives are perceived as being able to operate in realms not occupied by the private sector and provide livelihoods for the marginalized. They spontaneously arise from the beneficiaries own initiatives and therefore are an integral and natural form of organization next to the family structure (Curl, 2010). Cooperatives in the financial sector respond to the mutual need by its members to obtain financial services outside mainstream financial institutions. Cooperative members fail to individually access the services they need due to the failure of the market mechanism to match supply to demand. Cooperative members comprise of both salaried and unemployed persons, however they opt to collectivize savings and are able to share the benefits of these savings in the form of credit that is significantly cheaper than that offered by service institutions. The failure of the market here lies in the inability of financial institutions to differentiate their products and tailor them to the needs of different segments of the market to poor information. The beginnings of the two selected cooperatives are distinctly divergent in terms of their original purpose and foundations. One cooperative evolved from an employer based Savings and Credit Cooperative Organization (SACCO) whilst the second was established as a facilitator for the initiation of a rural primary savings groups.[14]

The SACCO, one of the oldest savings and credit cooperative was started in 1983 by a group of eleven people as a Christmas savings fund, whereby all loans were repaid and accumulated savings and dividends shared at the end of each year before Christmas. The founders were employees of a large forestry company and for the first few years, the majority of members were these employees and that of a neighbouring fruit canning factory. By 1989, membership had increased to 2200 with a turnover of E843, 930[15] comprising of savings and shares. However, due to a high demand, it soon attracted members from outside the two companies, mostly self-employed individuals seeking to finance their small businesses. A full-time manager had been hired and with the assistance of a USAID project, the scheme was formally expanded to accommodate members joining from the general public and has a fully-fledged secretariat.

The Primary Cooperative is a Christian organization founded in KZN in 1979 and was brought to Swaziland by a philanthropist who happened to be the Minister of Health at the time and a social developer in the country. His purpose was to reduce food security challenges that resulted in escalating malnutrition that he had observed. He was also responding to the over-indebtedness of rural farmers which led to the infamous “grab a cow” saga whereby the local development bank launched a massive debt recovery program from its debtors, taking all movable assets that they owned. The cooperative introduced a concept of saving collectively weekly to avoid borrowing from financial institutions to purchase farm inputs. The Cooperative acts as a facilitator by promoting the establishment of informal cooperative groups in chosen rural localities by training them in group dynamics, savings and credit methods,

[14] SACCOs are cooperatives established for the sole purpose of providing financial services to its members whilst Primary cooperatives are usually multipurpose, established to pursue income generating activities with the savings and credit as one of its component.

[15] This is approximately US$60,000 today

financial management and further providing mentor-ship and advice as the group forms itself, assisting it with record keeping, conducting meetings and information. The project was successfully piloted in 1982 at one rural location and has since been replicated countrywide and close to a thousand cooperative groups with an average of 20 members per group have cumulatively been established. The purpose of Primary Cooperative is to promote savings in communities by supporting the establishment of community based cooperative groups in the rural areas. The intention of the community cooperatives is mutual beneficiation through collectively accumulating saving for predetermined activities such as procurement of farm inputs. Collective effort enhances the capacity of rural communities to procure farm inputs during the planting season and avoid borrowing from external sources as their slogan "don't owe anybody but yourselves" testifies.

Cooperatives are without question socially oriented in terms of their original mission, structure and outlook. The model has however been slightly altered from the original or earlier cooperatives of the 1960s and 70s. Originally cooperatives were collected around a tangible multipurpose activity such as the procurement of inputs and /or an income generating project. The savings and credit was usually a small component of the cooperative activity, established to support the main or core project. Lately, the savings and credit component has become more dominant and taken precedence over the primary projects. A significant number of cooperative groups are now solely established to conduct the business of providing savings and credit to their members and income generating activities are secondary and can either be on an individual basis or done collectively. They are termed primary because they are grassroots based with members mostly outside wage employment. There is a large number (167) of registered primary societies, but activity has been declining substantially over the years such that half of these are deemed to be non-active and membership is at a low 3,500. There are far more informal unregistered rural groups that operate as cooperatives, engaged in savings, credit, burial schemes and income generating activities.

On the other hand, the SACCO model consists of members are mostly salaried and rely on stop orders over salaries for all payments or transactions. SACCOs though fewer in number (92) dominate the cooperative movement with 47% (43,000) membership followed by crop production cooperatives with 33% members. The financial savings of SACCOS is also bigger at 980 million (TOS, May 2016) Emalangeni whilst that of primary cooperatives is less than a hundred million. The largest SACCO in the country is the Swaziland National Association of Teachers, both in terms of numbers and turnover followed by the Swaziland National Association of Civil Servants. Other significantly large SACCOs are those formed by armed forces such as the Swaziland Royal Police, the Swaziland Royal Defence Force.

Salaried persons are considered to be and classified as a bankable segment of the population as they have access to financial institutions are therefore do not strictly qualify as recipients for social services. The advent of SACCOs which comprise of salaried persons demonstrates that despite a historical social mission, cooperatives now extend over both the banked and unbanked. The cooperative movement in the country is completely dominated by SACCOs, overshadowing the more socially oriented primary cooperatives, raising the question of whether the model is suited to the social mission. The cooperative model is by design financially self-contained as

and liabilities generated and losses made are distributed between members. Administration and operational costs are minimal as members tend to assume most of the responsibilities through committees and lending selection / screening is based on members' savings rather than appraisals. This allows the organization to charge very low interest and other service fees to its members, and this is the main advantage of the model. Theoretically, sustainability is guaranteed as the mission is centred on limiting borrowings to mutual savings and the cooperative groups were structured to fit that concept. However, the investigated SACCO began incurring losses when it opened up to accept membership from unsalaried individuals due to high loan default rates and poor investment of excess funds. This was essentially a transformation from a banked market to an unbanked or a move from a more economically efficient mission to a social one, and it resulted in a less sustainable position.

(iv) Informal groups

Informal sector actors depend on a variety of providers including moneylenders, formal institutions, input suppliers, Rotating Savings and Credit Associations (ROSCAs) and Accumulation of Savings and Credit Associations (ASCAs) for financial services[16]. Almost 100,000 individuals are estimated to obtain credit from informal sources with an average loan size of E550, which means about E55 million or 1% of total personal loans issued in the country. 44% of adults in Swaziland have bank accounts, however, only about 7 % obtain credit from these institutions. 25% save in the informal financial sector groups and 19% obtain credit from the same. (Finmark Trust, 2014).

There exists a plethora of ROSCAs and ASCAs, which are small unregistered savings and credit groups that are independently initiated and operated by members. The objectives of informal financial services groups depends on the desires of the members and ranges from collective saving for a specific period, savings for specific purposes such as burials, mutual savings and lending, to saving in order to start income generating projects. The overall mission though often not formally stated, is enhancing access to financial services for group members who are under-provided by the formal sector institutions. It is important to state that informal financial service organizations in the country comprise almost exclusively of women. The study did not encounter any men's' groups. ROSCAs and ASCAs occur across the banked and unbanked as such groups also exist among the employed. The groups studied consist of two rural based community self-help groups and one employee based ASCA. The self- help groups comprise women at grassroots level, located in the poorest regions of the country, who collectively save very small amounts on a weekly basis and borrow from the same savings fund. The ASCA on the other hand consists of staff members of a company who collectively save a portion of their salaries which is lent out to members during the course of the year and shared out with accumulated interest at the end of the year. Both groups are self-sustainable albeit at different levels of turnover reflecting the variations of incomes between the groups with wage earning members and rural based groups. The most striking feature of informal groups is the trans-formative potential embodied in nature of the groupings as it is a highly

[16] ROSCA is whereby members pool their saving, (usually an equal amount) together and immediately redistribute them to each other in rotation. The time span depends on the number of members but does not usually exceed 12 months. If for instance there are 6 members, each member would receive the total saving every sixth month. In an ASCA, the pooled savings are kept and accumulated for a specific time, usually a year, after-which they are distributed.

participatory approach and. External intervention is limited to a facilitator role and capacity building through training and mentor-ship, and occasional grants from donors. Self-Help Groups are initiated by various NGO organizations which are funded by the international German Christian NGO to do so. They send a field officer into poor communities to mobilize individuals interested in saving. The field officer assists in group formation and structuring after-which the established group formulates its own strategy and operating policies, depending on what their capabilities are in terms of generating savings and doing other projects.

Information Box 3 Origins of informal rural groups

The study collected information from three informal groups of which two are self-help savings and credit groups comprising of rural based unemployed women and the third is a work based scheme consisting of individuals employed by a single company. The Self Help Group (SHG) concept was initiated by Kindernothilfe, a German Christian NGO founded in 1959 with the aim of supporting needy children in India. It has expanded globally and increased its support activities to encompass marginalized people including women and youth. Since it began working with the SHG approach for women, the Kindernothilfe has benefited over 600,000 women in Africa and Latin America. The SHG is a methodology which works by providing women who are living in abject poverty "with tools for changing their lives based on their own priority needs at their own pace" (SHG Manual, 2014, p.7). The SHG is a holistic approach that aims to change the beneficiary's attitudes, making them believe in their own potential through active participation in forums and spheres that affect their lives instead of passive subjects or victims, thereby reclaiming their rightful place in society. It targets people living in a state of despair brought about by various factors such as political conflict or extreme disaster conditions such as extreme drought conditions.
The methodology focuses on socioeconomic empowerment of women to capacitate them to realize their own worth and ability to transform themselves and their environment, and exploit the right to link to relevant stakeholders at all levels to resolve their issues. The SHG promotes three dimensions, the economic dimension pursued through mutual trust, participation and creativity. The social dimension is promoted through affinity, trust, participation and mutual responsibility whilst the political dimension principles are independence and involvement. Towards the achievement of these, the concept encourages the groups to established savings schemes, collective discussion of social problems, and taking up of community issues of concern to work together towards solutions.
In Swaziland, Kindernothilfe uses several NGOs to facilitate the formation of these groups, however, once established, they operate autonomously with the facilitating NGO field officer only serving as an observer and providing trouble shooting support.

4.3 Mission analysis

The mission of any social enterprise is reflected in its stated purpose, the target group selection and sources of finance. Social enterprises demonstrate by their stated intention whether they will direct their services to social value creation, expressly stating the intention to increase financial inclusion. Target group selection, sources of finance and ownership of the social enterprise, whether private or mobilized from government, whether as grants or loans to be repaid also indicate a social or economic mission. The table below analyses these variables for the studied enterprises.

Table 4 Mission Indicator Variables by Type of Enterprise

Variable	DFIs	MFIs	Cooperatives	Informal Groups
Stated Purpose	○ To improve access to finance by SMMEs in order to promote entrepreneurship in the country ○ To promote FDI by providing access to finance for new large scale businesses	To reduce poverty levels among the marginalized poor by increasing access to finance	To promote savings accumulation among member for mutual beneficiation through subsidized loans	To promote shared savings and collective resolution of socioeconomic challenges
Target Group	○ Large scale Green projects ○ Registered SMMEs ○ Micro-scale market traders with a fixed location ○ DFI A has 58% women ○ DFI B customers mostly male ○ Salaried persons	○ Economically active poor ○ Women (80%) ○ Rural poor population ○ Small subsistence farmers ○ Informal traders Hawkers	○ Business owners ○ Civil servants ○ Pensioners ○ Company employees ○ Smallholder rural farmers ○ Rural based salaried employees	○ The rural poor ○ Employed persons ○ Casual workers ○ 95% women members
Sources of finance	○ Private capital markets ○ Government ○ Revenue from charges	○ Donors ○ Revenue from charges	○ Members contributions ○ Revenue from charges ○ Donors	○ Members contributions ○ Income from fees

				and interest charges
Ownership	○ Government ○ Government and private sector combination	○ Philanthropists ○ NGOs	Members mutual funds	Members mutual funds
Performance Measurement Tools	○ External Audit ○ Internal institutional reports ○ One impact evaluation	○ External Audit ○ Internal institutional reports ○ One impact evaluation	○ External independent audits ○ Financial reports	Financial reports

(i) The target market

The heterogeneity of marginalized populations is poignantly evident in the distribution of customers served by the different social enterprises. DFIs target more commercial customers in the form of large scale new businesses, SMMEs and commercial farmers associations. They are followed by MFIs who target the poor but categorically state that the potential customers must be "poor but economically active". The MFIs define the poor as persons and/or households without a discernible and consistent source of income or livelihood. Being poor but economically active requires them to be engaged in or be poised to start tangible commercial activity for eligibility to financial services. This would be the activity that the MFI would financially support to either initiate or to succeed. These social enterprises also enjoy external injections of capital at establishment from either the government, donors or the private sector and their mandate is shaped by these contributors. MFIs remain faithful to the target of excluded as shown by their sensitivity to the gender and rural-urban divide. MFI A boast of 75% women customers and more than 95% are rural based. MFI B customers are generally women and 90% of the LMCs are in the rural areas. DFIs in contrast, are more urban oriented and are less gender conscious. The social mandate or mission is therefore more narrowly defined and restricted with the DFIs, reflecting a more commercial approach. The reasons maybe that DFIs are government initiated institutions provided with initial share capital to establish themselves with the explicit expectation that future operations will be financed from commercial activities. They therefore establish stricter customer selection principles from the on-set. Micro-finance institutions are initiated by donors who also provide capital for initial operations, normally with a poverty alleviation mandate and condition. When donors withdraw funding, leaving the NGO to fend for itself, it is compelled to generate income from its operations, and become more selective in choosing customers. Membership based enterprises such as cooperatives and informal groups have a wider range and type of beneficiaries as membership eligibility is more dependent on the ability to contribute to the common pool. A combination of unbanked and banked individuals are found within cooperatives, with banked persons more common in SACCOs than in primary cooperatives. More than 60% of the members of the SACCO are civil servants and company employees. A very small proportion of the Primary cooperative members (less than 10%) are salaried individuals with most of them being rural subsistence farmers. The cooperative model has two typologies, with the primary cooperatives more inclined to serving the excluded than the SACCO typology.

Information Box 4 The target market and marginalization

The DFIs also exhibit an urban bias in the provision of services as opposed to a rural orientation, bringing into question their purported social mission. DFI A in particular, whose articulated mission is strongly pro-poor, reports that 77% of its customers are in the urban regions of Hhohho and Manzini, whilst the balance is in the rural and impoverished regions of Lubombo and Shiselweni. This urban bias is attributable to poor economic opportunities in the rural areas resulting in a low demand for financial services. DFIs also report a higher risk in serving the rural areas due to poor demand information on one hand and on the other,

the impact evaluation on DFI A reports a poor flow of supply information from the DFI to the rural communities. The DFI also reports that urban based micro businesses operated by the marginalized and poor, are more organized and the customers more manageable as they tend to be clustered in accessible locations. They consist mainly of market vendors provided sheltered stalls by the municipality in fixed locations or small businesses also provided working factory space by the Small Enterprise Development Company (SEDCO), a Government funded development agency.

Attempts to mitigate poor rural outreach are being made through decentralization of branches and deployment of field officers by region however this has not been sufficient to increase the rural customer base. The re-introduction of collateral requirements is also perceived to have alienated rural and poor customers as collateral is said to be one of the most significant accessibility challenges. Rural communities reside on communally owned land that cannot be used as collateral. The poor do not have accumulated savings that they can put up towards the required security deposit as they are unemployed. However, the DFIs were compelled to re-introduce part collateral due to a high level of loan defaults which resulted from lack of commitment by customers who, having not contributed to the businesses, simply failed to exert the effort necessary for their success. The DFIs opinion is that loan products where an expectation of repayment is assumed are not for the very poor who do not have such savings or the ability to put up partial collateral. Poverty beyond this ability qualifies only for grants or purely philanthropic support, not lending products.

The history of DFI B is rooted in the support of large scale urban oriented businesses and this mandate is criticized for its inadequate power or perceived lack of direct impact to the SMME sector which is seen as the potential inclusive growth factor in the economy. The incorporation of new private sector shareholders has heightened this perception; in particular the reluctance of private shareholders to support green projects, and the Government has revived the previous entity from which the DFI was established to fill this gap in the social mandate and mission. DFI A has also established a subsidiary company that solely provides retail lending to salaried individuals using standing debit order arrangements with employers for debt collection and as a safeguard against defaults. These individuals are not marginalized from mainstream financial institutions and yet they now comprise more than 60% of the DFI portfolio. This has somewhat diluted the social mandate of the DFI and it is perceived to have diverted its resources from the poor and disadvantaged.

The MFIs are overtly and deliberately designed and structured to fulfil a social mandate of financial inclusion, targeting those deemed to be excluded by mainstream agencies. The purpose of the fund established by MFI A is to provide seed capital for income generating projects to the unbanked rural communities in order to promote entrepreneurial activity towards the eradication of poverty. Customers are market women, hawkers, small farmers etc. both new and existing micro business operators. The rural urban divide is highlighted by the use of traditional authority structures to implement the program. The effect of these authorities is weaker in urban areas hence although the MFI avails itself to the urban poor, people do not attend meetings as the traditional structure are weak and "artificial" such that allegiance is not strong. The target market is also delineated by the maximum loan amounts which are small and not attractive to medium and large scale entrepreneurs. For instance, despite a non-gender biased approach, women comprise more than 75% of MFI A customers as men consider the lending amounts to be too little. Men and the youth tend to shun associations preferring to work as individuals thereby failing to take advantage of collective borrowing and saving. MFI B has also relaxed it gender exclusivity policy,

allowing men to participate in savings groups. Men can only be eligible if they join a group and can only save, not borrow. More than 70% members are women engaged in micro businesses such as hawking, market women, poultry producers and garden projects. The NGO does not discriminate between rural and urban but out of a total of 36 LMCs, only three are urban. The MFIs remains within the social value creation mission as they serve mostly marginalized women.

(ii) Sources of finance

Social enterprises funded by the government and/or the private sector have a higher turnover and asset base and are more commercially oriented and sustainable. DFIs are followed by wage based SACCOs and donor funded MFIs with rural primary cooperatives and self-help informal groups having the lowest turnovers s depicted in Table 4.2. This is indicative of two things. Firstly, external funding is crucial in determining level of organizational operations, and secondly, constant and consistent income flows among members also contributes to the size of operations. DFI A was established on a foundation of a hefty grant of E44 million from an international donor, and DFI B also relied on concessionary financing for a significant number of years. Both DFIs are self-financing whilst none of the MFIs have attained full sustainability. Self-reliant rural groups without any external assistance generate very little income and it takes them a long time to expand operations. The interviewed groups have disbanded and regrouped at least once since inception due to inadequate funds. The turnover for MFI B was much higher before donor funds were withdrawn but shrunk post donor funding. In terms of the mission, enterprises with external funding are usually tasked by the financiers a specific mission and dictated the mode of operation. MFI B is partly philanthropic at the influence of the founder and financier and has avoided the objective of sustainability.

Table 5 Estimated Average Annual Turnover by Social Enterprise[17]

Social enterprise	Average turnover
DFI A	E1billion
DFI B	E45 million
MFIA	E2million
MFI B	E600,000
SACCO	E3 million
Primary Cooperatives	E500,000
Informal Groups	E30,000

(iii) Measures of performance

[17] Turnover for DFIs was estimated from financial statements contained in their annual reports for the years 2014 and 2015. The figures for the MFIs, SACCO and Cooperatives were verbally obtained from interviews. Informal group amounts were calculated on the basis of inclusive contributions made per week by each member (E56) and an average membership of 11 members was assumed.

Impact evaluations which are most likely to distinguish between social and economic impact are very rarely undertaken by social enterprises. The formally registered social enterprises are compelled to conduct external independent annual audits and most generate lending portfolio reports on a regular basis as part of the monitoring process. Although conscious of the social mandates, social enterprises do not have tools to measure adherence to it but rather they measure economic efficiency using financial independent audits and reports. The reason is simply that in the failure to apply standardized and well developed measures of social impact, it is difficult for social enterprises to measure their social performance and it is easier to adopt financial performance indicators as they all keep accounting and financial records of performance and compile annual reports that consist of financial reports. This means that the performance of social mandate is not adequately measured yet it is the reason for the existence of the social enterprises. All the studied DFIs, MFIs and Cooperatives compile annual financial reports and informal enterprises keep rudimentary financial records, but only DFI A had recently completed an impact evaluation and MFI A was in the process of conducting one after a close to ten year gap since the previous evaluation. Using financial measures of performance influences the social enterprises to adopt a commercial bias as they base their future strategies on financial indicators.

(iv) The structure of social enterprises

The differences between the social enterprises here also revolve around customer and membership orientation. Customer oriented organizations restrict their missions to the provision of financial services and business advisory services. Membership based enterprises may collectivize around financial services but are also more likely to operate group income generating projects and this enhances their capacity to effect socioeconomic transformation. A significant number of primary cooperative groups have for instance successfully embarked on community based businesses such as maize milling, farming input supply, consumer shops, tractor hire services and others. Membership based enterprises also have more participatory governance structures, with representations at board level and often in operations as well, particularly in smaller informal groups. A member of SHG A said:

"There is no committee or permanent responsibilities portfolios here. The group meets once a week and the member who offers a word of prayer collects contributions and these are distributed as loans in the same meeting. This responsibility rotates every week."

A participant from the Primary cooperatives mother body also informed the study that:

"Groups are encouraged to make their own rules."

In the primary cooperative groups, this has generates positive multiplier effects as members and their families are also employed in the income projects, effecting long lasting socio-economic impact. This has created employment opportunities in the communities and uplifted standards of living for members. DFIs and MFIs are customer oriented whilst cooperatives and informal groups are membership based.

4.4 The management of conflicting economic and social objectives

Social enterprises in their mission seek to combine and strike a balance between two institutional logics, that of commercial banking in order to be sustainable, and that of social welfare or development in order to serve the poor or underserved (Battialano et al, 2010). In essence, they are hybrid in design and therefore they attempt to concurrently implement two managerial styles. The study sought to assess the way in which they are able to harmoniously reconcile these managerial approaches without encountering debilitating conflict and tension. The indicated differences between a developmental and commercial management approach are numerous but the decisive variances relate to the risk orientation, lending methodologies and products offered.

Socially oriented organizations reflect values that emphasize more support and assistance for financially excluded in their stated missions and follow through with appropriate strategies, objectives and business models. DFI B stated that:

"The reason to introduce SMME lending is that DFI B was too detached from local business. Political pressure compelled this shift. Despite creating employment we were deemed to be neglecting the local population. However the SMME portfolio is also profitable."

They therefore exhibit more empathetic values, assume a more participatory and advisory stance than corporates which espouse values that show more competitiveness and reward orientation (Dolnicar, 2008). At MFI A the respondent stated that:

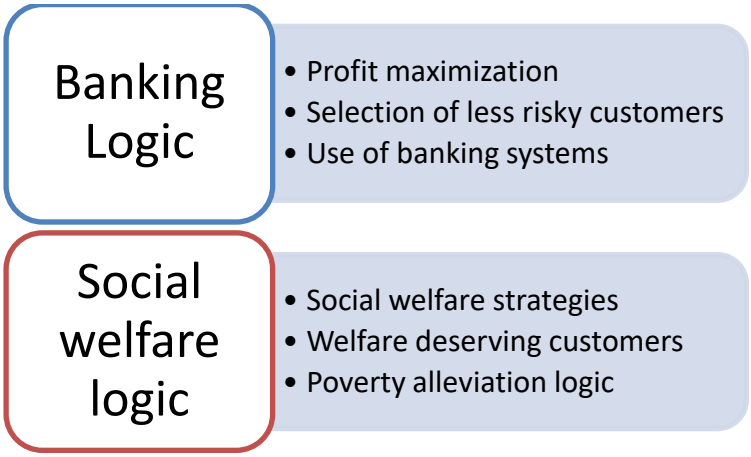
"Organizational sustainability is not an issue as the MFI is purely philanthropic. Social value creation is the only and ultimate objective. The repayment rate is between 40-76%. Peer pressure and social collateral are used to motivate repayment and dissuade misuse and misapplication of funds. The MFI promoter fears that a sustainability objective would lead to mission drift as grassroots projects are risky. "

The common denominator for the different organizational typologies studied is their service of under-served markets, albeit different types of customers and approaches, and their missions reflect this. However, their strategic objectives and choice of specific markets within the excluded population begin to show their varying levels of focus on sustainability versus social focus. This cascades into their implementation business models adopted and maybe an indication of their commercial and social orientation.

The realm of social entrepreneurship is somewhere between banking logic and social welfare approach, whether it is social welfare implemented on a sustainable basis or commercial entrepreneurship conducted on a developmental footing. Figure 3 shows the strategic logic of approaches and their sustainability and mission drift implications. The overlap reflects the balance that social enterprises need to strike in order to minimize mission drift and earn sufficient returns to sustain the organization.

The extent to which social enterprises remain in the overlap in terms of their objectives and activities is indication of their ability to strike this balance.

Figure 3 Banking logic and social welfare attributes of social enterprises



Source: Adapted from Battilana & Dorado, 2010

Table 3 presents the stated strategic objectives of the studied social enterprises as representing their attributes of and these are scrutinized to assess the position of the organization in balancing the banking and welfare approaches to management. This will also establish if there is conflict between the use of commercial strategies for sustainability and the social mission. The profit motive was identified as a strong determinant in the strategic objectives as an indicator of social welfare or banking logic.

Table 6 Strategic Objectives of Social Enterprises Studied by Type of Enterprise

Institution	Objectives
DFIs	○ To finance and promote the development of Swazi owned enterprises ○ To facilitate the expansion of loan financing to SMMEs ○ To provide general purpose loans to SMEs, monitoring, technical transfers and product development ○ To facilitate access to institutional development services and increase the long term capacities of Swazi owned enterprises ○ To increase access to finance for new businesses by providing venture capital ○ To be the first stop for foreign direct investment
MFIs	○ To provide seed capital for income generating projects to the unbanked rural communities in order to promote entrepreneurial activity towards the eradication of poverty. ○ To increase access to financial services for Swazi women
The Cooperatives	○ To facilitate collective savings accumulation ○ To provide members with affordable loans using savings for enterprise development and other general purposes ○ To embark on collective income generating activities for the benefit of members
Informal Groups	○ To facilitate collective savings accumulation

	○ To provide members with affordable loans using savings for enterprise development and other general purposes

Sources: Annual report (2015) for DFI A; Strategic Plan (2015) DFI B; Interviews with MFI B; Advertising Brochure from MFI B; Notes from interviews with the SACCO, Primary Cooperative and informal groups.

In managing risk, commercially logical institutions are perceived to be more stringent than development institutions, therefore commercially oriented social enterprises are stricter and more rigid in their customer selection, loan appraisal and repayment processes. They are also circumspect in their allocation and disbursement of financial resources, hiring more banking technocrats than socially skilled personnel. The products and services offered are more tailored are standardized in a traditionally accepted manner and suited to large individual customers that are normally preferred by commercial banks. Services are demand led and not necessarily directed to special segments of the society. Conflict may also arise in the application of funds decisions, the choice of products and services offered, whereby management may direct funds to the most rewarding activities instead of areas of most social need. Commercial logic is motivated by the profit motive and the drive for sustainability by social enterprises engenders the same behaviour. Actions by the studied organizations that may be construed as profit driven include retail lending, charging market related interest rates and other fees, selecting only customers with collateral, urban bias, bias to existing businesses, bias to large businesses etc.

DFIs are profit oriented institutions by design and implementation having consistently making profit over the years. In 2015 this was at E25million (DFI A annual report, 2015) and almost entirely accruing from the retail lending subsidiary whilst the development wing oscillates between break-even and making losses. Similarly, DFI B hold assets to the healthy tune of E550 million. They minimize loan default rates by implementing rigorous customer selection criteria, have a decidedly urban bias with more than 77% of DFI A clientele being urban based whilst that of DFI B is even higher at 90%. Profit making as opposed to profit maximization seems to be an important distinction in strategy formulation and operational decision making among DFIs. DFI A is profit making but not overly concerned with maximization as it is wholly owned by the government which does not make undue dividend demands. DFI B on the other hand is under pressure from private shareholders to focus on profit maximizing activities. The profit drivers are evidently in conflict with the beneficiation of customers as they deprive customers through more stringent selection and increased service fees, and is therefore in conflict with the social mission.

The DFIs purport to be opportunistic to demand, regardless of the mandate, as shown by the retail lending subsidiary initiated and operated by DFI A. It has compartmentalized the activities by establishing a separate subsidiary which is fully commercial and is managed as a profit maximizing entity. The developmental wing is also managed as such, and this avoids conflict in missions and operations. Customers of the development section are SMMEs and considered riskier than those of the subsidiary who are civil servants and employees of companies and semi-government institutions. Loan application and selection processes, monitoring for development customers is more expansive and the interaction between the DFI and customers more intensive, involving project site visits, data gathering and business plans

documentation and regular physical monitoring of financed businesses. Retail lending is much simpler and based entirely on the wage earning capacity of customers and stop order arrangements for repayment, requiring only one visit to the institutions by the customer. However, at the strategic level, conflict arises in the financing decisions of the DFI which is also demand led resulting in a higher level of funding to the retail lending sector which is highly demanded. The DFI however argues that this is not done at the expense or detriment of development lending whose demand is low due to a low level of entrepreneurship in the country, resulting in too few viable business projects.

DFI B is struggling to decide between its social and economic mandates after altering the ownership structure to include private sector shareholders. Although the stated mission of the institution has not been altered, local private sector shareholding seems to have altered the actual agenda of the DFI towards a more commercial attitude. It is more preoccupied about returns to investments, competitiveness in the market and finding financially sustainable product lines as opposed to fulfilling its development mandate. Private shareholders are keen to exploit the more lucrative property investments and disinterested in making investments in emerging sectors such as SMME and commercial agriculture despite the dwindling FDI investment opportunities. Operationally, DFI B is also rigidly adhering to traditional credit management styles that were applied to large scale venture capital business projects whereby loan application turnaround times could take up to three months as due diligence requirements ties down the processes, and this is disadvantageous to development businesses where opportunities are highly changeable.

Overall, although DFIs are established to fulfil a social mission, they tend to drift from riskier customers to less risky areas by commercializing some of their activities. Low risk customers are sought in the interest of institutional cost recovery and survival. Conflict between the social and economic mandates is identifiable in the competition for organizational resources as they are applied to commercial activities instead of the less rewarding social mandate.

Although unable to state the percentage, both MFIs reported a sustainability of well below a hundred percent during the interviews. In their stipulated objectives and management approach, MFIs show a bias towards poverty eradication and a sharper focus on marginalized populations comprising the rural poor and women. Self-sustainability for MFIs seems to have been an afterthought that becomes a consideration when donor funds disappear or in case they have to be self-financing. Profitability has never been a consideration although sustainability is considered desirable by MFI B, whilst MFI B is not yet concerned with being self-sufficient as it remains donor funded. After donor funds, MFI B is finding it insurmountably difficult to transform is policies and strategies to a more commercial approach. Fees are arbitrarily established and lending conditions are determined by donors for administered funds. Banking management logic in MFIs is minimal and only prompted by problems encountered in operations such as escalating loan defaults or declining sources of funds. MFI A was compelled to narrow its selection criteria to the economically active poor when loan repayments fell beyond acceptable levels. This is in conflict with the social mandate as it excludes the poorest of the poor but is necessary to keep the MFI financially afloat. MFI B has reduced the leverage of borrowings on savings from five times to three times in the realization that this was not an adequate deterrent to default and not enough to commit borrowers to repay.

The change may not necessarily be compatible with social welfare motivations however it is not necessarily a negative attribute as it lends MFIs the flexibility and adaptability needed and reflects the nature of the market they serve. Although the mission has not changed, MFIs are better able to evolve their strategic thrust to suit the environmental conditions of the time. It has served MFI B well as it evolved out of donor funding to adjust to self-financing, enabling it to accept and accommodate new products such as administered funds. The social welfare approach adopted by MFIs has evidently had a negative effect on organizational sustainability whilst more commercially oriented DFIs are more sustainable, an indication of a trade-off between the two strategic and managerial approaches.

Cooperatives and informal group models are also more driven by the need to provide their members with cheap and easily accessible services than to generate profits or dividends from their actions. Their objectives reflect that their main area of focus is the savings accumulation without which the organizations would not survive. Interest rates are highly subsidized and all members qualify equally for services, depending on their level of contribution. The notion of profit generation is secondary and more incidental as service provision is central to all activities. In order to generate profit, cooperatives often create separate activity portfolios such as economic investments in non-financial sectors. The SACCO invested heavily in property and currently owns a shopping mall from which it derives income to meet administration expenses. The rural cooperative groups under the primary cooperative often have several savings products one of which becomes special savings to initiate and run special income generating projects. Most groups have initiated small enterprises such as hammer mills, farm sheds, tractor hire services and rural hardware shops. ROSCAs and ASCAs are principally focussed on increasing the pool of savings collectively accumulated and usually charge very low interest (on average 10%) that is arbitrarily set jointly and the proceeds are shared either equally or depend on members level of borrowing activity during the course of the year.

The SACCOs early success attracted a large number of customers including small business persons who saved large amounts of money and in turn demanded larger loans. The portfolio of company employees was soon overtaken by self- employed members of the public. The cooperative was carried by the momentum of the demand it faced without an adequately articulated mission. Members benefited through very low interest rates on personal loans which they could apply to any purpose. The cooperative was run from company premises using company resources at no cost. Eventually it grew big enough to warrant and afford full-time staff and the company donated separate premises to the cooperative. The cooperative sought for investments for excess funds accumulated and bought three properties, and also invested funds in a South African company. Accepting membership from members of the general public led to the creation of physical branches in two towns outside the company premises to service the other members. The cooperative began experiencing financial difficulties due to low repayment rates by the members outside the company and due to liquidity problems created by locking excess funds into long term investments such as property. The investments made in money markets also did not pan out as the largest investment turned out to be a pyramid scheme, which resulted in heavy losses. The cooperative became insolvent and was forced to substantially scale down operations and liquidate some of the property investments. It is currently operating from the only remaining property and is struggling to pay off its debts. A conflict between an economically efficient model that serves the banked and expanding to accommodate

the unbanked general public clearly manifested in sustainability problems for the SACCO.

On the other hand, the primary cooperative groups have relatively succeeded as the rural groups are all designed to be financially self- sustaining and any growth is never achieved through debt but through the members' contributions or grants where available. Loan defaults are minimal as the amounts involved are small and lending is done cautiously with members' shares and savings covering a significant portion of the loan. Some groups have grown and registered as formal credit and savings cooperatives and others remain informal whilst operating as cooperatives. Some have successfully ventured into collective income generating activities by using their savings and external grants.

All indications are that conflicts between the social and economic objectives exist and they point to a trade- off relationship. Hybrid organizations such as social enterprises must be alert to this relationship and always make decisions and choices that will strike a balance between the two missions that will benefit customers whilst keeping the organizations financially afloat.

Information Box 5 Management of the social and economic mandates

The management of both mandates is manifest at DFI B where respondents viewed the rift between the aspirations and objectives of the diverse shareholders as contributing to the stagnation of the institution. Decision making and strategy formulation was somewhat stalled as government interests were not in tandem with the interests of the private sector shareholders who were reportedly keen on profit maximization and cost containment whilst the government aspirations are more developmental and wishes to see the DFI being more visible in activities designed to improve the welfare of the economy rather than that of shareholders only. Specifically, private sector shareholders wish to focus on the more lucrative property development projects instead of the more developmental green projects or SMME activity. The DFI is faced with the conundrum whereby they need to find competitive products that fulfil both social and economic objectives to meet the expectations of all the shareholders.

Similarly DFI A is faced with a rapidly expanding demand for the retail lending product which whilst not strictly within the mandate given to the institution by the shareholders, has become the dominant activity in terms of turnover. Management spends an inordinate amount of time and effort in mobilizing resources to facilitate this expansion. However the management structure of the institution indicates a dedication of human resources that is more biased towards development lending and the DFI purports to fulfil all the demands of the social mandate which is sluggish due to poor business opportunities in general, not due to inadequate access to finance. Although a substantial number of people aspire to do business, the entrepreneurial environment in terms of individuals' aptitudes and capabilities, the market environment and other factors, the number of potentially viable businesses is small. Management therefore pursues both commercial and development finance for sustainability and mandate reasons and this is done reasonably well.

4.5 On Mission Drift

4.5.1 Crowding out the marginalized

There is a high level of women beneficiaries among MFIs and even when retail lending is pursued, and that of rural populations and casual workers, whilst DFIs are strictly focused on employees who are permanently employed in reputable and solid companies or the government and even enters into a binding repayment arrangement through the employer. The higher outreach to women and rural populations entrenches the comparatively higher focus of MFIs on the social mandate than DFIs as these are among the most marginalized categories. However, the selection of economically active marginalized may indicate a crowding out of the poorest of the poor. Social enterprises opinion that the economically inactive are candidates for charitable donations rather than financial services. The financial inclusion mission is aimed at reducing poverty and uplifting living standards for all, without distinction, therefore the MFI action constitutes mission drift.

Cooperatives and informal groups are basically self-initiatives that are intended and designed to benefit members mainly through postponed consumption thereby accumulating savings that can be used to buy expensive items or for special expenditure occasions. SACCOs operate outside the social inclusion mandate as most of their customers are formal sector wage earners. Informal groups consist may also be constituted by salaried persons or the unemployed. The latter groups are usually rural based women's' savings and credit organizations with a very small collective turnover whilst the formal groups have a more substantial turnover. The groups are transient and with very limited prospects of growth and permanency although some may operate for several years. The groups determine the financial size on the basis of the ability of members and develop at their own pace. On the other hand, lack of external injection of funds limit their progress. Groups that manage to mobilize external funds especially grants, have managed to grow and diversify their collective income generating activities. Therefore, although the groups are self-sufficient, their impact is most likely to be limited due to low savings mobilization.

4.5.2 Transformation of social enterprises and mission drift

Changes in the stated mission overtime may be an indicator of changes in the organizational mandate away from a social enterprise into a commercially oriented institution. Missions, values and strategic objectives may in response to financial sustainability demands, be articulated to skew the intentions towards the creation of private value more than that of social value. These have been inspected for either social or commercial bias of the organizations. Table 4.3 shows some of the important changes that have occurred in the social enterprises overtime

The stated mission of the social enterprises has not been altered substantively overtime but it is evident that strategic shifts occur continuously in response to changes in the market and most of the adjustments made are aimed at ensuring the financial survival of the organizations. The study investigated them in terms of the specific goals, products, processes, target group, governance, philosophies, structures, skills, specific functions, competitive posturing etc., to ascertain changes in the definitive identity of the institutions. Institutions begin to attract private capital, profit oriented, attract wealthier customers and lesser poor customers.

All the institutions have evolved and changed in response to changes in the market environment overtime. The study focused on those changes that alter the institution such that it compromised the original social mission and altered the identity of the institution.

Table 7 Salient Institutional Changes Overtime by Enterprise

Social enterprise	Strategic Changes overtime
DFI A	○ The DFI was initially a wholesale source of capital for smaller lending institutions but later changed to direct lending. ○ The biggest change made was the creation of a subsidiary providing more profit oriented retail lending / general purpose loans to salaried persons. This now comprises more than 60% of the total loan portfolio ○ Introduction of a special loan product for micro enterprise development ○ Attracted private sources of capital
DFI B	○ The loss of international investors resulted in a dilution of ownership from government and development financiers to government and private sector investors. ○ Sources of long term funding were no longer available creating liquidity constraints ○ A shift from long term and equity finance to short term lending became necessary ○ Adopting a more competitive posture against similar financial institution having lost the niche venture capital niche market due to loss of long term sources of capital
MFI A	○ High loan default rates resulting in redefinition of target market from the poor to the economically active poor ○ Adaptation of the peer pressure model to permit individual applications directly to head office for good repeat customers ○ Added permission from the head of household and liability to the household as a condition for loans due to high mobility of customers
MFI B	○ Diminished lending portfolio due to loss of donor capital funds ○ Rationalization of interest rates and service administration fees to recover costs. ○ Addition of other agencies fund administration activity ○ Addition of retail lending
Cooperative 1	○ Expansion of the target market to other companies employees, civil servants and the general public ○ Allowing business loans ○ Investment of excess funds in long term assets
Cooperative 2	○ Investment in a farm property to generate income
Informal groups*	○ Restricting membership to only individuals with a common bond

*These are presented as one group due to their similarities

Strategic changes overtime indicate that sustainability has been a consideration and a compelling motivation for alterations made by the social enterprises. DFIs which had the agenda to be self-financing at inception have over the years been keenly re-posturing in response to the competitive environmental changes to ensure that income

earned is sufficient to serve this agenda. It may also be said that this re-positioning constituted a movement from a social orientation to a more commercial one.

(i) DFIs and mission drift

DFI A has embarked on large scale retail lending which now overshadows the developmental financial services. The respondents were of the opinion that the commercial activity cross-subsidized the less remunerative and often loss making developmental functions and that the overall achievement and objective for the enterprise was to break even rather than to maximize profit. Investment is higher in the commercial activity and the respondents asserted that demand for development financing is lower than retail lending demand, which again was explained as being low for viable projects, hence crowding out of the excluded does not really occur, it is only that most fail to meet the requirements or loan conditions. Even within the excluded, DFIs tend to bias their customer selection to more commercially viable population groups such as smallholder commercial sugarcane farmers, lucrative small businesses and urban micro businesses. On whether this constitutes a mission drift as resources are directed to commercial activity, the organization is adamant that it fulfils the demand presented and that viable opportunities are low in the development finance space, due to the nature of the market environment.

The evidence seems to lend credence to the paradigm that naturally, the pursuit of sustainability results in crowding out of the poor. On the other hand sustainability is a necessary condition of institutional survival and continuity. Rhyne (1998) suggests that sustainability must be used as a tool to attain social objectives, not as a goal in itself. The cross-subsidization model selected by DFI A is intended to so, however, the commercial function now seemingly dominates the social mandate. Ayerbe (2008) suggests that setting limits to commercialization of social enterprises is implied a being necessary in such situations. DFI A itself expressed that there is a balance of commitment in terms of human resource applied to both the commercial and developmental activities. The retail lending requires minimal resource expenditure commitment unlike developmental lending which requires extensive appraisal and monitoring processes and administrative structures. Absolute outreach is biased towards commercial endeavours and the creation of special ameliorative programs such as the micro lending product to increase outreach to the poor shows that the DFI is aware of this shortcoming.

Information Box 6 The transformation of DFIs

Both DFIs have undergone significant growth and transformation since they were established. In December 2015, the loan portfolio for DFI A stood at E1.06 billion with a total number of 18,728 loan accounts. This is phenomenal growth from an initial capital of 44million over a period of 19 years. But perhaps the most significant transformation for the DFI has been the establishment of the subsidiary company that provides retail lending to salaried persons in wage employment. 65% of the loan portfolio accrues to the retail lending subsidiary representing 89% of the number of total loans. The balance of the portfolio is split between the agribusiness and general business sectors. The DFI also does discriminate in terms of loan size and large loans are as common as small loans ranging from E10, 000 to over E20 million per loan to individuals, companies and associations. The motivation behind retail lending is said to be the high demand and opportunity in the market but the organization is currently sustained by the subsidiary as it is the most profitable whilst the

development finance section barely breaks even. The retail subsidiary is also outside the original mission of the DFI to increase outreach to the business community although the informants argue that people in wage employment also engage in entrepreneurial activities and that some consumption such as school fees payment, residential houses construction for which most of the loans are used, are developmental activities. However most individuals in wage employment enjoy full access to mainstream banking products and should not qualify for programs aimed at the financially excluded.

DFI B has transformed from international organizations shareholding to local private partners with substantial government shareholding (39%) remaining as well. The market value of assets is estimated at over 550 million and the DFI is diversifying into agribusiness with a current portfolio of 44 million which it seeks to increase, and into SMME lending with a portfolio of 3.2 million in 2015. The number of foreign investor projects has declined drastically over the years due to a general global economic downturn and increasing competitiveness of neighbouring countries such as Mozambique and South Africa. Furthermore, the DFI lost its international sources of capital which were offered and concessionary rates after the departure of international stakeholders. Although the stated mission of the institution has not been altered, the replacement of international concessionary sources of funds with local private sector capital has altered the actual agenda of the DFI. It is more preoccupied about returns to investments, competitiveness in the market and finding financially sustainable product lines as opposed to fulfilling its development mandate. It has however recently been facing funding problems and a lacklustre performance of its investments. The main source of revenue are rentals from property investments and dividends from equity investments and the latter's performance is very poor as companies do not declare them.

(ii) MFIs and mission drift

MFIs feel the pressure to be sustainable when donors withdraw their support or even in anticipation of such withdrawal. MFI B has been forced to curtail its activities due to the loss of donor capital. It has also been compelled to accept other products, such as administration of other agencies development funds for a fee to keep its head above the water. Opportunely, most of these funds are socially oriented and are therefore not at odds with the MFIs social mission. All in all, mission drift among MFIs is minimal as they are still rural based and/or women targeting. MFI A remains donor funded with a full and sole social mandate as dictated by the donors, however, the speculation of survival strategies in the event that donors withdraw their support is unavoidable. According to calculations, management speculates removing interest rates and fees subsidies to customers would allow the MFI to break even. It remains debatable whether charging market related prices for services by social enterprises constitutes a commercial orientation and mission drift. High charges are partly responsible for financial exclusion and therefore the MFI can "move towards sustainability but it can result in mission drift." Some regions served by the MFI are poverty stricken and face a shortage of economic opportunities to make potential customers economically active (e.g. Shiselweni (Nsalitje) and Lubombo) and serving them would not be sustainable for the MFIs. They depend on farming in a drought prone environment and even where practised farming cycles are too long and repayments are made after harvest and sales. In order to be sustainable the MFIs would have to cut off the very target

group. For sustainability, a low level of default would have to be achieved combined with higher interest rates. MFI B introduced membership and loan charges post-donor period to orient customers to the true costs of financial services ostensibly to prepare them for mainstream institutions. It is however evident that the MFI did this to try and break even. Although MFIs remain true to the social mission, they have become increasingly selective within the target groups in order to reduce default rates and by charging closer to market rate fees, and this is driven by sustainability requirements. The ultimate effect of this action is selective inclusion, resulting in exclusion of the poorest of the poor.

(iii) Cooperatives and mission drift

Cooperatives and informal groups are theoretically financially self-contained as capital mobilization is limited to members. However, evidence drawn from the SACCO indicates that a clash of missions occurred when the cooperative transformed from being a pure SACCO and accepted members of the general public. Without a clear definition of the target group and exclusivity, the membership of the SACCO has been heavily infiltrated by a diverse clientele some that may be deemed to be financially excluded whilst others are not. The SACCOs early success attracted a large number of customers including small business persons who saved large amounts of money and in turn demanded larger loans resulting in a poorly performing portfolio. The SACCO was not structured and capacitated to handle business lending and was unable to screen such loan applications, relying only on the leverage on savings, which proved to be inadequate. The SACCO has greatly transformed and expanded from the Christmas Savings purpose it had at its inception into an organization basically combining the social and economic missions. On one hand it seeks to sustainably provide access to financial services to members of the general public who are unable to do so with mainstream financial institutions, on the other, over 60% of the SACCO members are now bankable civil servants, wage earning employees of several companies and pensioners. The cooperative claims not to exercise any preference for any category of members however it enjoys ease of repayment collections and low administrative costs in lending to salaried people as opposed to self-employed members. The SACCO was led by demand from the general public to drift from its original economically efficient and self-sustainable strategy to a social mission. However this compromised the performance of the SACCO resulting in insolvency from which it is still trying to recover.

The target group for the Primary Cooperative is clearly defined as rural community members trying to avoid onerous bank debt by accumulating savings to meet their farming needs. The success of the savings and credit primary cooperative groups underscores the importance of a clearly articulated mission from which operational strategies can be formulated and programs designs decided. Its mission was centred on replacing borrowings with own savings and the cooperative groups were structured to fit that concept. This has been done gradually and incrementally depending on the capability of the group members. On the other hand, the SACCO was demand led and did not formulate appropriately responsive policies and strategies.

Information Box 7 Cooperatives and mission drift

The original clientele of the SACCO consisted of a small manageable group who were salaried employees in demarcated locations, working for only two companies. The change

in the target clientele was not accompanied commensurate changes in operational strategies. The cooperative did not have the capacity nor the skills and means to screen members borrowing for business activities. This resulted in high loan defaults and compromised the survival of the cooperative. The target membership also expanded from salaried persons to the general public, resulting in a loss of tangible information and control. Today members comprise civil servants, self-employed, employees of diverse companies, pensioners, and generally any member of the public who is able to pay the required joining fees, share subscriptions and savings. Some members are even based outside the country and qualify by virtue of their Swazi citizenship. Yet the cooperative has barely increased its capacity to handle such a diverse clientele. The desired size and demarcation of the type of membership that is commensurate with the cooperatives mission and capacity has never been stated. The SACCOs early success attracted a large number of customers including small business persons who saved large amounts of money and in turn demanded larger loans. The portfolio of company employees was soon overtaken by self- employed members of the public. The Cooperative was carried by the momentum of the demand it faced without an adequately articulated mission.

The intended beneficiaries of the Primary Cooperative are subsistence smallholder farmers in the rural areas. The program is introduced to communities through chiefdoms although groups may overlap between chiefdoms. Membership is predominantly (90%) women and men tend to shun the groups and only keen to join when they are seen to be successful. They are also more individualistic in their aspirations than women and tend to try to use the groups to aggressively pursue individual aspirations instead of collective objectives, which become disruptive. The program has attracted other rural residents such as wage based individuals comprising teachers, nurses, police and others. They tend to save a little more than the subsistence farmers however this has not created any problems but actually boosts the collective savings, the power and leverage the groups have to mobilize external assistance. The cooperatives have relatively succeeded as the rural groups are all designed to be financially self-sustaining and any growth is never achieved through debt but through the members' contributions or grants where available. Loan defaults are minimal as the amounts involved are small and lending is done cautiously with member's shares and savings covering a significant portion of the loan.

(iv) Informal groups

The main challenges faced by rural informal groups is their small size and often transient behaviour which undermine the effectiveness of the activities. This is caused by the extreme poverty faced by the members of these groups. The small size compromises the economic impact of the action which in turn discourages membership expansion. The groups try to overcome this challenge by restricting withdrawals from the funds collected to ensure continuity and growth of funds accumulated. Sustainability of the groups is difficult without external support and intervention, the groups remain small and some disappear, and the mission is often difficult to attain.

4.5.3 Sustainability and mission drift

Both DFIs have somewhat diversified their financial products and in the process are no longer strictly adhering to their original mission or purpose. The driving force behind this diversion has been the need to financially sustain the institutions as envisaged by the government when it established them. The expectation was that the

activities embarked upon would yield sufficient return to maintain the institutions despite the social mandate. DFI A justifies the establishment of the retail lending subsidiary as being a demand led product and that it was established to minimize misapplication of funds by SMMEs who prioritized basic consumption needs such as school fees, food and shelter over the needs of their businesses and hence applied loan funds to consumption first. However, the subsidiary is the most profitable product of the organization and can be said to be the main reason it reports to be currently breaking even, as the SMME products tend to fluctuate between breaking even and making a loss from year to year. DFI B is currently at a crossroads as the private sector shareholders aspirations for a profitable return clashes with the government social mandate. The introduction of SMME lending is seen as a way to appease the government and nation at large. However the pressure to find alternative viable markets in a small and highly competitive market is a critical dilemma for the DFI, having lost its concessionary sources of funds and its niche market in large scale foreign direct investment due to the country's poor competitiveness as an investment destination.

The DFIs face severely limiting liquidity constraints and mobilizing funds to meet arising expenditure has become a compelling necessity albeit driven by different needs. DFI A is driven by rapid expansion due to increasing demand from retail lending. Indications are that retail borrowers are trapped into permanent debt which they increase as nominal salaries also increase. The monthly repayment collections of about E18 million are insufficient to meet the demand for new loans which averages E1million daily. The DFI has often suspended retail lending due to insufficiency of liquid funds. The DFI claims to prioritize development lending and its social mandate in that services are never suspended for the section even when it is facing such financial shortages. DFI B is simply unable to mobilize liquid funds due to poorly yielding investments. More than 40% of the assets are held in the form of equity and over 50% in property investments. Most income is obtained from property rentals and almost no dividend income is received as partner companies fail to declare them. The DFI has resorted to cost cutting measures such as staff reductions and selling off properties to generate liquid funds whilst trying to find better yielding financial products and markets.

Table 8 Sustainability of Social Enterprises by Type

Organization	Sustainability, mission drift and conflict between social and profit objectives
DFI	• Generally self-sustainable • DFI A separated the commercial and developmental functions. This separates the management of socially oriented activity from that of commercial activity. The commercial activity sustains the developmental activity. • DFI B is experiencing a shrinkage (downsizing and selling assets) since external funding ceased. Currently re-strategizing to revive and redirect the organization. It however has a substantial asset base in the form of property developments. Liquidity is currently the main problem and decisions on where to invest are not yet clear, hence whether the organization will remain a developmental one or fully commercially oriented remains unclear.
MFI	• Generally not self-sustainable • MFI A is donor funded whilst MFI B is at survival mode whereby it has been compelled to reduce the level of services due to lack of finances.
Cooperatives	• Generally not self-sustainable • Socially oriented by mission drift by urban based organization into retail lending.
Informal Groups	• Generally self-sustainable • These are compelled to be self-reliant but operate at a small-scale and survivalist mode. They are also structured to be transient, thus can be dissolved at any time. • They are mostly socially oriented

4.6 Chapter Summary

By all indications, the sustainability of social enterprises is an overriding factor in strategic formulation and in as much most will not articulate this in their mission, it also decides the actual or practical mission of organizations. Almost in all the formal social enterprises, customer selection is done with sustainability factors in consideration. They clearly try to select customers that present the best potential to service their loans despite their social mission. The sustainability and some return on their investment, be it financial or in terms of social impact. The latest strategy document by DFI A acknowledges self-sustainability as part of the mission and DFI B is in the throes of developing a strategy that will among other issues, address its future financial positioning, having reached a crossroad after the replacement of developmentally oriented international shareholders with purely private sector commercially oriented shareholders. The government has also indicated expectations of a financial return in its latest PEU circular that requires the DFIs to declare dividends. DFIs although operating in complete financial autonomy do experience financial stress in fulfilling the development mandate and have from the development mandate.

Crowding out of the poor is indicated lending credence to conflict between the social and economic missions. This is more evident in larger social enterprises and declines as they become smaller in terms of size. DFIs are more competitive and reward

oriented adopting corporate or bank-like processes and procedures, and their customer selection aggravates financial exclusion as it has narrowed the customer base to projects determined to be viable and with the capacity and potential to repay. DFIs also claim to be demand-led in their selection of products which has widened their product range to include non-marginalized populations, defeating the directed purpose mission of the institution. A high number of customers are urban based and male individuals and companies, which excludes the poor. Government and private shareholding drives them towards reward orientation or profit seeking as both shareholders seek to dividend payments. DFI behaviour leads to the conclusion that the selection of customers is more to do with market segmentation or finding a market niche rather than a social mission. MFIs prioritize the social mission directing their services to women and the rural poor, however a high level of loan defaults and dwindling donor funding compelled them to impose more stringent requirements that may be considered exclusive, albeit within the excluded. Cooperative types range from SACCOs that combine excluded and non-excluded clients, and Primary multipurpose cooperatives that focus on marginalized rural populations. The latter, and informal groups are socially oriented but are limited in terms of economic impact due to the low financial capacity of members.

CHAPTER 5

5. MARKET FAILURE MITIGATION

5.1 Introduction

Social entrepreneurs find entrepreneurial opportunities that are embedded in a social sector market, and not identified by the private sector (Mair, 2009). They must therefore identify the malfunctions which constitute their entrepreneurial opportunity and strategize on the best methods or business model to exploit and optimize this opportunity. Malfunctions manifest in a financial market that is highly risky due to the poor capacity of actors to pay for services. The cost of service in the absence of viable markets also escalates due to inadequate trading information flows between agents. Social enterprises must therefore find ways and means to reduce the risk and reduce the cost of service delivery. Mainstream service providers avoid these markets in order to evade and eliminate these problems from their business activity. The manner in which social enterprises position themselves in their structure, approaches and strategic operations to handle the market failures will determine the extent to which they address the societal problems they seek to resolve.

The chapter presents and discusses the various methods that the financial institutions adopt to mitigate the unique challenges found in the financial social sector markets. It begins with an analysis of the various business model features of the different social enterprises typologies, making a comparative analysis of the approaches used and their performance and the qualities that enable them to mitigate for market failure, followed by an assessment of the comparative advantage of these social enterprises in resolving the social sector issues. The chapter ends with a discussion of some of the external factors influencing the operations and effectiveness of the enterprises and the impact they make either negatively or positively.

5.2 Business Models Overview

A substantial proportion of the business systems used by social enterprises are similar to that of commercial banks, with an infusion of social welfare oriented considerations in their processes. They require collateral, conduct customer appraisals and adopt risk management strategies to contain loan defaults. The table below shows some of the salient features of the business models adopted by the social enterprises investigated.

Table 9 Social Enterprise Business Models Overview by Type

Variable	*DFIs*	*MFIs*	*Cooperative*	*Informal groups*
Customer selection criteria	*Appraisal and business viability assessment*	*Demographic categorization and business viability assessment*	*Membership dues payment (savings and other fees)*	*Membership and savings payment*
Collateral	*Partial collateral payment (movables and cash deposits)*	*Waiver of collateral or leverage on savings*	*Leverage on membership fees and savings*	*Leverage on membership fees and savings, and social bonds*
	DFIs	MFIs	Cooperatives	Informal groups
Location	*Fixed premises*	*Fixed premises*	*Some groups have fixed premises and others do not*	*No fixed premises*
Structure	*Board and secretariat*	*Board and secretariat*	*Board and secretariat*	*Committee members*
Lending methodology	*Individual customers, registered companies and cooperatives*	*Individual customers and informal groups*	*Individuals and informal groups*	*Individuals within Informal groups*
Disbursements	*Payment to supplier*	*Mixture of payment to supplier and cash*	*Cash disbursements*	*Cash disbursements*
Repayments	*Cash deposits at bank or DFI branch*	*Cash to MFI or bank account*	*Cash to SACCO branch or cash to cooperative group*	*Cash*
Interest rates and other fees	*Linked to prime and regulated* *Other charges*	*Arbitrary and subsidized*	*Highly subsidized*	*Fixed at low rates*

Monitoring	*Regular (monthly) site visits by field officers and/or as necessary*	*Regular site visits by field officers and on site officers*	*None*	*None*
Advisory services	*Business Development advisory services;* *Loan insurance*	*Business advisory services* *Burial insurance*	*None by the SACCO* *Done by the Facilitating Cooperative for Primary Cooperative groups*	*None*
Performance Assessment	*Independent Audit*	*Independent Audit*	*Independent Audit*	*Regular reports*

5.2.1 Development Finance Institutions (DFIs)

Although DFIs are mandated to serve the excluded, they are not exclusive to this demographic category, and largely apply business viability as the customer selection criteria. They provides financial services to all business sectors albeit Swazi owned businesses and stratifies their clientele by sector and lending limits. The operational strategic thrust of DFIs is a highly intensive loan appraisal and selection system of business loan applications. The DFIs rely on their own information gathering and appraisal mechanisms. DFI A has four main business departments, namely Business Loans, Agricultural Loans, First Finance (a subsidiary conducting retail lending), and an insurance department that sells insurance products mostly to the DFI customers. Support departments comprise Finance, Personnel, Legal Affairs and Internal Audit (DFI A Annual Report, 2015). It employs about a hundred staff more than one third of who consist of field credit officers responsible for the core business of lending. Its objective strategic focus remains firmly entrenched in development finance as reflected in recent expansion to the countryside in branch formation of four branches in order to maximize outreach. Strategic policies centre around the development finance function as the bulk of human resources are dedicated to this section. The retail lending function has heavy liquidity requirements as the demand for credit expands with salary increases; however it is less demanding on staff as most of the processes are automated. The development finance wing requires heavy staff participation and involvement in program implementation.

DFI B also has a departmental structure formatted around the sectorial functional areas, with the main departments being the credit department which houses equity loans, SME loans, agribusiness loans, and leasing. Support departments comprise the finance and corporate services which houses human resources management, legal services and marketing.[18] DFIs are governed by boards representing share-holders interests which are responsible for strategy and policy formulation. Review and approval of lending is also escalated up to board based on the amount involved. Currently the approval threshold for management in DFI A is E500,000 with exceptions in repeat loans of short term working capital for on-going existing projects already funded by the DFI, which is E5 million. Lending and operational policies vary mostly between sectors and products. Such policies normally consist of interest rate policies, collateral, lending amount limits, screening criteria, disbursement methods and others. According to study participants, DFI As appraisal process consists of:

(i) Initial site visits to verify the location of the business and its suitability and physical viability, and to gather technical information to be used in preparing financial plans. Historical data for existing enterprises in the form of business records maybe gathered if available. The customer is also engaged and interviewed intensively and proof of handling previous loans may be required.
(ii) Preparation of pro-forma financial statements (cash flows, income statement, and balance sheet) and business plan to determine the physical and financial potential viability of the enterprise. Although DFIs have developed standard application forms and appraisal formats, they emphasize the uniqueness of each customer and the individualistic approach in loan screening.

[18] Information obtained from interview on the structure of the DFI.

(iii) Loan screening and approval is staggered depending on the amounts required, and likewise, the turnaround time also varies. Large loan amounts are approved at senior level and may even escalate to DFI board level.

5.2.2 Micro-finance Institutions (MFIs)

MFIs confine themselves to the selected target markets of women and the rural poor, and this is achieved mostly by geographic determination. Their business model waives collateral except for leverage on savings by MFI B and the size of loans is currently at a generous five times the savings amount. Both MFIs are governed by board of directors which provide oversight on management and operations. Operations are carried out by permanently established secretariats consisting of directors, support staff and field officers. MFIs also generally engage in extensive and intensive screening of potential customers and have set up participatory structures to facilitate the processes. MFI A has established a screening network that includes chiefdom traditional authority structures. Applications are submitted to the chiefdom inner council which consists community members that are appointed to advise the chief and rule over chiefdom governance matters.

"Business applications are made at the borrowers chiefdom level and the chiefdoms inner council which screens the borrower for chiefdom residency and facilitates upscaling the application to the constituency level for further screening. MFI A staff conducts screening interviews at the constituency level."

This enables the MFI to validate the residency of customers and to rope in the authorities as early as possible making it easy to seek their intervention on difficult customers. The MFI operations manager makes site visits once a batch of applications has been accumulated and vetted by the chiefdom for authenticity in relation to the residency and good standing of the applicant in the community. Lending is done in batches per chiefdom to contain transaction costs for the MFI. The site visit is intended to inspect the applications and confirm the existence of the intended activity and ascertain its physical feasibility.

The appraisal process by MFIs is flexible allowing customers to be appraised on whatever information is available. Only registered and licensed businesses keep records therefore reliable information is not readily available because most MFI applicants are informal business operators and the MFI provides training. MFI A offers

"*A "Crash course" in bookkeeping and business skills & mentorship is by partners. Parastatals keep the charges low. Technical training is by government extension officers where available and necessary."*

The screening process by MFI A is rigorous entailing customer interviews and site visits conducted by Local Monitoring officers (LMOs). In the process, relationships with customers are built and extensive and useful customer and project information is gathered as LMOs are compelled to independently seek for and accumulate knowledge on a variety of businesses. Once the process is complete at chiefdom level, the applications are sent to the areas constituency (Inkhundla) which serves several chiefdoms, for collection by the MFI head office. They are further appraised for financial viability at the head office and approvals and disbursements are made.

Similarly MFI B has decentralized its services through groups in each community of locality called Local Membership Committees (LMCs) located in areas where there is a concentration of its members. Loan applications, disbursements and repayments are made by field officers on site during LMC gatherings which are held monthly. Applications are processed at the head office located in the city. This consists of assessing the financial viability of the intended income generating activity and site visits are conducted for projects conducted in a fixed location.

5.2.3 Cooperatives

Cooperatives provide services strictly to their members which is acquired through the payment of joining and membership fees. Membership to the SACCO is open to the general public and is restricted to specific geographic or communities for the Primary Cooperative groups. Lending is also based of the borrowing members' financial contribution which serve as collateral. Cooperatives provide personal loans which can be used by members for any purpose and this makes appraisal and monitoring unnecessary. Informal rural groups use a similar model, whereby eligibility for services is membership. Group policies are designed collectively and the general membership elects group leaders to fulfil specific functions such as chairing meetings and collecting funds contributed. The SACCO elects board members to govern and provide guidance to a fully-fledged secretariat headed by a director that implements board decisions and generally runs operations. The SACCO is audited by external independent auditors annually and reports on financial performance to the general membership. Primary cooperative groups elect committee members to conduct meetings and manage funds collected, but most decisions are taken collectively by the group. The foundation and anchor of the cooperative model is savings which facilitates credit availability. Loan amounts are leveraged on savings accumulated and this is normally stipulated in the by-laws of the cooperative. Membership to the SACCO is open to any member of the public who is able to buy shares which are fixed at E1200. Compulsory minimum savings are also fixed at E100 per month and borrowings are limited to twice the permanent savings held. The maximum loan amount has recently been reduced from E200, 000 to E50, 000 due to unavailability of capital funds. There are no restrictions to the use of funds borrowed and they may be used for consumption or business activities. [19]Approval for borrowings is less dependent on appraisal but more reliant on savings availability. The loan policy does not consider capacity to repay, but dependent more on part collateral of savings. Site visits are conducted where funds are borrowed for business activities but have little bearing on the decision to lend. Administrative documents such as identity documents, a sworn affidavit and loan contract are drawn up upon granting of loans.

Primary cooperatives group members save small amounts of money on a weekly basis. These were 5c per week at program inception in 1982. Initially these savings were dissolved during the planting season. Savings are described as the main mission with the credit component as an additional product. Some groups do not have the credit component as they attach more importance in improving access to finance through savings rather than loans. A tripartite recording system whereby a savings book is issued to the member, recording in a group log book and records kept by the facilitating "mother" cooperative ensures accuracy and assurance of good record keeping. The savings book is simple and literate friendly. Interest rate charged on loans is decided upon collectively and accrues to the borrower as well as other

[19] Figures and information obtained during the interview

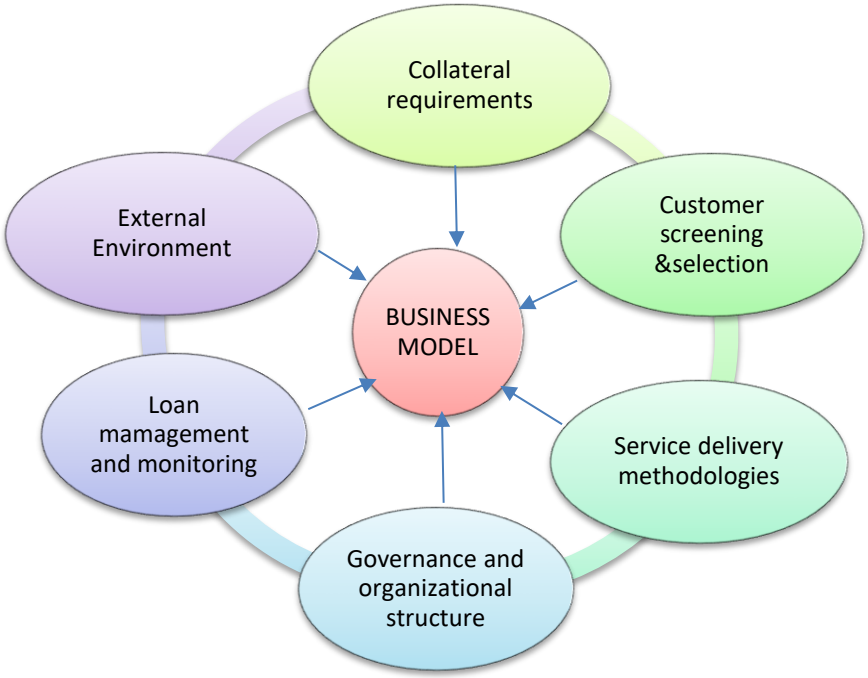
members as it is shared as part of the dividend income. Where credit is issued, the average loan size is small at E1, 500 and the loans are leveraged on savings. The first loan is equal to total savings with the shares paid being considered as security on interest due. The second loan is twice the savings accumulated. Pre-loan vetting is therefore minimal as reliance is placed on the leveraged savings and group membership status or belonging of the borrower. Borrowed funds and savings are used to finance small individual or collective projects, farming and for consumption.

5.2.4 Informal sector groups

The rural informal groups' model is built around the common bond between members who are neighbours and community members in the case of the rural informal groups and workmates in the third group. The rural groups basically meet once a week to save an equal amount of E2 per member and a once off joining fee of E25. It is emphasized that the amount saved must be equal to maintain an equal balance of power between members. The groups do not have a management structure and meetings are chaired on a rotational basis so that each member gets a chance to chair. Savings are collected and redistributed as loans in one meeting and there is no banking done. One group reported that any unclaimed funds are distributed equally among members whilst the other gives it to the chairman of the day for safekeeping. If funds are insufficient the group determines and agrees on the members with the most pressing needs such as illness or overdue school fees.

The study identified collateral and service delivery methodologies including customer screening and selection, monitoring systems, customer grouping, legal form, governance and generally structuring the organizations to be pertinent in the strategies engaged by social enterprises. The way they are designed and implemented reflects their responses to financial exclusion and approach to mitigating of market failure mitigation.

Figure 4 Factors influencing social enterprises financial inclusion business models



5.3 Market failure mitigation strategies

5.3.1 Collateral

The non-availability of collateral is a major contributor to financial exclusion and the excluded consist of persons who are often unable to produce the amount and kind of collateral acceptable to finance providers. These comprise SMMEs, new business owners, women, young people and the poor who do not own tangible assets such as cash accumulation, consistent income or titled property. SMMEs often operate in communally owned land which is not acceptable collateral to mainstream financial institutions as it confers only user rights to the owner and has no transferable title, severely limiting its tradability. Financial services are deemed to be inequitably accessible to women due to a discriminatory marriage act provision which relegates women to a minority status rendering them unable to unilaterally enter into contracts without the consent of their spouses. Similarly married women living in communally owned land are only conferred user rights to land through male kinfolk, not independently. Young people are disadvantaged by not having had the opportunity to accumulate assets that they offer as collateral whilst the poor simply cannot afford it as they live in communal land as well. Table 5.1 shows the collateral requirements by social enterprises.

Table 10 Collateral Requirements by Social Enterprise by Enterprise

Social Enterprise	Collateral Requirements
DFI A	○ 20%cash contribution ○ Lien over equipment and stock ○ Cession over the sale of proceeds ○ Company directors surety ○ Mortgage bods where available

	○ Surety from third parties ○ Loan contracts or agreements ○ Stop order over salary
DFI B	○ 30-50% cash contribution ○ Mortgage bond where available ○ Cession over the sale of proceeds ○ Company directors surety ○ Lien over equipment and stock ○ Loan contracts or agreements
MFI A	○ Peer pressure from traditional authorities ○ Collective community liability
MFI B	○ Customer savings ○ Peer pressure from group members
Cooperatives	○ Members savings ○ Stop order over salary for retail lending
Informal groups*	○ Members savings ○ Peer pressure from group members ○ Common social bonds

*Informal groups are presented collectively due to their similarities

All the social enterprises waive collateral conditions to some extent albeit in different ways and at different levels. Initially DFI A complied with the expectation to fully waive collateral, however, a high level of default in repayments and the realization of a weak commitment by customers to their business success necessitated an introduction of collateral. The DFI introduced payment of partial cash collateral in the form of a 20% cash deposit, a lien over all equipment and material bought through DFI funds, and cessions over business revenue where possible. This is still considered to be second rate collateral compared to the collateral in the form of immovable property which is normally required by banks and is more reliable and realizable. For the micro loan product, customers are required to make daily savings from sales proceeds which are utilized for repayments when instalments fall due. The DFI collaborates with the local municipality in a tripartite agreement to use access to the customers' market stalls as collateral to loans. Personal surety ships are signed by all shareholders in the case of companies. The DFI is of the opinion that the social mandate is still fulfilled as the required collateral is partial, not as high as that required by commercial banking institutions. It also believes that collateral, no matter how little, demonstrates commitment and eliminates opportunistic people posing as customers, and improves liquidity. The DFI takes cessions over salaries for retail lending customers whereby stop order arrangements ceding repayments are made, facilitating deductions by the employer which are remitted to the DFI under a tripartite agreement between the DFI, customer and employers.

DFI B requires a 30-50% contribution to the project by the promoter depending on the risk profile of the business. The equity position of the DFI is limited to 40% shareholding and the balance of financing has to be in the form of long term loans. All other collateral conditions for loans are similar to those of DFI A. Both DFIs rely heavily of cessions over revenue of the funded businesses rather than collateral and undertake comprehensive financial appraisal and monitoring of the business to ensure its potential to repay.

MFIs rely mostly on social collateral in the form of peer pressure and where available, they leverage loans on customer savings. MFI A interacts with customers through the community chiefdoms which also is responsible for screening customers and collecting repayments in the cases of defaults. The whole chiefdom is penalized by withholding further loans to the whole community if a member is in default. MFI B is a membership based institution that collects savings from members and uses them as part collateral. MFIs also rely more on screening for the customers' potential or capacity to repay and intensive monitoring rather than collateral. Cooperatives also leverages loans on members savings as part collateral whilst informal groups rely more on social bonds as group membership is restricted to social acquaintances such as neighbours, church members or a single employer staff members.

Evidently social enterprises innovatively pursue alternative collateral by seeking and identifying that which is possible and feasible for their target market. They are flexible and adaptable to the circumstances and environment of the customers. However, they have all been unable to completely waive collateral as that causes negligent behaviour among customers. Most collateral taken is not easily nor readily realizable in financial terms but is designed to encourage moral commitment by customers by exposing them to some of the risk involved in providing the service to them. Waiving collateral and find alternative means to tie borrowers to their loan commitments is one of the most significant factors in financial inclusion lending strategies by social enterprise. In the investigation, all the enterprises recognize the need for some form of collateral mainly to engender a sense of commitment from the borrower. The alternatives (to immovable property) used range from intangible social bonds to tangible financial or asset contributions. And the larger the social enterprise and loan size, the more tangible and larger the collateral required. DFIs for instance require some cash contributions and will register a deed of hypothecation over any equipment purchased through borrowings whilst Informal groups rely of social bonds and savings contributions. Collateral is used more to instil commitment than as protection as it is harder to realize in cases of default payments. Social bonds that are exploited by smaller social enterprises are also prone to being used in opposite to their purpose as closely bonded members become sympathetic to each other's' plight. The extent to which collateral is effective for social enterprises is therefore doubtful and subject to further research. Social enterprises seem to rely more on the potential ability of the customer to repay such as enterprise success or salary payments or savings contributions than the availability of collateral.

Collateral is customarily used to mitigate the risks posed by market inefficiencies such as lack of information, meaning that it is often demanded from riskier customers considered to be of marginal profitability to the financial institution. Inderst & Mueller (2007) suggest that borrowers for whom lenders have less information require high levels of collateral to narrow the information advantage. However, these borrowers are the most likely to default regardless of the collateral requirements due to their risk profiles and collateral demands aggravate their position rather than improve it. Social enterprises use direct methods to narrow the information gap including peer pressure, credit scoring, project appraisal and screening. Monove, Padilla and Pagano (2001) also contend that collateral weakens the incentive to screen projects yet where it is emphasized above screening adverse selection results, not accessible and cheaper credit. Social enterprises evidently emphasize project screening and only a partial use of collateral.

5.3.2 Customer selection and screening

Social enterprises normally direct financial services to predetermined social groups considered to be excluded such as SMMEs, women, youth, rural folk, smallholder farmers etc. In the study, the main focus customer base for DFI A is SMMEs whilst that of DFI B is venture capitalist foreign investors. MFI A targets rural people whilst MFI B customers are strictly women. Primary cooperatives focus of rural subsistence farmers and only the SACCO accommodates the general public. Customer appraisals are cornerstones of the developmental and micro-finance business model because the market served has been identified to be lacking in the business skills they need to prepare the documentation such as business plans and audited historical financial statements, usually required by commercial banks for loan screening and assessment. In the absence of strong collateral for loans, accurate appraisal of business potential becomes essential and the main determinant for decision-making. Social enterprises rely heavily on their own appraisal and screening processes and this is an onerous task as most often than not, businesses are new without historical information and customers are first time business owners without adequate industry knowledge and/or if they do, are unable to articulate and document the information needed by the financial institution. Appraisals conducted by the DFI also minimize the risk of misinformation and overstatement of the enterprise performance by customers who want to increase their chances of obtaining a loan. Intensive appraisal are therefore often done in place of submissions of business documentation received from customers and the intensive appraisal and comprehensive data gathering approach enables the DFIs to develop a customer profile that is referred to for subsequent loans as well.

Officers responsible for appraisals have acquired substantial knowledge on both the business and technical aspects of a variety of industries and they apply this prior knowledge. The same field officers are responsible for monitoring both the financial and physical performance of financed projects, by making scheduled site visits. As partial owners of the businesses they finance, DFI B engages in a lengthy screening and appraisal process of the potential projects that may take up to three months due to the large investments usually involve in FDI projects. Customers with existing businesses are required to provide business records, however DFI A also contemplates establishing a business development services unit to provide training, mentorship and business intelligence as part of its social support service in order to improve business knowledge amongst its customers thereby increasing business performance and success and minimizing credit risk. Collaboration with other stakeholders in the target market such as technical advisers from government ministries[20], the municipalities in which enterprises are conducted, other financial institutions, input and output markets are sometimes requested to provide affirmations of dealings with customers (e.g. contracts, leases, recommendations).

[20] For instance the Ministry of Agriculture (MOA) provides technical assistance to farmers through extension officers stationed in the field and letters of recommendation for farmers who participate in their programs are obtainable. Customers may also be requested to provide contracts entered into with buyers of produce such as the National Marketing Board and National Maize Corporation. Arrangements such as stop orders over proceeds at the produce buyer are common in sugarcane production.

5.3.3 Service Delivery Approach

The manner in which social enterprises deliver financial services to their customers also demands innovation as it has implications for delivery costs and credit risk management for lending operations. The tendency is for social enterprises to forgo collateral and intensify loan appraisal processes and other loan requirements or conditions which is more demanding in terms of information and transaction costs.

5.3.3.1 Group lending

The group lending approach is favoured by most social enterprises and serves to minimize transaction costs and enterprises utilize the bonds between group members to exert influence on each other. In some cases joint contracts for joint liability is enforced to boost collateral for loans. The principle and motivation for the group lending business model is to reduce credit risk in the absence of collateral by exploiting joint or collective group liability for loans (Lehner, 2009). The assumption is that if jointly liable, group members shall exert pressure on borrowers to repay. The model also transfers the responsibility of customer screening and monitoring from the social enterprise to the group (Stiglitz, 1990). This reduces transaction costs and promotes self-selection of borrowers exploiting prior customer knowledge or information held by the group members obtained through the group members social or other common bond. The model is applied more often to small loan size borrowers than larger loans where there is a preference for individual loans by social enterprises (Harper, 2007). The most common group lending approaches include the solidarity groups used by the Grameen model which basically views the group as a customer and uses it to support the functions of the social enterprise, making them extensions of the institution. Access to credit within the group is on a rotational basis and in case of default, all members must cover the repayments and may not access further loans as a group until all overdue loans are repaid in full. In contrast, the Community Based Organization approach which aims to create a mini bank of the group by developing its financial management capacity, enabling them to operate their own mini lending operation known as Village banks or either using external funds or internally generated savings as savings and credit associations.

The DFIs studied apply the group lending model primarily for smallholder sugarcane farmers on communal lands and micro business customers. Micro business borrowers are required to form groups comprising ten members in order to access financial services. Members submit their loan requests to the group for initial screening and pre-approval by the collective group members before it is submitted for financing. The group determines if a member is eligible for a loan and compulsory savings are also done through the group to facilitate ease of repayment when loans fall due. These are more compatible with the solidarity group model of the Grameen Bank. Although not jointly liable, the group exert peer pressure on members to repay loans as further loans to group members are dependent on the loan position of the group as a whole. The majority of the micro business groups are urban based consisting of vegetable and fruit hawkers based in market stalls provided by the city municipality. Participants informed that:

“DFI A conducts outreach promotions in urban centres (market traders) as they are more organized (in terms of location)and encourages group formation (groups of ten)

and daily savings ((E30/day) kept by chairman)promotion due to repayment problems. Savings are normally used to repay loans. (Initially individual financing was used without savings requirement).”

The sugarcane associations are limited companies consisting of a large number of shareholders who are rural farmers in the sugar belt. They pool together their fields or obtain land from the chief to cultivate sugarcane for sale to the sugar mills and borrow funds from the DFIs to establish and maintain production. Grouping their fields provides members with the necessary economies of scale. The sugarcane model however relies on a very strong market driven value chain and stop order arrangements over sale proceeds at the market ensure that loans are adequately serviced.

MFIs have adopted the same group lending model as solidarity groups with minor variations. MFI A uses a unique approach whereby the ‘group’ comprises the whole community under a chiefdom and applications are submitted to and vetted by the chiefdom traditional authorities. The MFI field offers are available to provide advice and guidance pertaining to the lending conditions. Selection is done but the inner council of the chiefdom before the applications are submitted to the MFI for processing and final selection. This is done on a monthly basis and the submission of applications to the MFI done in batches per chiefdom in order to reduce transaction costs. The chiefdom is also tasked with on-going monitoring of projects under the assumption that community members are always aware and knowledgeable about their fellow community members’ affairs and would therefore be aware of the success and /or failure of their projects. This is supported by the MFIs own Local Monitoring officers (LMO) who follow up application submissions by conducting rigorous appraisals consisting of site visits and customer interviews. LMOs are also resident in the communities and monitor the physical progress of projects. The lending model is peer pressure and collateral is social capital (relationships build over time). If a number of customers in a chiefdom default, lending to the chiefdom is suspended. Peer pressure takes up to 5 years to function effectively as relationships build up slowly. Defaulting households are announced at community meetings, which is embarrassing. Some chiefdoms are reluctant to do this as they are wary of straining social relations and use delaying tactics to avoid it. The motto of the MFI is that:

“Defaulters don’t just owe the fund but owe the chiefdom”

Some chiefdoms have paid on behalf of defaulters. Loyalty of residents to the chiefdom is another factor. The model also exploits peer pressure between the chiefdoms. Defaulting chiefdoms are perceived negatively and residents are unhappy with an under-performing chiefdom. Peer pressure is at chiefdom level and for it to work, groups must be registered at that level.

Similarly, MFI B operates through Local Membership Committee groups (LMCs) that are located in the target areas. The establishment of these groupings is facilitated by the MFI but partially run and administered by the members themselves. They meet on a monthly basis with an MFI field officer in attendance to collect savings and loan repayments, and to submit loan applications. Although liability is not collective, if a member of the group defaults on loan repayments the group is considered to be in default and further loans to other members are withheld. The intention has been to encourage full autonomy of LMCs enabling them to collect savings and repayments

and independently conducting banking both to reduce transaction costs emanating from regular site visits and to capacitate the customers on banking process knowledge.

Cooperatives and informal groups are by definition collectivized and are presumably already exploiting the advantages of the model. Cooperatives and informal organizations that are membership based are supposed to derive such bonds from the mutual cooperation and participation. When it was established, Cooperative 1 exploited these bonds successfully as membership was confined to employees of one company and it was relatively easy to agree on arrangements to effect stop order arrangements to facilitate repayments and only one employer was involved. However as the cooperative grew and expanded to accommodate other companies and individuals outside wage employment, these bonds were compromised and credit risk increased. MFI A exploits pre-existing relationship bonds by engaging the participation of traditional authorities.

The social enterprises all seem to subscribe to the group lending paradigm as globally practiced and it is clearly principally applied to small borrowers who operate on the fringes of formal business and rural borrowers who have grouped themselves for other purposes. The benefits of groupings to are:

(i) Decentralization to rural markets and micro lending necessitates group lending to reduce transaction costs. Small, numerous and remotely located customers are too costly to serve on an individual basis and serving them in clusters them reduces costs.
(ii) Cluster are usually formed around a common bond, creating social capital
(iii) Social enterprises are able to exploit the prior knowledge held by the group on individual members for customer screening, appraisal and monitoring, mitigating information asymmetry
(iv) Credit risk is reduced either by joint liability or peer pressure that is exerted by the group on defaulting members
(v) Groups are able to mobilize other resources such as government technical support with better ease than as individuals
(vi) Increases the capacity of the financially excluded to conduct their own financial matters

In this manner, group lending has enabled social enterprises to include rural populations, the urban micro business owners and small-scale sugarcane farmers who might have otherwise been excluded from financial services provision.

Information Box 8 The Structure and Strategic Approaches of Social Enterprises

DFI A has four main business departments, namely Business Loans, Agricultural Loans, First Finance (a subsidiary conducting retail lending), and an insurance department that sells insurance products mostly to the DFI customers. Support departments comprise Finance, Personnel, Legal Affairs and Internal Audit. It employs about a hundred staff more than one third of who consist of field credit officers responsible for the core business of lending. It provides financial services to all business sectors albeit Swazi owned businesses and stratifies its clientele by sector and lending limits. The operational strategic thrust of the DFI is a highly intensive loan appraisal and selection system of business loan applications. The DFI relies on its own information gathering and appraisal mechanisms. Its objective strategic focus remains firmly entrenched in development finance as reflected in recent

expansion to the countryside in branch formation of 4 branches in order to maximize outreach. Strategic policies centre around the development finance function as the bulk of human resources are dedicated to this section. The retail lending function has heavy liquidity requirements as the demand for credit expands with salary increases; however it is less demanding on staff as most of the processes are automated. The development finance wing requires heavy staff participation and involvement in program implementation. Currently the approval threshold for management in DFI A is E500,000 with exceptions in repeat loans of short term working capital for on-going existing projects already funded by the DFI, which is E5 million.

DFI B also has a departmental structure formatted around the sectoral functional areas, with the main departments being the credit department which houses equity loans, SME loans, agribusiness loans, and leasing. Support departments comprise the finance and corporate services which houses human resources management, legal services and marketing. The main strategic differentiation approach used by the DFI is equity financing as it is the only finance institution that provides it.
DFIs are governed by boards representing shareholders' interests which are responsible for strategy and policy formulation. Review and approval of lending is also escalated up to board based on the amount involved. Lending and operational policies vary mostly between sectors and products. Such policies normally consist of interest rate policies, collateral, lending amount limits, screening criteria, disbursement methods and others. Strategic level policies deal with the strategic direction of DFIs and have led to the re-alignment of the target market, products offered and expansion policies over the years.

The MFI is registered as Non-Profit Organization (NPO) and files tax returns to the Swaziland Revenue Authority but not yet subscribed to the FRSA as financial NPO regulations are under still under formulation. The MFI is managed by a board of directors appointed by the founders and is responsible for policy and strategy formulation, guidance and direction. An Executive Director is responsible for the overall implementation and administration of the program. An operations manager provides oversight on service delivery and resource availability, conducts site visits and loan appraisal, and ensures business continuity, monitoring and repayments. He determines loan amounts required, quality of products, project size suitability of business for the fund, evaluates impact and outreach and suitability of target clientele. A Finance Manager also responsible for risk management and administration of all financial matters and staff supervision and further assesses all organizational risk, challenges and recommends mitigation strategies. Operational staff consists of Loan Monitoring Officers (LMOs) who are field staff assigned in each chiefdom in which the fund is operational. It operates through community membership groups, the Local Membership Committees (LMCs) which are based in 36 localities throughout the country. The MFI is also managed by a board of directors elected by the membership, a full time Program Director responsible for overall program implementation and two field officers are assigned to handle two regions each out of the four administrative regions of the country. They are responsible for the on-site delivery of services to members through the LMCs. Both organizations are self-regulating although they may soon fall under the jurisdiction of non-bank financial institutions that are regulated by the newly established Financial Services Regulatory Authority (FSRA).

Cooperatives and informal groups are generally self-governing as the board of directors i elected from the membership rather than appointed based on qualifications. Although representation is important, the ability to make informed decisions, develop strategies for

organizational success, demands some minimum qualifications from the governing body. The lending policy and administrative procedures are simple as the only requirement remains merely the payment of the stipulated joining fees, shares and adequate savings. The SACCO is currently more preoccupied with finding a strategy to pay its debts and survive the insolvency than resolving its business policies. The long term sustainability, financial robustness and competitiveness of the cooperative is questionable. The manager is a recent graduate in business management and it has only one field officer.
Although the second cooperative has managed to facilitate the formation of successful and sustainable cooperative groups, sustainability has remained elusive for itself. It remains donor dependent and indications are that it can never be able to generate revenue from the groups it assists as the business model is not designed to do so. Groups are not required to pay for the services it offers. The educational and advisory services it provides seem to be undervalued by recipients and where sought, are expected to be free. The cooperative has acquired a farm through donor funds and hopes to embark on farming projects to generate income and reduce donor dependency. Geographic coverage of the program to establish and support new cooperative groups is often determined by the availability of funds which in turn depends on donor agendas and priorities at any given point in time. For instance the poverty agenda is currently high on the list of developmental priorities and since the Highveld region is deemed to be better off donor focus is and assistance is being relocated to more poverty stricken areas in the Lowveld. Support is phased out of matured groups allowing them to operate fully independently with assistance provided only upon request. Support officers are assigned per region and groups are evaluated to determine if the need a field officer. Support such as training in specialist skills areas are also outsourced if skills are not internally available at the cooperative. The Cooperative emphasizes the autonomy, independence and self- sustainability of the groups and that it is not involved in the implementation of group cooperatives activities or decision making but facilitates training. The cooperative advises but does not impose decisions. This enables the groups to be self-sustainable even beyond the period of assistance and support. Each group is guided to determine its own structure, policies and operational procedures.

5.3.3.2 Customer engagement and relationship building

This is an essential component of the business model also designed to mitigate for information asymmetry. A variety of approaches are engaged by the different organizations to engage and cultivate a long term relationship with customers. Almost all of them are more flexible in terms of appraisal and lending conditions for repeat customers who are good payers. The advantage and benefit of such relationships is the exchange of information overtime which may not be easy to attain in a short space of time. Supply and demand information is one of the core constraints of financial inclusion and customer relationships mitigate the often inadequate flow of information. Transaction costs are also minimized as most customer information accumulated and stored remains relevant to a succession of loans. Commercial banks are similarly compelled by the regulator to gather and keep customer information through the Know Your Customer (KYC) program albeit for security reasons. The organizations report a high level of repeat customers as shown in Table 5.1, for which business and customer profile data has already been compiled and made available, making it easy to screen them for eligibility and corrects for inadequate upfront information.

Initial borrowing is kept as small as possible whilst building up a relationship with the customer and building up an information base and profile and data gathering through experience with the customer. Cooperatives and informal group have permanent membership often bound by some common factor such as a common employer or a common community through which information is made available. Social enterprises employ a number of strategies to engage customers and build information profiles, and also to establish long term contact with customers.

(i) For micro-businesses provided by DFI A, initial borrowings are kept at E3, 000 rising up to the maximum of E10, 000 for repeat customers in recognition that the highest risk of lending is at first contact.

(ii) The site visits and customer interviews conducted by field officers as part of loan screening also enables the DFI to gather information on the customers and the environment in which they operate.

(iii) The approach by DFI B has historically been to take up equity in the projects financed thereby gaining access and some control over their management through continuous and active presence in board representation.

(iv) Loan Monitoring officers (LMOs) are permanently stationed in the chiefdoms by MFI A to conduct a more rigorous follow appraisal through interviews and regular site visits and in the process, relationships with customers are built.

(v) MFI A permits customers with a good payment record to apply directly to the head office to facilitate a quick turnaround time, without being subject to the community joint liability of suspended applications for defaulting chiefdoms. MFI B allows repeat customers to borrow as individuals if they prefer to opt out of a group. For MFI B, first preference would be existing well known members, whilst lending cautiously to new members building up relationships first before large commitments.

Table 11 Reported Percentage Levels of Repeat Loans by Enterprise[21]

	Level of repeat customers (%)
DFI A	60
DFI B	50
MFI A	75
MFI B	85
Cooperative 1	80
Cooperative 2	90
SHG 1	95
SHG 2	95
SCA	90

[21] Estimates obtained from interviews

5.3.3.3 Complementary services

Inadequate skills and knowledge in the areas of business and financial management, therefore an essential component of development finance is the provision of complementary services such as advisory services. Both DFIs offer these services and a DFI B informant described it as a *"destination information centre"* for foreign investors. But these are limited to simple advice given upon request or specific immediate need of customers and are not properly planned or programmed into the DFIs activities. The DFIs ascribe high default rates by SMMEs to poor business skills among aspiring business owners and seek to link financial service provision with skills development by establishing a dedicated business development services unit to provide training, advice, mentor ship, business intelligence etc., to customers. The issue of transaction costs is a challenge to BDS provision as customers often do not see the immediate and tangible value of training and are not willing to pay for it. On the other hand well skilled customers would be able to develop their own business plans and reduce the cost of project appraisals.

5.3.4 Loan conditions

Table 12 Financial Products by DFIs[22]

DFI	Loan Conditions
DFI A	<u>Products</u> • Start-up capital – new business entrants are provided with loans to purchase productive assets for use in their businesses. • Working capital – this is capital provided to existing businesses that require funds to meet their operational expenses due to deficits in cash-flow resulting from a mismatch in timing between expenditure and revenue inflows • Micro-loans – These are loans below E10,000 issued exclusively to micro business operators consisting mostly of informal traders • Agribusiness finance – finance is provided to commercial farmers for purchases of farming equipment and working capital. There is no maximum lending limit. • Asset leasing – ownership of equipment bought using loan funds is vested with the DFI until the loan is fully repaid. • Order finance- financing individuals or companies that have been awarded work contracts or tenders to fulfil the contract and repay with proceeds received • Invoice finance • Business acquisition finance- financing the purchase of existing businesses • Long term contract finance – Term loans for long term contract work such as construction • Retail lending through the subsidiary – loans are made to individuals in wage employment and repayments are deducted directly from monthly salaries by the employer through prior arrangement. • Business advisory services through field officers <u>Interest charges</u> • Prime + 4.5% • Facility fee of 2% of the loan amount

[22] Compiled from interview information

	Loan Amounts • Varies between products. Average loan size is E200, 000. Loans up to E15 million have been made for sugarcane loans • Minimum loan size for SMME is E10,000 • For micro-businesses, initial borrowings are kept at E3, 000 by DFI A rising up to the maximum of E10,000 for repeat customers Repayment Terms • Duration varies by product and size of the loan. The maximum period is usually 60 months • Generally payments are made from cessions over project proceeds.
DFI B	Products • Equity participation – this is uniquely structured depending on the needs and risk profile of the applicant and project. Normally any equity participation is limited to 60% and the balance must be a loan or contribution from the business promoter. • Loans and advances – Corporate loans are open to all sectors of the economy with a keen focus on manufacturing, tourism, service industry and agribusiness. The promoter is required to contribute 50% of the total project costs or at minimum 30% if the project is rated risk free. • Asset lease financing – purchase of heavy plant and machinery / equipment is financed under this product • Leasing of Industrial Buildings – the DFI owns a substantial part of the industrial hub of Swaziland and keenly provides industrial accommodation to entrepreneurs, particularly those in partnership with it. • Advisory services – monitoring and supervision of projects in which the DFI has a financial interest is a conduit for advisory service provision drawn from years of accumulated institutional experience and knowledge. Interest Charges • Interest is linked to prime and varies between products Loan conditions • Minimum loan size is E1 million • There is no maximum amount Repayment terms • Determined by project revenue flows

Loan sizes are based on the needs of the enterprise as determined by the loan appraisal, however initial borrowings are kept small to minimize risk of credit exposure. On the other hand, the SMME products for DFI A have a minimum borrowing of E10,000 and DFI B has a minimum of E1 million as the amount are also an indication of the size of the business for each product. Any borrowings below E10, 000 for DFI A are classified as micro enterprises for which this is the maximum amount. DFIs also impose limits of exposure by enterprise industry and sector which depend on the risk appetite which in turn varies depending on the industry performance and identifiable opportunities. Total exposure to a single customer is regulated and limited. MFIs provide small short term loans mostly not exceeding twelve months for micro-scale income generating projects for groups or individual

borrowers. MFI A loan size is fixed between E1, 000 – E25, 000 and MFI B loan sizes depend on the conditions of the administered fund and the level of savings held by customers. The loans are never more than E20, 000 per individual and E100, 000 per group.

Loan disbursements are made directly to business suppliers by DFIs unless it is absolutely necessary to provide the borrower with cash, such as for casual workers' wages or transport. The MFIs try to discourage the misapplication of loan funds and the slogan for MFI A is *"Inhlanyelo ayidliwa"* meaning seed capital is not for consumption. Loan disbursements are made directly to the borrower in cash by MFI A whilst MFI B prefers to pay suppliers where the borrower procures inputs for their business but has usually disburses by personal cheque for cross-border traders. This reflects the size of loans as it would not be rational to incur the bank charges associated with issuing cheques to suppliers for small loan amounts.

Repayments are synchronized with cash inflows as per projections with instalments also decided by the expected revenue collections and expenditure patterns to minimize default. MFIs schedule these to coincide with business income which maybe a monthly instalment for hawking businesses and a once off payment at the end of the season for agricultural projects. According to a participant, MFI A is *"understanding and lenient if the default of repayment was beyond the borrowers' control."* This means that if for instance, there is sufficient evidence that agricultural stock was wiped out by the drought, the borrower is not required to repay and this demonstrates the philanthropic nature of MFI A.

Loan repayments for informal groups are made fully every week or at least interest payment when the member cannot afford to pay the instalment. The repayment period also varies with the amount borrowed. Loans up to E39 are payable within the week and those up to E99 in two weeks and those above E100 in four weeks. If a member defaults, they are reported to the local traditional authorities (umphakatsi) who may convene a hearing and compel the member to pay or take punitive action. The process of reporting to the Umphakatsi is lengthy as its structure has many levels. The member is first reported to the area Sibondza (overseer) who will prevail on the member to pay, failing which the case may then be referred to the chiefdoms inner council. The areas studied are drought prone without any significant agricultural activity, therefore loan repayments are made mostly made from spouses wage remittances where loans are for consumption activities. Some members are engaged in micro scale income generating activities such as selling snacks and sweets next to local schools and clinics, and may repay from the income. Savings withdrawals are never made as the schemes capital is still very low. The groups expressed the wish to use the saved up capital to embark on more meaningful small scale businesses when it is sufficiently large. It can also be used to attract partnership grants from external financiers. Only interest accumulated is shared on a pro rata basis or depending on the interest amount accumulated through borrowings. This is done to encourage members to participate in the lending scheme. One group compels all members to borrow even if the loan is not needed and it accrues interest which is a form of savings as it accrues to the borrower at the end of the year. The group has set E200 as the interest that must be accumulated by each member by the end of the year. Other products consist of a ROSCA scheme whereby payments of E10 by each member are made to one member every week.

Interest rates for loans is fixed at 15% per year for MFI A and 22% for MFI B, again depending on the conditions of the fund administered. Interest charged by informal groups is E1 for every E10 using simple interest calculation method and the use of the funds borrowed is unconditional. Interest rate charges vary with the products but are linked to banks prime rate with an average of prime plus 5 for most products for the DFIs. MFIs interest rates are fixed arbitrarily and not market related per se, and have remained constant for several years.

The SACCO offers direct financial services to members in the form of savings and credit facilities whilst the Primary cooperative only facilitates the formation of cooperative groups which in turn develop their own products. The SACCO confines itself to the business of savings and lending without any other ancillary financial services to members. The second cooperative provides groups with advisory services, mentor-ship and training to enable them to establish their own systems to access finance by accumulating savings. This is a more holistic approach that addresses more than the symptoms of inadequate access but also the causal factors.

The main product of the rural community groups are savings which are divided into savings, shares and deposits. The second product is credit which was added in 2009 due to availability of excess funds. The distinction made between savings and deposits is made to facilitate borrowings. Deposits are savings specifically accumulated to buy farm inputs and are withdrawn for this purpose at the appropriate time. Other savings are kept the group as collateral against loans borrowed and cannot be withdrawn as long as the loan is outstanding. Some groups in close proximity to each other have formed apex organizations through which they have embarked on businesses using special contributions and mobilizing external funds.

The groups in the Primary cooperative start small in terms of the products and size of activity and grow at a pace that is affordable to the members and sustainable. Credit was added when excess funds were realized after farming inputs had been adequately purchased and profits realized after harvest. As groups expand, they venture into other businesses through a separate structure to manage operations independently from the group programs. In contrast, the SACCO changed the products and services offered to suit the needs of members rather than structure them on the basis of a rational strategy, and this created sustainability problems.

The main loan structural features by which social enterprise ameliorate market failure and encourage inclusion are the control of disbursements, savings mobilizations, setting of lending limits and provision of advisory services. Control of disbursements discourages misapplication of loan funds, mitigating customer information deficit shortcomings. Savings mobilized is used as collateral and alternatively to pay off loans, mitigating the risk of default or credit risk. Similarly the setting of lending limits controls the risk of loss involving large amounts. Entwining advisory services with lending is an attempt to reduce customer business risk.

5.3.5 Loan management and monitoring

Institutions also pay very close attention to customer monitoring and loan management. DFI Field officers make regular (monthly) inspection of funded projects to check on their implementation and capacity to repay. Field officers will provide advice where needed to get implementation back on track if necessary, and are able to circumvent potential losses as early as possible. The DFIs hire technically qualified

agriculturalists as field officers reflecting the dominance of the agribusiness portfolio amongst SMMEs.

MFI A Loan Monitoring Officers are permanently on site to monitor the customers activities and provide support and advice where required. Defaulters are reported to the inner council which assists the MFI to pressurize debtors into repaying if necessary. The model works on chiefdom peer pressure whereby a default by members disqualifies the whole chiefdom from future loans until the loans are repaid. This has introduced an element of positive competition between the chiefdoms as well, creating inter-chiefdom peer pressure. MFI A manages the credit risk resulting from inadequate information by roping in the community governing structures and having permanent staff on site which is drawn from the local community as well. It also uses the batch application system to minimize transaction costs that may emanate from an individual application system. Site visits are made to several customers in a few trips as they are scheduled per chiefdom rather than around individuals. This may inconvenience the timing of business operations but customers learn how to plan around the process.

MFI B conducts monitoring visits once a month, and this also serves to collect savings and repayments. It was originally envisaged that the LMC members would through their representatives be responsible for collecting payments to further reduce transaction costs but this has not succeeded due to limited cohesion of groups.

Institutions pursue alternative means to recover default payments as much as possible to avoid the costs and lengthy process of legal recourse. Rescheduling of repayments for customers with the potential to catch up on their payments is normal among all social enterprises. The complexity of processes is almost similar between organizations, however membership based enterprises adopt simpler procedures since the criteria is only based on savings. DFI organizations exhibit a more customer oriented approach whereby the institutions assumes the full responsibility of credit risk management whilst other institutions tend to share the responsibility with the customers through their participation either as collectives or community involvement. DFIs are more inclined to unilaterally conduct their own risk assessments and make decisions on whether to lend, and also to have individual customers. Most social enterprises maintain very close relationships with customers and their projects through loan monitoring to mitigate information asymmetry risk.

Information Box 9 Financial services conditions for cooperatives

SACCO

Membership:

- *Minimum age is 18*
- *E300 Joining fee*

Savings:

- *Members must have minimum savings of E100 in their account*
- *A minimum of E1200 per annum in permanent savings saved at the rate of E100 per month*
- *Special deposits or savings similar to bank demand deposits are permissible and unlimited*
- *A member can hold shares valued at not less than E1200 and not exceeding……*

Loans:

- *Members only become eligible for loans after six months*
- *The minimum size of the loan is based on the members' investment with the society in the form of permanent savings, shares and normal savings or deposits. The maximum loan amount is twice these contributions, subject to a limit of E50,000*
- *Loans may be used for personal purchases, business, building, school fees, farming and others, and are processed within two days*
- *Loans must be repaid within 12 months*

Primary Cooperatives

Membership:

- *Rural community groups comprising subsistence farmers, rural workers such as teachers. police and nurses*
- *Groups are mobilized and initiated by the cooperative*
- *Groups are self- governing and design their own operational policies*

Savings:

- *Members within groups usually save a minimum of E10 per week*
- *Membership fees consist of joining fees, shares subscriptions and normal savings or deposits. Amounts are decided by the group.*

Loans:

- *Loan amounts are decided and vary between groups. The cooperative regulation limits them to twice the size of savings. The average loan size is E1, 500.*
- *Savings are held as collateral for loans taken*
- *Loans must be repaid within 12 months*
- *Loans are used for personal expenditure, farming , and business expenses*

5.4 The External Environment

(i) Government support and regulation

Respondents perceive Government support to be extremely inadequate and the absence of formalized collaboration programmes with social enterprises unfortunate and detrimental. Instead, the Government enacts similar service programs, distorting the market through providing subsidized finances to the markets which social enterprises are attempting to develop, pushing them back into the realm of failure.

Poor relationships also exist between SMMEs and large scale businesses, preventing mutual beneficiation in trading and sub-contracting among the businesses. Large companies currently sub-contract SA companies due to poor performance of local SMME companies in terms of quality and reliability. This limits SMME business opportunities and in turn financial services opportunities. The government should play a leading role to facilitate effective collaborations between large scale businesses and SMME businesses. Likewise, collaborations between similar social enterprises in the financial sector should be encouraged and promoted to avoid duplication and detrimental competitive behaviour that distorts the market.

The impact of the new Financial Services Regulation Authority has so far been an introduction of levies that reduce profitability and sustainability of institutions, and

enforcing taxation therefore it is not yet clear whether it will be conducive to the operations of social enterprises. Historically, social enterprises were self-regulating except for the Moneylenders Act of 1991 which was designed to protect consumers from exorbitant interest rates charged by informal lenders. This Act now applies to social enterprises yet it is unsuitable as stipulates a fixed interest rate which has not been revised since it was gazetted, making it an unrealistic regulation.

(ii) External support, linkages

Social enterprises enlist the support and collaboration of relevant organizations as extensively as possible at all stages of service provision. Almost all the enterprises engage the respective sectorial officers for technical advice and information on relevant projects and encourage customer linkages with these agencies. As an agrarian based economy, the majority of business activity is agricultural and extension officers are have been deployed by the Ministry of Agriculture to all regions of the country. These are consulted by the social enterprises on the customers' technical capacity of potential projects and customers are encouraged and given advantage if they consult extension officers. Marketing agencies are also roped in to give assurance of their preparedness to buy produce from customers.

Table 13 Collaboration between Social Enterprises and Other Agencies

Collaborating institutions	Type of collaboration
Agricultural extension officers	Advice for customers on technical production matters
Field officers from other developmental NGOs	Information on their program activities to avoid duplication and facilitate simultaneous visits and meetings with common customers, sharing expenses
Marketing Agencies or buyers of products	To conform availability of markets for customers products and facilitate payment of loans directly from the buyer through stop order over proceeds arrangements
Input agencies	Purchase authority arrangements to facilitate payments or disbursements directly to the supplier from the financiers
City Councils	Use of access to city council facilities as collateral for loans (for market retailers)
Other financial institutions	Information on chronic defaulters
Business Development providers / trainers	Training and business advisory services support
Traditional Authorities	Permission to implement programs on land and subjects overseen by chiefs. Loan screening and monitoring support.

(iii) Economic environment

Economic investment opportunities are small in Swaziland due to a small population (1.3 million) and small domestic market. Economic growth is repressed at 1.7% making and poverty levels are high, all contributing to a negative production environment. The social economy demand for financially services is high but viable financing opportunities are very limited and loan default rates high.

Foreign direct investment has dwindled over the years since the withdrawal of economic sanctions on neighbouring South Africa and the independence of Mozambique in the east coast. The smallness of the economy drives investors to seek market opportunities in the bigger neighbours.

Social enterprises also face liquidity problems due to the high demand for long term credit against short term expensive funding obtainable in the capital markets. Both DFIs provide the necessary long term capital finance to enterprises seeking to establish new businesses including equity provided by DFI B and this compromises their financial positions and liquidity problems have become a permanent feature of the institutions, making it difficult to fully finance operations.

(iv) The social environment

Customers are vulnerable to shocks from the environment because most of them are women. Women are household "shock absorbers" as they attend to all social problems such as attending to illnesses, and the high prevalence of HIV has aggravated this vulnerability. Men and the youth tend to shun associations preferring to work as individuals. For MFI A, defaulting households are announced at community meetings, which is embarrassing. Some chiefdoms are reluctant to do this as they are wary of straining social relations and use delaying tactics to avoid it. Inner council is sometimes distrustful about customers in screening for fear of damaging social relations with neighbours. Some chiefdoms have paid on behalf of defaulters. LMOs although employed by the Fund, are community members and are often empathetic with borrowers and relax the exigencies of appraisal.

Business growth is limited by illiteracy in business management and long term mentorship is necessary yet it is not affordable. Business growth is limited by women's multiple roles. Businesses are kept small and manageable to accommodate other roles. Customers are not positioned to accept larger loans. High mobility of young people such as girls leaving to get married and migrating to urban areas, leaving for college etc. Youth participation in chiefdom affairs is traditionally minimal. Youth do not own households and this compromises their eligibility for loans.

5.5 Chapter Summary

Social enterprises go the extra mile to enact risk control structures to make up for the market deficiencies of the social markets in which they operate. In contrast to mainstream financial market institutions, social enterprises embrace the realm of market failure instead of avoiding them, formulate and apply strategies to counter the challenges its features present. The first and considerably significant issue of non-availability of collateral among potential customers is mitigated by alternatives that include the acceptance of partial collateral, cessions over project proceeds, emphasis on the project capacity to repay and others. Collateral is used to engender commitment more than as a safety net for loan defaults. Risk management and control procedures engaged are also innovatively applied to respond to the unique conditions of the social markets. Enterprises adopt an aggressive customer information gathering strategy enabling them to make an independent assessment of customers potential to successfully utilize financial services. This may increase transaction costs but reduces loan default risk by ensuring that accurate information is obtained. Other credit risk control measures such as limits on lending for first time borrowers, loan disbursement

controls and regular monitoring are also applied. Furthermore, customer participation in appraisal and monitoring processes is engendered through customer groupings to collectivize liability and exploit common bonds for accountability. Prior knowledge among customers is exploited to make up for inadequate historical information. Various models of collectivization are explored in order to select one that is compatible with already existing grouping structures.

Customer continuous engagement and profiling to build up customer data banks is a strategy to reduce the cost of trading by encouraging customer relationships and loyalty and repeat clients who end up being the majority of customers for most of the social enterprises. The presence of banked information eliminates the need for extensive screening, reducing service delivery costs. Enterprises also emphasize the provision of business support services to their customers to enhance chances of business success. This done either through the enterprises own extension outreach service and/or in collaboration with relevant external institutions. It comprises business training, advisory and mentor-ship services.

CHAPTER 6

6. THE UNIQUE POSITION OF SOCIAL ENTREPRENEURSHIP INTERVENTION APPROACH

6.1 Introduction

A significant question implicit in this study is the position of social entrepreneurship in economic theory. Development economics is an established academic discipline which laid the foundation of development paradigms. The earliest and popular view was the goal to create wealth and increase income as measured by the annual increase in the Gross National Product (GNP). However the measure failed to capture improvements in welfare such as income distribution, poverty, better housing, health care for some segments of the population (Dang & Peng, 2015). The definition guided economy behaviour to focus on national income growth strategies and other considerations were neglected. The fundamental premise for this perspective emanated from the classical views on economics advanced by earlier economists, prominently Adam Smith (1776). These recognized private investment, self-interest and profit maximization as the driving force for development, with market automatically responding to the actions of these self-interest resulting in an invisible hand that would maximize national income thus promoting public interests.

The extreme opposite of the classical perspective was the state economy doctrine by Karl Marx (1933) which was based on total control and ownership of the economy and its resources by the public. Privatization and the freedom of markets were considered exploitative and the main causes of poverty and socioeconomic ills. They resulted in inequalities that impoverished the already poor and enriched the affluent. Total Government control proved to be impractical and was plagued by the same ailments of poverty and inequalities that prevailed under capitalistic economies as demonstrated by the collapse of the Soviet Union in 1991. Other prominent development models have included Rostows (1960) stages of growth model which hypothesized that all economies transition through stages of economic development from take-off to maturity and high mass consumption levels. All that was necessary for this to occur were high levels of capital investments from domestic and foreign sources if need be. Lewis (1954) proposed an industrialization development model, viewing the industrial sector as the ‘engine of growth’ from which benefits would trickle down to the rest of the economy. The model necessitated a shift of labour from the ‘inefficient’ agricultural sector. The Rostows’ stages of growth model did not yield the expected developmental growth due to non-conformist economies which exhibited different capacities to mobilize capital resources (Adelman, 1988).

A resurgence of capitalism through neoclassical models who argued against heavy Government intervention occurred in the 80s. (Meier, 2000). State intervention advanced protectionist policies and subsidies that distorted prices and market signals. Governments were also susceptible to corruption and inefficiencies in resource allocation. Neoclassical propagated for development through liberalization policies, privatization and stability. Solows’ (1986) neoclassical model emphasized investments in human capital and technological advancement.

Economies have since realized the necessity to broaden economic goals to encompass the variety of variables required to improve the quality of life and enhance human capabilities. Higher incomes are recognized to be necessary but not sufficient to the promotion of humans' wellbeing (Sen, 1985). Recent approaches including the Millennium Development Goals articulate a multi-pronged strategy embracing a wide range of problems of developing countries.

Social enterprise practice has consistently existed alongside the evolution of these development agendas despite not finding a place in scholarly definition and study. The social economy terminology came into usage at the end of the 18th century (Restakis, 2006). Social enterprise was associated with a broad reaction to the narrow definition of economics as espoused by the evolving development models, and this remains true today.

The chapter uses the perceptions and views from participant in the social entrepreneurship field and secondary information to position social entrepreneurship in economic development theory, responding to the research question related to the approach advantage, means and ability to correct for the failure of markets to generate the desired development. A global perspective of the commercialization of micro finance gives a perspective of the issues of financial social entrepreneurship in development theory. The perspectives of study participants in the local context validates the premise of the perpetual conflict and parallel relationship between private and social agendas. It places social entrepreneurship as a third market domain that is neither an expansion of the private sector nor public sector, but has its own market responses and behavioural patterns. The sector uniquely responds to market risk, resource scarcity and cost recovery, setting it apart from capitalistic and state intervention approaches. Due to the diversity of organizational ownership, governance and operational structures within the social enterprise sector itself, market behaviour and responses are also diverse adding to the confusion on the identity of social enterprises. The study evidenced that the size of operation and target market had a bearing on the bias toward either commercial or social welfare orientation. In effect, minimal mission drift was observed in small informal organizations than in formal social enterprises.

6.2 The evolution of micro finance; a global outlook

The commercialization of micro finance emerged in the context of the global wave of financial liberalization that emerged in the 1990s after the era of failed state intervention through public sector development banks and directed programs (Eduardo, 2004). As a result a large number of state financial institutions were privatized and prompted to scale down their operations to accommodate poor customers (Helms, 2011). NGOS which dominated the micro finance landscape also rode the wave of privatization by up scaling their strategies to access private capital markets, increase outreach and widen the range of their services to include savings mobilization, transaction services, remittances and others (Bastiaensen et al, 2013). A more corporate, professional and profit oriented approach was adopted by most NGO, including acceding to regulation and supervision as they changed their legal and governance structures to more formal ones. A global target to increase outreach to the poor was set at the Washington Micro credit Summit in 1996 to be 100 million people by the end of the decade and by 2010, 205 million customers consisting of 113 million women was achieved exceeding expectations (Maes & Reed, 2012. The proportion of financially sustainable micro-finance institutions globally remains

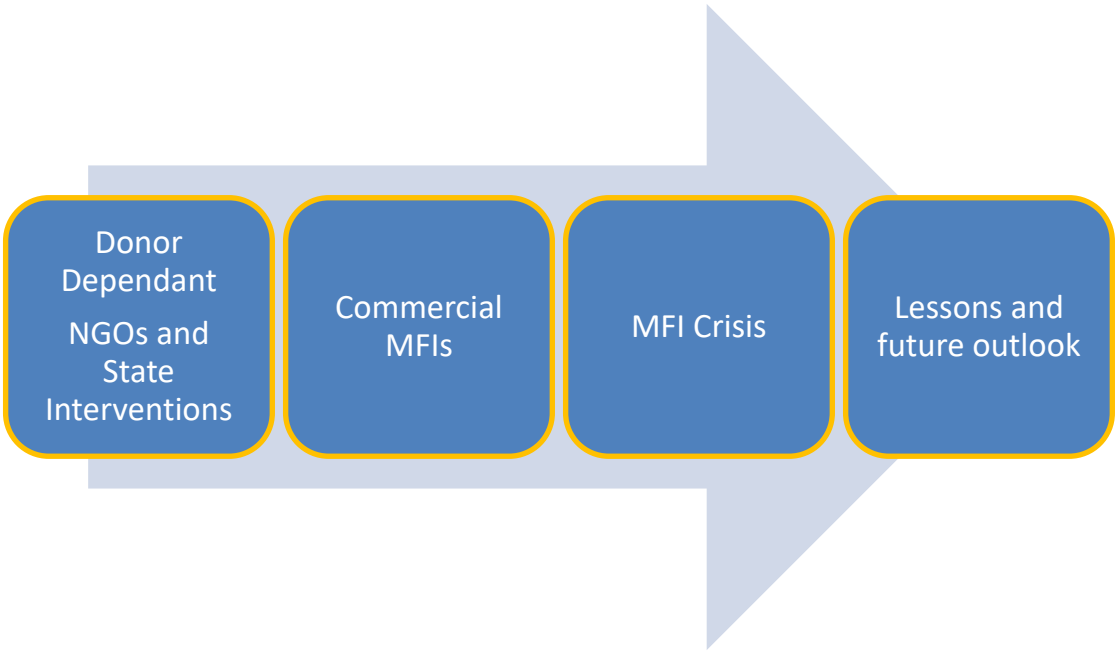
significant at 41%. The success of these attempts has been mixed. On one hand, outreach increases and on the other, somehow, the impact of micro finance on poverty reduction and social development have not been significantly evident.

A prominent example was the Community Development Financial Initiative (CDFI) program in the UK to resolve community socioeconomic disadvantages by promoting enterprise and self-employment (Mellor & Affleck 2009). The institutional vehicles carrying out this work obtained funds from a wide variety of sources such as banks, charities, government institutions and private sector with the ultimate objective to be sustainable through revolving the funds. CDFI institutions saw themselves as market-oriented and enterprises that promoted self- reliance eschewing grant funding. It was however ultimately realized that if the poor were not bankable propositions to mainstream institutions, some catalytic intervention was necessary to make them a viable proposition to any other program. A wide range of non-market catalytic interventions were suggested including risk mitigating guarantee funds, group lending approaches, monitoring, borrower education and subsidies. However the market oriented solution notion persisted even after it was realized that the impact of the CDFI programs was negligible and a restoration of market forces was pursues through efforts including a community investment tax relief, a community development venture fund and a bank disclosure of their service to poor communities. CDFIs describe themselves as using “business solutions to attain a public good”. The uptake by the targeted communities remain low and the CDFIs remain with excess capacity of funds. It seems that there was the mistaken assumption of latent entrepreneurship among the poor and market oriented solutions which had failed mainstream institutions for these communities, on which problems could have been studied and responded to before embarking on alternative programs.

Scanty attention has been given to the suitability of the diversity of organizational approaches within the social enterprise sphere such as whether Development Institutions, Co-operatives, NGOs or community based organizations are the most suitable vehicles to deliver micro-finance. Rosengard (2004) studied several approaches to provide finance to the marginalized sustainable consisting of banks scaling down to embrace the previously unbanked by restructuring their operations to accommodate providing smaller loans, adapting their savings mobilization models to suit the lower amounts saved by poorer households and synchronizing their credit provision models with business income cycles and asset availability of SMMEs. He gives the example of the Bank Rayat of Indonesia as a successful model for scaling down to capture new markets and increased its portfolio and profits between 2002 and 2003. However he concedes that the banks down-scaling model has not been widely replicated globally as most banks are reluctant to restructure their traditional operational strategies and policies to accommodate micro-lending. The second model he proposes is up-scaling of NGOS into regulated sustainable institutions that are able to mobilize funds from capital markets rather than relying on donors. Rosengard (2004) cites the Bolivian NGO PRODEM which up-scaled into Banco Solidario and the K-Rep Bank in Kenya among others as successfully up-scaled from NGOs. In this case as well, he acknowledges the danger of mission drift. He concludes that there is no single institutional model that fits the provision of micro finance as the marginalized are many and varied. Therefore the target market of an institution would determine the model it adopts since the very poor for instance can only benefit from subsidized support, yet some marginalized groups can benefit from more commercial institutions. This is in concurrence with the findings of this study in view of the varied

types of institutions, which showed that social entrepreneurship is not a one size fits all.

Figure 5 The evolution and outlook of microfinance



The evolution and progression of microfinance approaches depicted in figure point to an industry that is yet to find a satisfactory financial inclusion strategy through micro finance. The MFI buoyancy of the late 90s engineered by the wave of financial liberalization and the popularity of microfinance as sustainable panacea for social development through financing of the poor yielded the desired increase in the number of microfinance recipients. The following decade however, saw a deflation of the industry as misgivings on its ability to effect the necessary social transformation emerged and critics of the commercial model such Yunus of the Grameen bank regarded the deviation from the original NGO model as a drift from the social purpose in preference for profit, cutting costs and focus on richer customers at the expense of the poor (Ek, 2011). In addition to failing to eradicate poverty and create social value, some institutions began accumulating bad loan portfolios and acquired negative reputations as promoting indebtedness of the poor and ruthlessly stripping them of their assets in a bid to reduce loan defaults and make profit (Bastiaensen et al, 2013). By 2011, the estimated number of microfinance customers had declined to 190 million globally (Ek, 2011) and a significant number of institutions are still not financially self-sufficient.

The main lesson that can be learned from the state of the industry today is that a diverse variety of microfinance institutions shall exist to serve an equally diverse clientele of the marginalized, to which they are suited in terms of their mission and posture. Commercially oriented institutions depended on private sources of capital may focus on the urban economically micro-enterprises and/or larger SMMEs in order to make profit. More socially oriented institutions able to attract donor funds maybe directed by donor conditions to rural and women customers who are less viable in order to fulfil a social mission. The quest for a balance between social and economic objectives by one institution may remain elusive making it difficult to articulate best practice and benchmarks for social entrepreneurship, and identification

of an optimal approach. The industry also needs to recognize that micro-finance or financial inclusion is only a single variable in poverty reduction, development and social transformation and isolating its impact is complex, hence its measurement as well. Social development requires a multidisciplinary approach, building alliances and collaborations with other development sectors to build a holistic approach to social change may resolve the challenges of inequalities and poverty.

6.3 The Position of financial social enterprises in development intervention approaches

The studied social enterprises perceive themselves as neither an extension of private sector strategies nor as public sector add-on institutions. All of them were established to meet a socioeconomic need of a specified population determined to be marginalized. None of them were products of an up-scaling of non-profit NGOs or down-scaling of commercial banks. Regardless of the hybridization mix of a social enterprise, they remain distinct from private and public sector qualities by their underlying economic principles. They historically emerged to fulfil a gap in development that could not be fulfilled by the state or private enterprise and expressly purposed to behave and respond uniquely in the market. They evolve, change and adapt within the social enterprise niche. The study participants drew out the variables of the profit objective, risk, risk management and capital mobilization as those in which distinctions are most evident.

(i) Profit Objective and cost recovery

Commercially oriented financial institutions such as banks are profit maximizing as opposed to seeking cost recovery. They focus on implementing strategies and approaches that will maximize returns for their shareholders and grow the business. Social enterprises adopt approaches that will best serve their target market and only engage commercial strategies to break even. Study participants observed a difference between profit maximization motivation and that to break even, and this manifests in the more aggressive fees and interest, and avoidance of customers that are not profitable. A respondent from DFI A suggests that social enterprises differ from commercial banks as follows:

"*The required returns of DFIs are lower than that of banks. DFIs shareholders require sustainability not maximum profits. Banks aim for 25% profits and aggressive growth yet DFIs require 5-10%. This influences appraisal of customers. Costs kept to a minimum."*

Break even motivates the use of economic means or commercial strategies to create social value not as an end in themselves. Social enterprises charge cost recovery fees and rates and use expensive appraisal and monitoring processes to manage the risk posed by the social economy markets. They adopt service delivery strategies that will best serve their target market. A conflict of interests experienced by DFI B between its development mandate as set out by the government which was the initial shareholder, and recently acquired private sector shareholders highlights this feature. Although the DFI operates in a specific lucrative development financing niche of large scale projects, the private sector partners wished to focus on quick yielding ventures with an assured return. A participant noted that:

"*Development financing is lucrative but the payback is longer. Private partners must*

accept the DFI mandate they have invested in and accept the levels of profitability in that space……..Bringing in unlike minded business partners caused the problems (private partners."

The pricing model rationale for social enterprises also does not reflect a relationship between fees and interest charge with the profit maximization. They are more in consideration for the social status of borrowers than profit. DFI A responded suggested that:

"*The bank pricing model risk premium on projects is positively related to the risk of the project. Which encumbers the weaker SMME projects even more. DFI A interest rates are lower for SMME projects and higher for more profitable projects. Banks increase the likelihood on non-repayment by charging the less viable projects more."*

The profit motive features even less in the Co-operatives, MFIs and informal social enterprise typologies studied. Cooperatives are mainly focused on fulfilling the financial needs of contributing members and interest rates are actually subsidized. Primary cooperatives embark of separate income generating projects for profit making purposes. This is a similar approach to DFI A which operates a separate subsidiary for income generation to cross subsidize the poorly performing development finance operations. The SACCO offer subsidizes interest rates for their members. The biggest consideration mentioned by the SACCO respondents was the need to recover costs, not profit maximization. MFI A interest rates are arbitrarily set at a fixed 10% and this has been the rate since the organization was established. Despite their concern for self-sufficiency they cannot implement relevant strategies without the consent of the MFI benefactor, who so far is not willing to do so.

The profit maximization motive influences strategic and operational decisions that in turn impact on the extent to which organizations pursue a social or commercial purpose and mission drift. Towsend et al (2008) argues that the convergence of profit maximization and social value maximization in the double bottom line of social enterprises creates conflict over the appropriate course of action. Social enterprises in the study either do not pursue profitability at all or those that do have separated the profit making ventures from the social elements. However the question of mission drift and conflict remain ambiguous in so far as the effect of profit making ventures on the social purpose. DFI A for instance argue that the profit making venture complements the development wing yet it commands almost a third of the institutional resources. It would appear that movements from the position of break -even towards increased profitability exposes social enterprises to mission drift. Nonetheless, the absence of a profit maximization motive among social enterprises sets them apart from commercial sector institutions in the market, that clearly perform a developmental function not fulfilled by the private sector.

(ii) Risk and capital

By virtue of the markets they serve, social enterprises have a higher risk tolerance than private sector enterprises. DFI A participants view themselves as unique from commercial banks in this aspect:

"*DFI A is unique from banks in terms of risk appetite. Banks do not accept projects based on viability only,* (Meaning they also want full collateral). *We also rely on the industry value chain structure (e.g. sugarcane industry). It took the banks a long time to participate in the sugarcane industry due to the lack of collateral."*

Social enterprises are able to leverage on their public identities to mobilise concessionary capital including subsidized lines of credit, guarantee funds and grants. This allows them to tolerate longer investment term horizons which the private sector finds too risky to commit too. Social enterprises specialize in providing development finance and thereby enter into new and risky markets in which they build up considerable advantage over other forms of financing institutions. A participant from DFI A noted that:

"Bank…….. now has an SME product which failed because banks do not create relationships and do not conduct site visits and do not understand group dynamics and creating a culture of repayment."

The main advantage of the social entrepreneurship model is the customer information profile it independently compiles and the intensive customer engagement and interaction they adopt. Commercial financial institutions do not build customer relationships as intensively and customers are subjected relatively to the same treatment whether they are new or old customers, in terms of the financing requirements and conditions. Secondly, commercial institutions do not conduct comprehensive appraisals as their aim is to minimize costs and maximize profits. They rely on the customer to provide business plans, pro-forma financial statements, business historical performance etc., and this makes them vulnerable to receiving inaccurate information, increasing credit risk. Their response is to exclude customers or target markets unable to comply with their information requirements instead of finding alternative means to mitigate this failure.

The risk management practices of social enterprises are somewhat paradoxical as they do not conform to the normal risk and return model. They undertake riskier investments yet do not seek to maximize profits due to their underlying social mission. A portion of the return is yielded to the customers in the form charges that do not reflect the risk taken, such as partial collateral, advisory services, site visits, and special concessions such as rescheduling of loan arrears as a participant from MFI A attests:

"Defaulters are not abandoned but loans repayments are rescheduled if the potential for success is there……. Banks rigidly adhere to the original terms of the loan and are not flexible to changes."

Despite their partial public identity in the mission, social enterprises are not comparable to public and philanthropic capital. The risk of philanthropic actions is the limited duration of funding period. Unless the programs obtains self-sufficiency before donor fund run out, their socioeconomic impact is also limited. Development financial demands are not short term or once off requirements. Business initiatives occur continuously necessitating permanent solutions. Restrictive and rigid donor

capital conditions also deny the activities much needed versatility and narrows the scope of influence and benefit. MFI A for instance is a highly subsidized program that has not explored self-sustainability possibilities as the donor is not keen to do so. On the other hand MFI B was compelled to reduce business volumes when donors pulled out. Donor programs are often implemented through social enterprises making them fairly accessible to the target markets. However, consistency is compromised when donors withdraw their support.

State capital intervention to enhance financial inclusion dates back to the establishment of the local development bank in 1960 and operates both as a commercial and development bank. Out of all the banks in the country, the development bank has been the most active in serving the smallholder agricultural sector and other low income enterprises. It however experienced problems with debt recovery which led to an erosion its asset base necessitating its recapitalization in the 90s and restructuring to rationalize and align it with the prudential compliance requirements of the banking regulatory authority. The bank currently operates as a fully commercialized institution despite a small development finance component and state ownership.

The government later also established the National Investment Development Company of Swaziland (NIDCS) re-incorporated into the Swaziland Investment Development Company (SIDC) in 1987 (SIDC Annual Report, 2015). The SIDC is a joint venture between the government and private sector and provides financing to large scale business projects. The SIDC has also experienced problems in recent years due to a downturn in the market for large scale investors as the larger economies of newly independent neighbouring Mozambique and South Africa became more attractive to investors. The SIDC has had to redefine their target market to include other sectors such as SMMEs and agri-business, thereby encroaching into other financial institutions markets, compelling it to adopt more competitive measures.

In 1990, the government through the Central Bank (CBS) established a Small Scale Loan Guarantee Scheme (SSLGS) to encourage lending to SMMEs by providing a 75% guarantee to commercial banks that participate (SSLGS Brochure, 2010). The uptake by banks has been rather low over the years due to risk aversion, stringent processes and conditions imposed by the CBS in claiming the guarantee. Participating banks have to demonstrate that they exercised prudence and due diligence in issuing and recovery of loans in order to claim the guarantee. A similar scheme introduced concurrently with the SSLGS is the Export Credit Guarantee Scheme which is funded through State budgetary allocations to provide credit and guarantee for SMME exporters.

The Government also provides an annual budgetary allocation to several grant and loan schemes including the Regional Development Fund, Rural Development Fund, Tinkhundla (constituency) Empowerment Fund and the Youth Fund. The Regional Fund is divided equally between the four regions of the country and accessed competitively by individuals or groups as grants to establish businesses. Similarly the Rural Development Fund is available to residents in rural areas as loans for businesses and is aimed at reducing urban migration by making living in the rural areas more rewarding. The constituency Empowerment Funds is an allocation that is divided equally between the political constituencies of the country and accessible on a competitive basis as grants to chiefdoms under each constituency as grants for

development projects (GOS Report, 2011). The Youth Enterprise Revolving Fund was established by legal notice No. 179 of 2009. The notice contained the regulations for its implementation and operations. The stated objective is to "alleviate the unemployment of the youth by providing support and mentor-ship, thereby empowering them to engage in economic and commercial enterprise" (Ministry of Youth, 2009) A fund of E8 million was provided from the Government budget and was to be provided on an annual basis to capitalize the loan fund, for training of beneficiaries and to cater for administrative expenses. Interest received is accrued to the fund to increase its capacity.

The programmes directly administered by the Government are generally inefficiently implemented and misdirected. A commission of inquiry into the use of the constitutional funds found that it was riddled with abuse and misappropriation.[23] Out of a total of 988 projects and a disbursement of E66 million, an estimated 66% of the projects were found to have performed very poorly. Administration of the fund was found to be somewhat lax and characterized by "arbitrariness" due to a lack of clear procedures. Procedures were mostly left to the discretion of a local committee e.g. no definition of a viable project was provided. The result was approval of projects that were not viable. In most cases the regulations pertaining to the application process were blatantly flouted and most official approval processes were by passed or just rubber stamp decisions. No minutes or records of loan application deliberations were kept. The fund allowed purchases under the government's special tender waiver process resulting in over inflated purchase prices and a loss of millions of Emalangeni. There was a proliferation of purchases through "agents", who acted as intermediaries between suppliers and buyers for reasons which were not clear. There were purchases of second hand assets which was contrary to prevailing Government regulations. Rubberstamping signatories did not check what they were signing for, which resulted in items ordered being either missing or not in working order. Payments were made in full for orders which were not executed satisfactorily or not delivered at all. Government delivery procedures e.g. receiving and checking goods, signing of delivery notes before payment etc. were ignored. There was collusion with cash being taken without the provision of supplies. Invoices for supplies that did not match with what was ordered. Ordering of specialized machinery, without expert supervision, resulted in in-appropriate and unusable equipment being supplied. Unclear eligibility criteria allowed for loopholes that saw children as young as ten and non-community members being listed as members of associations and, in certain instances, families being recognized as associations so family members could be eligible for assistance. The procurement process was not adequately defined and violations of the tendering process were a norm with waivers of the process being justified by so called urgencies and/or emergencies. There were numerous examples of procured assets that became idle due to unclear ownership, particularly when an association disbanded due to internal conflicts. Disputes among members of associations were common.

The performance of Government intervention has been therefore been mixed nevertheless the programs still prevail. Government financial programs in the form of subsidized credit have a history of misappropriation of loans and poor loan portfolios. There is widespread belief that all funds distributed by the State are free regardless of the manner in which it is packaged. Government programs are highly inconsistent,

[23] A commission of enquiry report was issued by the Deputy Prime Ministers office, 2004.

transient and irregular due to volatile state budgeting, causing poor implementation. They are subject to extensive bureaucracy and delays which undermine their impact and are subject to political manipulation. Accessibility of government is therefore poor, usage inconsistent, services are of poor quality due to inefficient implementation, and the impact also poor.

Table 14 Summary of Government Intervention Initiatives

Government Programs	Description
Swaziland Development and Savings Bank	A commercial and development bank serving both corporate and low income customers
Swaziland Investment Development Company	A development finance institution providing funding to large scale businesses
Swaziland Finance Corporation	A development finance institution providing loans to SMMEs
Small Scale Loan Guarantee Scheme	A loan guarantee fund administered through commercial banks with guarantees provided by the Central Bank
Export Guarantee Scheme	A loan fund for export oriented businesses guaranteed by the Central Bank and administered by commercial banks
Public Enterprise Loan Guarantee Fund	A loan fund for the benefit of public enterprises in need of external financing
Regional Development Fund	Government grants accessible through the provincial administrative regions of the country
Rural Development Fund	Loan funds accessible by rural dwellers for small businesses
Tinkhundla Empowerment Fund	These are grant funds accessible through constituencies and chiefdoms by citizens wishing to start small businesses
The Community Poverty Reduction Fund	Grant funding to start micro businesses for poor communities
The Youth Fund	A loan fund directed at young (18-35 years old) business persons
Social welfare grants	Social welfare grants of E740 per quarter are available to old persons (above 60 years of age) and people living with disabilities at E400 per same period.

Source: Compiled from Finmark Trust Report, 2014.

6.3 Regulation for financial inclusion

Respondents to the study generally felt that the government should confine itself to creating an enabling environment for the private and semi-private sectors to address financial exclusion as grants and subsidies distort the markets, and it should instead, support social enterprises and the commercial sector through conducive regulation and positive support. Government support which would have a positive impact on the operations of social enterprises is often withheld. For instance, as the major buyer of goods and services in the country, SMMEs often do business with the government and borrow from financial institutions to buy supplies in order to meet their contracts or government supply orders. Institutions wish to enter into a tripartite agreement of a cession of proceeds by the customer in their favour with the government, as part collateral and assurance of repayment of loans, however she refuses to enter into such agreements. The Government which established some of these financial institutions also confuses the market when she elects to compete in the same market by providing similar financial services and grants, instead of supporting and working with the them.

A major government role and responsibility is the regulation of the financial sector and the enacted regulations and their execution has significant bearing on financial inclusion. Current regulation is designed to curb the market power wielded by financial institutions, to protect consumers from excessive prices and monopolistic practices. Lending Interest rates that can be charged by non-bank financial institutions are regulated to prevent extortionist pricing of financial services. This regulation was prompted mainly by the practice of informal individual moneylenders who commonly charged very high rates (exceeding 300% p.a.) earning themselves the title of 'Shylocks and Mashonisa' (debt traps). The moneylenders act restricts interest charges to 10% for loans below E500 and to 8% above the Central Bank discount rate for loans above E500. However, whether this is inclusive of other charges and loan fees is not clear and financial institutions have taken advantage of this loophole to close the gap between the interest rate caps and their desired prices. For deposit taking non-bank institutions such as cooperatives and SACCOs, additional regulation relating to a minimum capital threshold of E5000 and a liquidity ratio of 15% of savings deposits. Government regulation of non-bank financial institution is under construction with a new legislative body, the Financial Services Regulatory Authority that is less than five years old. The impact of the new authority has so far been an introduction of levies that reduce DFI profitability and sustainability. A Consumer Credit Bill of 2013 that 'seeks to establish a credit framework for both consumers and business that standardizes the credit parameters for all credit operators.' It also seeks to curb reckless credit extension by making lenders more accountable. In practice, the Consumer Credit Bill redefines the interest fees and charges and further places the burden of lending responsibly on financial institutions to minimize the over indebtedness of the public. Until the National Credit Act is passed in Parliament existing legislation governing DFIs is fragmented and out dated, hindering smooth running of these institutions.

Table 15 Summary of Regulations for Development Financial Institutions

Regulation
Money lending and Credit Financing Act 1991

Consumer Credit Bill 2013
Financial Services Regulatory Authority 2010
Central Bank of Swaziland Act 1974
Companies Act 2009
The SACCOs Regulation 2013
The Hire Purchase Act 1969
Cooperatives Societies Act 2003
Cooperatives Societies Regulations 2005
The Insurance Act 2005
The Retirement Funds Act 2005
The Pawnbrokers Act 1894
The Lotteries Act 1963
The Securities Act 2010
The Building Societies Act 1962

Source: Compiled from Finmark Trust Report, 2014

6.4 Unique advantage of social enterprises

The scarcity of impact evaluations to shed light on the success or failure of institutions in financial inclusion makes it difficult compare the proficiency and competence interventions in social value creation. Nonetheless the objectives, strategies and activities defining the interventions also indicate their motivations that indicate their propensity to create the desired impact. Evidence of working with the poor and excluded is an overriding indicator of inclusiveness. The optima of any type of intervention is justifiable by its ability to respond to financial exclusion. Assessment considerations of interventions are therefore their capacity and efficiency to improve the functioning of markets to maximize social value. Although empirical evidence is the ultimate means to prove the effectiveness, conceptual grounds also provide strong measures. There are no universally recognized indicators for the achievement of financial inclusion and best practice processes. It is even more difficult to assess the potential and capacities of interventionist policies and methodologies for their ability to attain inclusion. The World Bank (WB Publication, 2012) identifies the following as indicators:

(i) Percentage of adults with an account at a formal financial institutions

(ii) Adults with credit at a regulated financial institution

(iii) The number of formally banked SMMEs

(iv) The percentage of SMMEs with outstanding loans at a regulated financial institution

(v) Points of service or the number of service branches per 100,000 number of people

The World Bank Dimensions of financial inclusion also give guidance to the type of intervention considered optimal for effective and acceptable participation of the population in the financial sector (World Bank, 2012). Access indicators are those that reflect the capacity of the intervention to penetrate the target market and the depth and breadth of outreach that the institution is able to attain. This is indicated in the extent to which potential customers utilize the services provided and the challenges faced by both institutions and customers in supplying and reaching services respectively. Challenges to market penetration can relate to the high cost of providing the services particularly to remote rural areas and information asymmetry pertaining to the available services and the type demanded by the market. The second dimension is usage of services which is reflected in the frequency or volume of activity by individual customers whether its transactions, average savings balances or the regularity and dependability of services provision by institutions. It's essentially an indication of the demand for services as accessibility does not always result in the use of all the products on offer. The third dimension relates to the quality of services and their fit to the needs of the consumers. Indicators of quality are the convenience of services, the match of products to consumer demand, transparency of product information, and safety and consumer knowledge on the services.

The World Bank measure restricts itself to impact and excludes financial standing of the intervening institution that would indicate its sustainability position. The balanced scorecard in contrast complements financial indicators with non-financial measures of customer, internal processes, learning and growth (Kaplan, 2009). It has however proved to be cumbersome to implement as it is often difficult to establish causal and effect chain relationships between measured variables (Molleman, 2007).

Lastly, the impact on enterprises and marginalized households is the biggest indicator of the effectiveness of the intervention. Impact evaluations are complex and difficult to conduct as they require subjective and non- financial data, which is often difficult to obtain. A standard impact assessment framework for financial inclusion policies and programs has not yet been developed. Academic research on social enterprises and micro finance has also been more focused on evidence to resolve the impasse of the simultaneous pursuit of economic or social missions or hybridization of social enterprises and mission drift, and the commercialization of micro-finance (Emerson, 2003; Austin et al, 2003; Di Domenico et al, 2010; Santos, 2006) and much less on finding a theoretically grounded best approach to sustainable social improvement.

The study deliberates on the ability of intervention approaches to resolve the barriers to financial inclusion posed by market imperfections and finding the most effective way of doing so. The indicators provided by the dimensions for inclusion must be assessed of their influence on the features of market failure found in these markets. The interventions were examined for their response to the following questions:

(i) Do they adequately resolve information asymmetry issues thereby ensuring mutual knowledge between customers and themselves to enhance deep and wide access to services?

(ii) Does the intervention reduce transaction costs / or ensure that they accrue or allocated correctly enabling the price mechanism to function appropriately?

(iii) Is the intervention permanent and sustainable so as to be a dependable source of service to the target market and being instrumental in creating financial markets?

(iv) Does it reach the target market or is it captured by influential social groups?

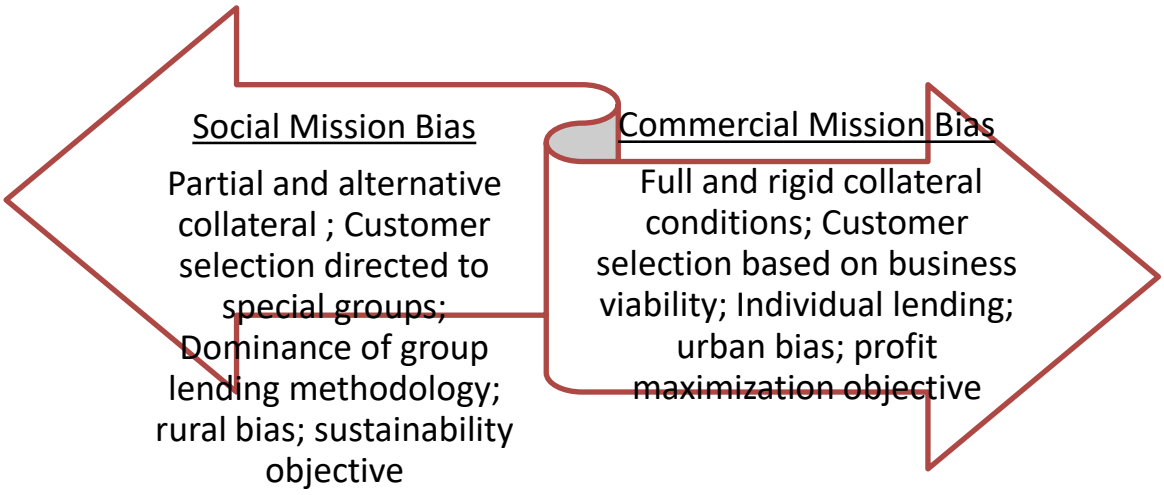
(v) Is it efficiently implemented (i.e. timely, directly)

(vi) Is it cost efficient?

(vii) Is it beneficial to the excluded?

(viii) Does it prioritize the social mission?

Exclusion in the financial sector is usually made in reference to the four key areas of financial transacting, savings, credit and insurance. Most social enterprises participate in the provision of savings and credit although transactions are an integral function of all financial services.



(i) Access to financial services

Formal commercial banks often find it cost-ineffective to roll out branches to remote low income areas yet urban service centres are an added expense to rural based customers who also find the formal setting of the modern urban service locale intimidating. This is despite the fact that on average, citizens travel 30 minutes to the nearest bank due to the small size of the country (Finmark, 2014). Low income classes do not own vehicles and travel on public transport which takes much longer, especially on unsealed rural roads. Client based DFIs and MFIs deploy field officers to engage customers on site whilst cooperative and informal group members usually

collectivize around a common geographic locality such as being from the same community of place of work to enhance accessibility of services. On site presence on a regular and permanent basis increases the level of information exchange between the service provider and recipients. It increases the opportunity to process customers in batches rather than on an individual basis reducing transport costs. Social enterprises bring the service to their customers whereas commercial institutions rely on customer visits, exposing those to inhospitable out of habitat environments such as long queues, and this discourages and reduces the interaction between customers and the institution.

Innovative approaches to financial inclusion continue to gain momentum, taking advantage of technological advancement in communications. Mobile phones present an alternative distribution channel as the cell phone industry penetration in the population including remote areas is above 90% (Finmark Trust, 2016). Although this is the highest penetration in the SADC region, other countries report a higher adoption level of mobile money such as Tanzania and Kenya. Countries that have higher levels of formal banking such as accounts, mobile banking, ATMs including RSA and Mauritius also indicate lower levels of mobile money subscriptions. Lower levels of adoption amongst women, low income groups and rural people is reported, partly attributable to low levels of phone ownership and aversion to technology. Nevertheless there were more than 500,000 mobile money transfers per quarter (Finmark Trust, 2014) and 41% of the mobile money agents are rural based. The amounts that can be transacted through this medium are currently much smaller per transaction than the average demanded amounts. The agent banking option including retailers, offer financial services that are linked directly to sales and as such are less versatile than financial institutions. The high crime rate also jeopardize the role of rural retailer as payment or collection agents for large and voluminous transactions. Social enterprises targeting the poor have not yet taken advantage of the available innovations in their services due to the low adoption rate by the rural poor, women and low income groups. Limited use of mobile money transfers were reported by MFIs mostly for savings withdrawals.

The core business of social enterprises is savings and credit provision and these are the main area of competition with other financial providers. The Finmark Survey of the financial sector in Swaziland indicates a generally low uptake of credit from formal institutions with only 6.7% of the adult population obtaining credit from formal provider which consist of commercial banks and other registered financial institutions such as DFIs, MFIs, SACCOs and Retail lending organizations. Competitively, banks dominate all the formal institutions with in terms of access with 93.5% savings and 84.5% credit, excluding pension funds deposits (Finmark, 2014). 19.4% borrow from informal sources such as individual moneylenders, ASCAs and ROSCAs, whilst 15.3 borrow from friends and family. A substantial proportion of the population does not receive credit al all, relying on own savings and income. Civil Servants are the largest users of formal credit at 54.5% of total lending by formal institutions. This cadre of customers is the least risky and lenders incur minimal administration costs as payments are deducted by the employer and remitted to the financial institution. Company employees are the second largest users of formal credit as they may access credit through the same arrangement, depending on the willingness of the employer. The casually employed, unemployed, self-employed and welfare dependents who comprise 71.9% of the total population constitute only 21.4% of formal institutions borrowers. Informal sector borrowing is also dominated by the

employed as 43% civil servants and 33% company employees borrow from the sector respectively. This shows a generally high level of marginalization from both formal and informal sources of borrowing.

The insurance business is also largely in the hands of the private sector and social enterprises participation is restricted to micro informal burial schemes, and some SASCCOs that arrange life insurance for members. DFI A has recently (2015) also established an insurance subsidiary company that insures customer loans. The share of the market commanded by social enterprises is minuscule. The insurance was liberalized less than 10 years ago from a monopoly status and remains heavily regulated making it difficult for social enterprises to penetrate.

Table 16 Percentage Total Credit Uptake of formal vs. informal sources by market segment

Target Group	Formal	Informal	Family / friends	No access to credit
Total Population	6.7	19.4	15.3	67.1
Civil Servants	42	43.1	22.3	28.0
Company Employees	13.6	31.7	11.5	52.2
Informal sector employees	0.6	22.7	19.0	67.1
Business owners	3.7	17.4	16.0	70.3
Casual workers	1.9	15.3	18.6	70.9
Private dependents	1.9	13.9	13.7	74.9
State dependents	0.0	10.3	8.9	82.3

Source: Finmark Trust, 2014

A significant chunk of capital generated in the country is invested in RSA due to immature local financial markets and low trading activity in Swaziland. Investment opportunities are perceived to be inadequate and information on potential opportunities not readily available.

(ii) Usage of financial services

Financial services may be accessible but not used by potential customers for various reasons including low incomes, service delivery and products that do not match demand and /or excessive service usage costs. The frequency and regularity with which customers who have access to financial services actually utilize them and what they use them for indicates the level of usage. Half of the adult population does not use formal financial institution services and 13% use informal services leaving 37% completely excluded. About 44% of adults in the country have bank accounts but only 24% use them for savings (Finmark Trust, 2014). Salaried employees are compelled

to have bank accounts for transacting as they receive their salaries through electronic funds transfers, hence the seemingly high level of bank account possession. And despite the 50% usage of formal services, only 7% access credit through these institutions, highlighting that despite having access, usage is limited due to various barriers. In contrast, 17% obtain credit from informal source, due to less barriers in this sector for credit. This shows that despite having confidence in banks for safe transacting, there remains widespread perceptions that for some services, banks are not suited to the needs of the majority of the population. They are perceived to be expensive and unreachable due to the extensive conditions and documentation requirements, inflexible and have longer turnaround times on credit applications.

In contrast social enterprises are closer and more intimately connected to the population through on site presence and knowledge, making them more available. The direct specification of the market segments they serve in itself is a financially inclusive approach. Directed services ensure exclusive focus and promotes usage of the services. All the social enterprises studied direct their services to identifiable populations comprising women, the rural poor, SMMEs and green projects. A unique and demand responsive service delivery feature of socially oriented enterprises is the substantial on-site presence either through the permanent residence of field officers such as that provided by MFI A at chiefdoms or regular visits that all the interviewed institutions provide. A respondent from DFI A proposed that banks do not do the same.

"Banks don't get close to customers businesses. They don't have field officers, don't make site visits," have no personal touch". Banks have 2 or 3 business officers, we have a credit officer assigned to 100 clients and he visits them almost every month."

All the social enterprises have fixed lower and upper lending limits depending on the product, which in turn is designed to suit a specific market. Products are also structured to be compatible with the production conditions of the clientele. For instance loan repayment cycles are synchronized with the income inflows of businesses rather than fixed at monthly schedules as is the practice in the banking environment. Service usage fees and interest charges are largely cost related, being slightly below those of commercial institution, unless the social enterprise administrative expenses are subsidized such as those of MFI A. They are below market rate for rural cooperatives and informal groups whose administrative costs are minimal.

(iii) Quality of financial services

Matching the needs of the customer is an important aspect of financial inclusion and the range of products that gives customers options and information to enable them to make the most appropriate choices. Commercial banks normally standardize their products and customers select those that are the closest fit to their needs. They serve all market segments and tend to have generic products that maybe utilized by all, and they separate them into a narrow variety reflecting usage intention rather than a market segment. For instance loans are normally distinguished by the size of the account such as corporate customers, personal loans, vehicles loans, mortgages etc. By directing their services to predetermined special segments of the population, social enterprises tailor make their products to meet the needs of the specific customer groups they serve. DFIs generally segment their products by economic sector

consisting agricultural, SMMEs, micro enterprises and general business. In this way, products match the needs of the customers as closely as possible.

The main advantage of the social entrepreneurship model is the customer information profile providers independently compiles and the intensive customer engagement and interaction business model they adopt. Commercial financial institutions do not build customer relationships as intensively and customers are subjected relatively to the same treatment whether they are new or old customers, in terms of the financing requirements and conditions. Secondly, commercial institutions do not conduct comprehensive appraisals as their aim is to minimize costs and maximize profits. They rely on the customer to provide business plans, pro-forma financial statements, business historical performance etc., and this makes them vulnerable to receiving inaccurate information, increasing credit risk. Their response is to exclude customers or target markets unable to comply with their information requirements instead of finding alternative means to mitigate this failure.

Social enterprises build up customer loyalty through intensive interaction and through exploiting common bonds by membership based models. Repeat customers already familiar to the institution are not subjected to the same rigorous selection criteria as new customers. Commercial financial institutions do not build customer relationships as intensively and customers are subjected relatively to the same treatment whether they are new or old customers, in terms of the financing requirements and conditions. Commercial institutions do not provide complementary services in the form of business and technical advice, training offered by DFIs. DFIs consider themselves as being able to “go the extra mile” for customers, which s incomparable with other institutions.

Social enterprises also exercise more flexibility in the collateral they accept, a sizable amount of their portfolios is secured by movable collateral (more than 90% for DFI A) and they accept partial collateral. Banks require more than 100% collateral comprising immovable property or cash. The repayment schedules for loans are synchronized with cash inflows as opposed to the standard monthly repayments expected by commercial institutions, and they accommodate justifiable repayment defaults by rescheduling loan repayments when the potential to repay is evident, and do not penalize early settlement of loans as commercial banks do. Social enterprises also consider themselves as unique as they offer tailored customer service, going the ‘’extra mile’’ to offer additional business advisory services and training for a more holistic services outlook, to increase the chances of customers’ business success and repayments. Regular on-site presence responds to the specific needs of customers for door-step service. The Primary Cooperative also has a team of field facilitators that provide the rural groups with training in group dynamics and financial management.

Social enterprises engage innovative risk management as opposed to relying on collateral. Loan disbursements are made directly to input suppliers, repayments schedules are synchronized with revenue, default payments are rescheduled in genuine cases. Compiling customer historical profiles including the nature and performance of their businesses, repayment reports etc., allows the financiers to maintain a data bank of accurate and reliable customer and projects technical information and knowledge. Enterprises accumulate wide ranging knowledge of the market environment and the sectors involved. Commercial banks are compelled by regulation to compile customer personal details (Know Your Customer) for security

reasons, not as part of an effort to improve the exchange of information with customers. Customer relationships and loyalty is cultivated through repeated physical contact during interviews, site appraisal and regular monitoring visits resulting in a high level of repeat customers for which screening becomes minimal as accumulated customer data is applied.

As much as social enterprises have a comparative advantage in providing financial services in the social economy, other financial service providers' operations and position affect them competitively. Social enterprises do not have the advantage of deposit taking and therefore have to seek for alternative sources of fund in the capital markets which tend to be expensive, and they are unable to differentiate themselves in the market by offering lower product prices. However, they are able to offer a more diverse financing structures and products including equity financing as they are not subject to the prudential regulations under which deposit taking institutions face. Regulation for non-deposit taking credit institutions under which most social enterprises are classified has historically been more flexible. Prudential requirements are restricted to commercial banks and credit institutions have until recently been to a large extent been self-regulating. The newly established FSRA is in the process of establishing a regulatory platform for these institutions the impact of which is not yet certain. The hybrid nature of social enterprises affords them leeway to be more sustainable than public and donor programs, enabling them to operate on a more permanent basis.

Table 17 Comparison of social enterprises, Commercial and Philanthropic Institutions

Social enterprises	Commercial enterprises	Philanthropic and public enterprises
• Customer information profiling • Project information gathering by enterprise • Building customer relationships • Use field officers to disseminate services • Profit making to break even motivations and strategies • Accept partial and collateral • Controls and manages disbursements and application of funds by customers as part of credit risk management • Repayment schedules synchronized with customer business or salary income schedules • Exercise option to reschedule repayments for genuine inabilities to pay situations and where potential to repay exists • Provide holistic financial services including training and business advisory services • Non-deposit-taking (only membership based enterprises are legally permitted to accept and intermediate savings strictly from members, not from the general public. Credit Institutions may also take cash collateral which cannot be inter mediated) • Most enterprises are self-regulating to a large extent	• Rely on customer to supply information • Rely on customer to submit business plans for appraisal • Customers must visit the institutions to obtain services • Motivations and strategies geared to profit maximization and highest returns from cost effective investments • Demand full collateral • Monthly repayment scheduling(inflexible) • Mobilizes deposits from the general public • Subject to prudential regulations by the central bank	• Not sustainable • Have limited transformatory capacity as they are seldom permanent • Concerned more about outreach than sustainability • Non-profit making • Use field officers to maximise outreach • Government grant services prone to inefficiencies are subject to bureaucratic delays • Sponsor-ships and grants (subsidies) misdirected. • They distort financial markets as they pose unfair competition and give the perception to marginalized populations that external funds must be free, compromising the culture of repayment • Grants and donations are politically driven and used to obtain votes from the population or to engender loyalty to the government

6.5. Models of social entrepreneurship in the financial sector

Social enterprises in development finance are clearly positioned between the private and public sectors. The main thrust of the study is however analysis of the different typologies of social enterprises and an attempt to determine the typology that best positions itself to create social transformation and the method by which it deals with the issue of sustainability as it optimizes social value creation. The identified social enterprise typologies in the Swaziland financial sector are DFIs, MFIs, Cooperatives and informal groups (SHGs, ROSCAs and ASCAS). The study concludes that the extent to which enterprises orient themselves towards a commercial or welfare strategic approach has implications on both the level of sustainability and the types of measures they engage to correct for market failure, and ultimately the level of financial inclusion achieved.

DFIs, MFIs, Cooperatives and informal sector groups are the four main categories of social enterprises identified and studied. Figure 6 demonstrates the differences between these categories as observed during the study. They differ in terms of size, formality, rigidity of procedures, customer participation, and complexity of processes.

Figure 6 Features of social enterprises typologies

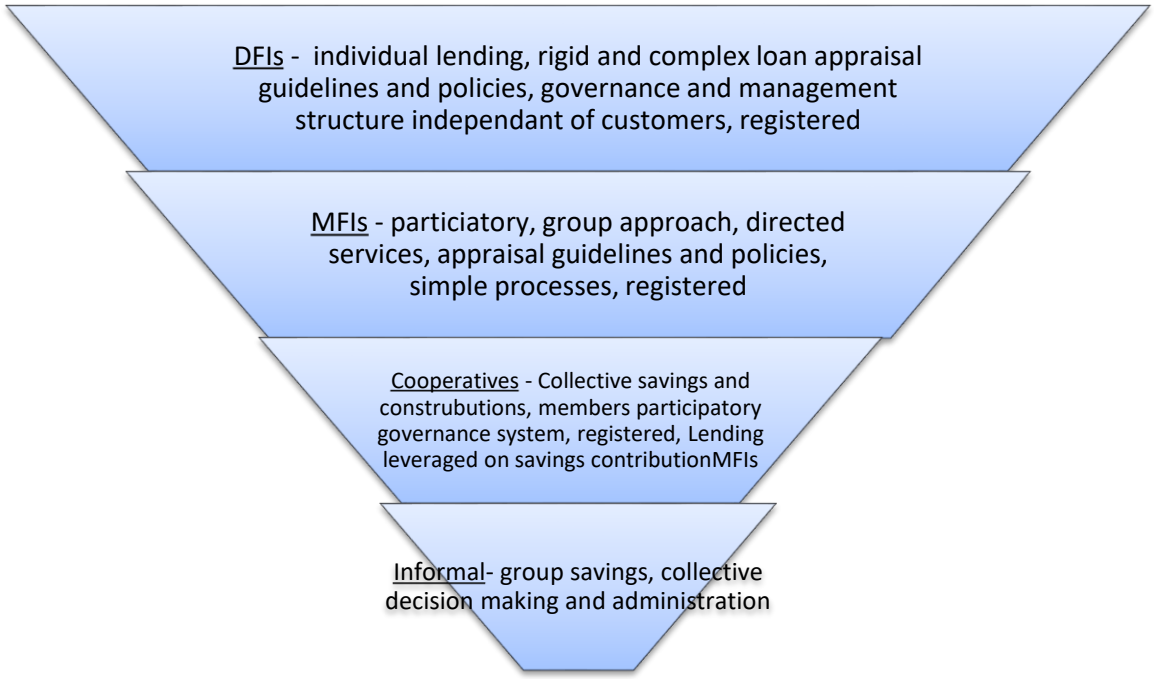


Table 18 Social Enterprises Response to Market Failure by Type

Social enterprise	Responses

DFIs	• Accept alternative collateral (moral collateral) • Heavy reliance on the project capacity to repay • Extensive and intensive project appraisal and customer profiling • Intensive and extensive loan appraisal and customer screening , facilitating information gathering and customer profiling • Regular monitoring of projects physical progress and loan performance • Disbursements of loans are made to suppliers • Loan amounts are subject to limitations and are matched to the predetermined needs of the project • Exposure to a single customer is limited • Repayment schedule synchronized with project revenue inflow schedules • Rescheduling of repayments for defaulters with genuine • Business advisory services complement lending • An insurance subsidiary provides loan insurance to reduce risk • Profitable activity to subsidize development lending undertaken • Continuous customer engagement to build a relationship • A wide variety of products • Special products for micro entrepreneurs with subsidized interest charges
MFIs	• No collateral is normally required, at most, partial collateral in the form of savings is required • Participatory loan and customer appraisal exploiting common bonds and prior knowledge between customers in communities • Collective responsibility for loan defaults appealing to collective pressure, and participatory loan monitoring • Joint or collective liability by groups and/or communities for individual members loans • Loan application periods and site visits are scheduled monthly to reduce transport and administrative costs • Flexibility in the type and volume of information required for customer and loan appraisal • Project and customer information is gathered and kept by the enterprise to ensure accurate data • Linkages and collaborations with relevant organizations such as Government extension officers to provide and validate technical aspects of projects, and traditional authorities • Restricting lending to short term • Disbursements a combination of cash and payment to suppliers for convenience to customers • Leniency is extended to defaulting customers with justifiable and valid cause • Fixed and consistent interest rates and charges. Simple interest.
Cooperatives	• Partial collateral in the form of savings • Membership participation in governance • Minimal and simplified loan administration and management, with heavy reliance of cash savings collateral as a screening tool, minimizing transaction costs • No restrictions on the use of borrowed funds • Exploitation of common bonds between members • Subsidized interest rates

Informal groups	• Full self-governance, planning, policy and strategy determination by members • Very simple savings and lending administrative processes employed • Collaboration with local authorities to arbitrate in cases of default repayments

Table 18 and figure 6 illustrate the main difference between the studied types of enterprises. It is difficult to determine one model as superior over others in the absence of standards or best practices and impact assessments. However, an assessment of strategic approaches and selected responses in the absence of viable markets are good indicators of the level of commitment to the inclusiveness of the enterprise, deliberate or otherwise. DFIs exhibit the most features of conflicted missions yet they are also the largest in terms of business turnover and customer volumes. Conflict is evident in the rigorous customer selection which reflects their prioritization of financial sustainability be it to maximize profit or to break-even. The result is a narrow customer base that excludes the most marginalized rural populations and women in preference for urban traders, and the use of an individual client based selection and larger loans instead of a groups approach. However, DFIs still waive collateral, a significant factor in the non-market approaches.

This reflects an affinity with commercial or bank logic service delivery methodology and a clear drift from the social mission that defines social enterprises. MFIs are mission focused in their behaviour but do not operate on a sustainable basis. They also exclude the poorest of the poor in the interest of loan portfolio performance and require customers to be at least economically active in order to benefit from their services.

The distinction of cooperatives and informal groups is the membership based approach which allows more participation of members in governance decision-making and management. They minimize service delivery costs and are able to offer subsidized charges for these services, making them affordable and more accessible to marginalized persons. This is however not reflected in the penetration volumes of cooperatives in the country and the movement has been hijacked by wage earners as opposed to marginalized populations. Primary cooperatives and rural self-help savings and credit groups are characterized by low turnover and slow growth.

The customer base or target market varies between social enterprises ranging from large scale ventures to SMMEs and micro scale entrepreneurs, all with the common feature of being excluded from mainstream access to finance. The element of sustainability is introduced at establishment for DFIs as the enterprise founders purposed them to operate independently and be able to finance themselves from business activities after the initial capital injection. This immediately resulted in adverse selection even within the target groups, resulting in exclusion within the target market, as DFIs sought to serve only customers with the better chances to repay to enable them to minimize losses and cover costs. They have ultimately incorporated other products that are non-discriminatory between the banked and un-banked, which have outpaced the strictly developmental products, describing these as demand-led products, and cite low viable demand from the latter.

Likewise, MFIs who initially had a wide and inclusive customer base of the “rural poor” and “women entrepreneurs” were later compelled to redefine and rationalize their selection policies to *“the economically active poor”* to reduce default

repayments, not only in the quest for sustainability but also to cultivate and enforce a culture of the necessary financial responsibility among the target group, and to differentiate the enterprises from philanthropic approaches. A shift from the social value creation mission or compromise can certainly emanate from the above practices as they aggravate exclusion being selective albeit within the marginalized themselves. On the other hand, membership based organizations such as cooperatives and informal rural groups that pre-select their 'customers' with predetermined eligibility criteria are often tied to the social mission. SACCO membership cuts across the marginalized and non-marginalized, however, rural based primary cooperatives adhere to the social mission.

The best intervention could be said to be one that has the potential to create the highest social value, but there are no measures for social value, hence it cannot be said with certainty that an enterprise has managed to do so or not. The dimensions of financial inclusion used by the World Bank identify access, usage, quality and impact, which are cumbersome measures from which more specific and simpler standards need to be unpacked for practical application. In terms of access, DFIs are the least accessible to marginalized because they offer their services to the general public, without directing and restricting it to any population demographic and rural based cooperative and informal groups are the most accessible as they are initiated, operated and administered by the marginalized themselves. The more commercialized DFIs have a different clientele of the marginalized comprising of SMMEs which are also in more commercial activities, whilst MFIs require more subsidized support due to their more social mission to uplift the rural poor and women. Although primary cooperatives and informal groups are self-sufficient, the level of intervention is lower per participant, making the financial impact low. The SACCO intervention benefits mostly salaried persons and cannot be classified to have a social mission.

6.7 Chapter Summary

Clearly social enterprises fall somewhere between the private and public sectors in economic development theory. Of significance are the risk and sustainability relationships that signal their role and market position. In contrast to private sector financiers, their strategic position is not profit maximization and they yield benefits to their customers through their operational approaches of partial collateralization, provision of extra monitoring and advisory infrastructure, rescheduling of loan arrears and loan preparation. Profitability is only necessary for sustainability. Risk of loss is lower for private sector institutions which institute risk conservative measures yet social enterprises risk management strategies are compromised by the flexibility of their operational approaches. Public and philanthropic interventions provide fiscal transfers and grants, and where involved in lending, the risk of loss is high and profitability not a concern. Private sector institutions also use private capital such as equity and bank debt whilst social enterprises use private sources, concessionary credit and public funds. This allows them the flexibility they extend to customers and to accommodate the development needs of their customers.

The altruism of social entrepreneurship embodied within its definitive mission demands and implies beneficiation of individuals who are unable to obtain or access assistance in the normal course of business or trading. Public sector and other non-profit seeking institutions are as likely to provide such beneficiation as social enterprises and are less prone to mission drift because they pursue a single mission. However, subsidized and publicly or donor funded programs are less likely to survive

in the long term than self-financing or self- sustainable. Social enterprises when able to strike a balance between the social and commercial logics are best able to provide the required services on a sustainable basis thereby creating financial markets where none existed before by successfully innovating to mitigate for the absence of markets.

In addition to the unique market position held by social enterprises, the study also highlights the diversity of social enterprises in their tendency toward social value creation versus profitability.

However, up-to-date, only DFIs are able to attain sustainability, and only by adopting a heavier commercial or bank logic bias in their strategic actions. This aggravates exclusion to some extent, underlining the conflict between social and economic missions. It further emphasizes the diversity of market segments within the marginalized which demands diverse strategic approaches. This is also reflected in global trends towards commercial microfinance where the world has come to the realization that there is a social cost to the commercialization of micro- finance and that most institutions remain not fully self-sufficient despite the optimism of commercial approaches

CHAPTER 7

7. CONCLUSIONS AND RECOMMENDATIONS

7.1 Introduction

After decades of practice and focus of analytic literature on "definer level" (p. 65), the social entrepreneurship discipline is at the threshold of a theoretical framework construction (Perrini & Vurro, 2006). Practice has outpaced ideological formation and academic study, thereby limiting the establishment of benchmarks and best practices grounded in a universally accepted theoretical framework for the discipline. Indisputably, access to finance for the currently under-served and in particular the poor is a topical issue among practitioners as they seek ways and means to survive and attain permanency through financial sustainability. Academic research also grapples with the ideology of the compatibility of seemingly conflicting objectives of financial sustainability and servitude to the poor and the dual maximization of these that is sought by practitioners of micro finance (Rhyne & Drake, 2002; Murdoch, 1999). There has been significant debate on the possibility of a trade-off between the two objectives that leads to a subjugation of one in preference for the other which leads to a shift from the ultimate mission of financial inclusion (Emerson, 2003; Santos, 2009).

Despite extensive academic deliberation, limited empirical research is a major hindrance to any conclusive and credible theoretical postulations and standpoint on the topic (Ayerbe et al, 2014). The prolific practice of micro-finance has also failed to yield a deeper understanding of the behaviour and motivations of social enterprises in the execution of their mission, and in relation to already existing economic theoretical foundations. This study advances the discourse through an attempt to address the question of the dual maximization of missions by examining the behaviour of a variety of social enterprises, spanning large development finance institutions to informal savings and credit groups. It probes their strategy formulation and activity implementation approaches in relation to the underlying social mission and competing need for sustainability. The study further investigates market failure in the financial sector which is the main cause for the market disequilibrium resulting is financial exclusion. In practice, social enterprises are battling to function in the absence of markets and employ unique strategies to mitigate the impact of the failure of the markets. The study finds that the approach organizations adopt to mitigate market failure often also reflect their bias in mission, which is also often driven or motivated by their response to the desire to be sustainable.

7.2 Summary of Findings

7.2.1 Models of social entrepreneurship

Social enterprises unquestionably operate the market space between the public and private sectors, assuming a hybrid nature of these sectors in terms of the risk and return management approaches taken, and this allows them to straddle the social and economic mandates. However, there is a wide array of social enterprises in the financial sector and the extent to which they emphasize the two mandates depends on the mission, and their response to risk and return as reflected in their strategic, structure and operational approaches. Risk conservative approaches that emphasize

cost recovery or sustainability are most likely to adopt strategic and operational endeavours that drift towards a more commercial mission. In this manner, social enterprises fall into a continuum between commercial and social behaviour as depicted in figure 8 below, and the features of each extreme found in practice. At one extreme are commercially biased social enterprises which tend to engage more conservative market failure mitigation strategies, adopting more bank like processes and procedures in cognizance of their more aggressive pursuit of a self-sufficiency position. At the opposite end of the continuum are socially enterprises that are more flexible and accommodating of poorly performing customers, engage more aggressive market failure mitigation strategies, but are also less sustainable.

Figure 7 Models of Social Entrepreneurship

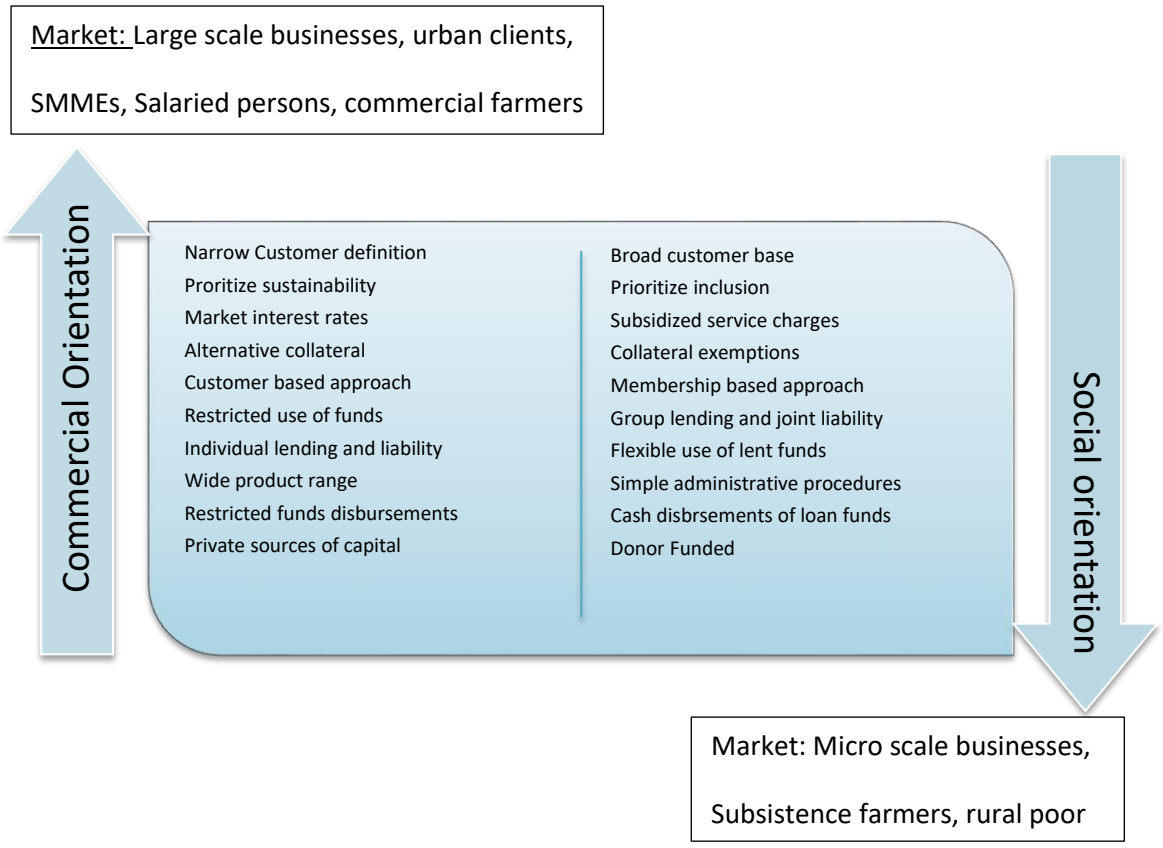


Figure 8 shows the behavioural features of social enterprises that predispose them towards the commercial or social typology. A significant differentiating factor is customer profile and selection. Commercially oriented enterprises are more circumspect in their selection of customers mostly to minimize the risk of default than socially biased enterprises which are more concerned with including as widely as possible. DFIs have a narrower definition of their clientele and tend to segment them by their perceived risk orientation. DFI A has operates a subsidiary specifically targeting wage earners who bear the lowest risk of default. They also have specific programmes for micro scale business customers for which they perceive to have a higher risk and set lending limits for each of these categories based on the level of risk. The SACCO has a combination of wage earning customers and self-employed that are treated equally has experienced sustainability challenges, highlighting their

position away from cost recovery orientation. MFIs that have a broader customer base are less sustainable and are more socially oriented. Institutional governance and customer participation also has an impact on the orientation of social enterprises. Those that customer based are more commercialized than those are participatory and membership based such as cooperatives and informal organizations. However participatory enterprises tend to rely on members contributions, failing to mobilize external capital injections and are restricted on growth.

7.2.2 Sustainability and conflict in missions

The advent of social entrepreneurship is precisely the recognized need to balance the financial survival of institutions with the desire to assist the less privileged members of the society. However trying to capture economic value for sustainability may occur at the expense of the benefits to the socially underprivileged. A trade off or conflict between the missions is inevitable where private value is being created the effect is a reduction in the affordability of services and net benefits accruing to the disadvantaged target group who double up as customers, aggravating exclusion. Charging market related interest rates is for instance regarded as the cornerstone of sustainable micro-finance with the consensual conviction that charges on financial services among the poor are demand inelastic. This is founded on the assumption that the main challenge is access rather than the price of services. However, affordability is one of the factors that restrict access and high rates aggravate exclusion especially among the poorest of the poor, resulting in market failure.

The study found that this may occur in several ways:

(i) The markets among the poor are underdeveloped, making it difficult to capture economic value with ease, compelling organizations to drift towards more developed markets. DFIs shun the rural markets and women customers due to poor demand, and have drifted towards urban and larger customers. The more commercially oriented enterprises narrow their target group to wealthier customers, offer larger loans, tend to have individual customers, have more urban customers, less women and youth customers and are regulated. MFIs also shun the poorest of the poor for the same reason. The underdevelopment of markets is manifested in the paucity of viable demand for financial services, mostly attributable to poor business environments and opportunities.

(ii) Although social value creation is said to occur in both profit and non-profit oriented institutions the study found that profit maybe pursued at the expense of social value. In the market, value created is derives from trading surplus which is divided into producer and consumer surplus, between which there is a trade-off. Profit oriented enterprises maximize producer surplus, reducing consumer surplus. In social entrepreneurship, consumers of financial services are the poor and marginalized, and a reduction in their surplus is detrimental to the social mission. Social value creation implies a non-market response as it refers to beneficiation beyond market values, and using commercial means to do so is contradictory.

(iii) All the social enterprises are cognizant of their social purpose and reflect this in the wide range of services they provide and attempts to tailor them to the requirements of the markets they serve. This may although simply be a business strategy to mitigate the shortcomings of the markets.

(iv) They tend perform better financially sustainable, more efficient, have a better outreach in terms of customer numbers (Ek, 2011). This observation is compatible with the findings of the study. DFIs are more commercially driven and subscribe to all the characteristics and behaviour stated.

The premise that the conflict between the missions is only evident in the appropriation of value between the enterprise and beneficiaries as opposed to value creation (Santos, 2009), is tested by the act of transferring value through trading with beneficiaries as opposed to direct transfers. Enterprises compete for value beneficiation through trading with each other as the enterprise strives to make sufficient surplus to remain sustainable, which reduces value transferred to its customers which are also its beneficiaries. The ultimate value created is a blend of social and economic, however a trade-off between the two is inevitable.

Conflict in the concurrent management of social and commercial objectives is confirmed by DFI A which embarked on separate profit making activity to cross-subsidize the loss making markets, aiming to use commercialization or economic means as a tool for social development. This however takes away financial resources from the underprivileged to the more rewarding and more demanding profitable activity which became more dominant than the core mission activities.

7.2.3 Correction for market failure

Social enterprises purport to employ economic means or market intervention methods to create social value as opposed to philanthropic means (Mboko, 2013). The rationale is that economic means provide institutional sustainability which are better able to create social value on a consistent basis. This assumes a confluence of social and economic value creation or the application of market responses in the realm of market failure or where markets do not perform well. It also implies a restoration of market conditions and movement towards equilibrium and Pareto optimal conditions. Cooke et al (2003) considers it a fallacy to use market based solutions in the realm of market failure as it requires the fulfilment of the same conditions that led to it, compelling social enterprises to drift away from the social mission. Nichols (2006) also questions the application of welfare economics in market failure. However, the correction of market imperfections relates to any means that will ensure the inclusion of previously excluded in trading in financial services by altering the market conditions to make it feasible. The studied enterprises employed a diversity of strategies in an attempt to correct for the impact of market failure although the success or failure of these strategies is difficult to measure.

Table 19 Market Failure Mitigation Measures

Market failure	Measures
Information asymmetry	• Intensive customer information gathering and profiling • Comprehensive activity appraisal by the social enterprise • On- site visits and field officers permanently assigned to customer communities

	• Group membership selected by social bonds • Face to face interviews with potential borrowers • Meetings with groups • Training and business advisory services • Payments by stop order on salary • Relationship building
High transaction costs	• Field officers site visits • Decentralization of services through regional branch networks • Batch customer processing • Customer groups
Poor repayment capacity	• Comprehensive loan screening • Business management training support • Disbursement restrictions (when needed, to suppliers) • Keeping initial loans small
Scarcity of collateral	• Use of movable collateral • Peer pressure • Social bonds • Traditional authority structures • Stop order arrangements
High co-variant risk	• Group lending • Repeat loans
Poor support infrastructure	• Services outreach to remote areas using field officers or permanently on site community Members • Use of innovative technology such as mobile money transfers • Collaborations with other development agencies

The means employed to resolve information asymmetry can never substitute for perfect information on supply and demand to market actors, however, where obtained and deemed sufficient and usable to facilitate informed decision-making, it is a far better option than the alternative to withhold service as practiced by commercial banks. Information gathering is cumbersome and maybe expensive, which costs are passed to consumers, making services unaffordable. Complete correction for information asymmetry is not attainable but it is necessary to have as much information as it is feasible and the strategies used by social enterprises are superior to any other intervention in relation to the amount of information they manage to gather, although costly. It enables the enterprises to compile a reasonably adequate profile on potential customers to facilitate trading.

The main strategy used to correct for high transaction costs is customer groupings or group lending as it is popularly known. The strategy is particularly useful for remotely located individuals and large numbers of small transactions. Transaction costs as a significant factor in providing services to remote rural area and micro enterprises as the cost of service per loan is inelastic to the size of the loan. The cost of data gathering for loan appraisal which include site visits, compilation of business plans and monitoring increase the cost of field staff services. It is for this reason that screening is partially conducted by the groups in micro-lending. Repeat loans also reduce transaction costs as data collection becomes minimal. The institutions have not

however conducted cost benefit analysis to determine the unit costs of their services making it difficult to assign costs to specific market groups or by products.

The group approach is also use to reduce credit risk through joint liability contracts although evidence of impact is also difficult to determine. Social enterprises do rely on self-selected groups to exert influence on fellow group members for loan repayments, exploiting social bonds. In some instances as in the case of MFI A and informal self-help groups, traditional authorities who are custodians of community social bonds have also been roped in to either exert their influence or to arbitrate using their authority, highlighting the strength of such social bonds. The study found that social bonds have both a positive and negative effect on loan repayment. Breza (2010) concurs with this finding in a study of peer pressure from a natural experiment in India. He also conforms the importance of social bonds, discovering that customers are most likely to repays if all group members repay. The customer grouping model also facilitates deposit mobilization which strengthens collateral offered by customers. The study however shows that the individual prosperity of members has a bearing on the general success of the group. The most successful informal group in terms of turnover is the urban and employee based ASCA whilst the rural based groups appear to be trapped in small amounts, unless they receive significant external intervention and facilitation such as that obtained by rural cooperative groups.

Social enterprises accept a variety of types of collateral thereby making financial services more accessible and affordable to the excluded. Collateral accepted is often not realizable, and most enterprises demand upfront contributions to the business financed to engender commitment. Collateral is regarded as a means to mitigate non-repayments, not as an alternative source of repayment, and in order to remove the need for it, social enterprises emphasize other methods to improve chances of repayment such as enhancing business success. This is done through comprehensive business planning and appraisal, careful selection of projects and customers and building of a reliable customer base minimizes credit risk. Co-variant risk is almost impossible to avoid in the target group as the underprivileged tend to cluster around similar economic activities.

Market failure mitigation through market strategies is a double edged sword for the excluded as the strategies designed to restore markets often entail stringent customer selection albeit amongst the target group, but creates more exclusion. However such strategies have mobilized trading activity in financial services amongst populations comprising SMMEs, micro businesses, smallholder farmers, rural women, the youth and other groups that would have otherwise been left out.

An optimal model of social entrepreneurship must be one that best and sustainably attains financial inclusion. The study found that the pertinent distinction between the models of social entrepreneurship relate to the ownership and mandate, sources of funds, customer selection, customer participation and sustainability. Sustainable micro-finance institutions have been found to be more efficient to achieve more outreach breadth, being in terms of the number of customers than non-sustainable institutions. They offer larger loans, are financially better performers but have less marginalized customers such as women (Ek, 2011). This is clearly demonstrated in the study by the variations in sustainability, financial performance and outreach breadth between the larger and more commercial DFIs and the smaller, more inclusive and less financially able social enterprises. It is indicative of a certain

amount conflict between a commercial mission and a social one, however such sustainability is necessary. Copestake (2006) describes this as a mission lock-in than a drift as institutions are unable to control commercialization once it has been embarked upon.

7.3 Conclusions and future research

Although theory dictates that all value created increases social welfare, private value and social value creation are two distinctly different pursuits. Institutions that set out to create private value are driven by profit maximization motivations and behaviour. The determination of how value is appropriated is enmeshed with its creation as it is established and programmed into objectives, strategies and actions of organizations, dictating its selection of business customers, business owners, and manner of resource application. A trade-off between the two values occurs as private value can only be amassed by mobilizing and maximizing income derived from business activity, by charging customers maximum prices, shifting beneficiation to business owners. Innovative methods to share value without trade-off in micro-finance are yet to be identified. The collective ownership model such as cooperatives and informal groups whereby ownership of the social enterprise is vested with the members eliminates the division of value into private and social. However, in practice, these enterprises have not been able to mobilize the drive and capital that customer based enterprises possess.

The actions of social enterprises show that the survival of the institutions is paramount and even MFIs which are strongly socially oriented are eventually compelled to recognize and embrace the necessity to be economically biased in order to successfully pursue the social objective. The conundrum is in the economic objective of sustainability being a means or a tool for social impact eventually taking centre stage, overriding the original mission and this occurs because of the trade-off relationship between the two. However, the studied institutions purport to manage sustainability as a tool for social impact and at most, strive to break-even as opposed to rent-seeking or profit maximization, indicating a strong bias for the social mission and, and evidence is that they have been locked in to economic activities.

A segmentation of the target markets or the excluded is one way to respond and determine those deserving of subsidized services and those excluded for other reasons. For instance, the green projects are under-served by commercial banks but are essentially a niche market that can be profitably exploited by venture capitalist through patient capital. Likewise, the economically active or working poor are able to repay loans but may be constrained by risk related finance charges, and eligible for some subsidy. The poorest of the poor are those deserving of full philanthropy and not a market for social enterprises until they can be assisted to be economically active. Innovative ways of creating both social and financial value by creating complementary relationships are an area to be researched and explored by social enterprises, particularly cost reduction methods of service delivery such as the use of mobile networks and other electronic media for transactions. Market segmentation would be compatible with the flexible or “bricolage” nature of social enterprises observed to change with environmental circumstances with the ultimate aim to fulfil the social mission by any means (Dolnicar, 2010; Seanor et al, 2012).

Sustainability is an overriding motivation for the behaviour of customer based social enterprises burdened with heavy administrative structures demanding financial resources for operations. In contrast, membership based organizations with participatory administrative structures are less cost heavy. Sustainable approaches are indispensable tools of financial inclusion, however care must be exercised to avoid locking social enterprises into private value creation. Social enterprises must engage economic value creation tools to break even not to maximize profit. Rent seeking private sources of capital shall conflict with social value creation and must be avoided. Concessionary capital must be mobilized from local and international spheres and in particular, the government needs to collaborate and support social enterprises at the more socially oriented end of the spectrum. The various market strata of the marginalized must be identified enabling social enterprises to determine the level of sustainability achievable from serving each segment and design strategies to differentiate themselves accordingly. The poorer the population, the more socially oriented the approach should be. Innovative solutions to create financial markets where they are currently inadequate must continually be sought.

In the study, DFIS represent a more commercial stance, followed by MFIs, with cooperatives and informal groups being more socially oriented. Sustainability in social enterprise social a creation is a necessary means for the endurance and longevity of the institutions. It creates an optimal opportunity for successful intervention by as it leads to improved efficiencies and higher outreach levels. However, the study shows that the threat of ambivalence in the true aims of the enterprise is genuine. Improved efficiencies and outreach are not synonymous with increased financial inclusion. More efficient enterprises adopt a commercial orientation and ‘’bank-like’’ logic and procedures that alienate small and micro level customers whilst socially oriented institutions apply philanthropic approaches. The hybrid nature of social enterprises is often misinterpreted to assume that they are adept at blending and equally pursuing both social and economic value creation without bias. Social enterprises tend lean towards one or the other mission and these are evidently not complementary unless deliberately designed to do so through special products and cross-subsidization programs. The bias has implications for both the ability of the enterprise to create social value and to be sustainable. This also is reflected in the selection of the target population served by the enterprise, albeit within the excluded.

The versatility, diversity and hybrid nature of social enterprises must be recognized, acknowledged and encouraged to enable them to serve the equally diverse market segments of the excluded. Higher end commercial oriented enterprises are able to efficiently and sustainably serve customers with the potential to pay for services and only deterred by high risk, lack of collateral, and other market failure impediments from accessing financial services from mainstream institutions. Lower end socially oriented enterprises targeting the poor who may not afford to pay market rates for services may not be sustainable and require injections of grants and donations. Standardization of social value creation best practice must ideally be done in the context of the diversity and multiplicity of social environments and in cognisance of the diverse social needs and levels of social development of the poor. Uniform indicator for social development should be articulated for specific environments and populations, and similarly the financial inclusion strategies should be responsive to the diverse contexts.

Poor investment opportunities due to a sluggish economy present a significant threat to social enterprises who are already operating on the fringes of commerce. Low domestic investment and dwindling FDI has resulted in slow economic growth and low incomes, slackening demand for customers goods and services, which in turn results is low viable projects eligible for financing and high default rates. Non-deposit taking institutions also face an unending challenge of capital shortages as they expands operations. Private source of capital require profit maximization which is outside the goals of social enterprises and concessionary sources are scarce. The government should take advantage of the unique advantages of social enterprises to overcome the environmental adversities by extending them the support they need such as capital injections, capacity building and enabling regulation.

The history of accessibility to finance is immersed in regulation and subsidy interventions by non-profit organizations and the public sector (Besley, 1994). These however, quickly led to excess demand and adverse selection of beneficiaries, credit rationing and financial repression or misallocation of services, dismally failing to resolve the problem of financial exclusion. By passing the market allocation mechanism to direct services to specific target groups persists despite the trending bias towards financial liberalization, in the interest of serving the poor and marginalized. The absence of markets for the poor is justification for directed financial services. The study conducted a deeper analysis of the inadequacies presented by these markets and the practices of financial enterprises operating in them as they attempt to make up for these shortcomings and the extent to which their actions are justifiable and optimal interventions. Social enterprises are not in a position to unilaterally resolve these market challenges by their actions as they are externally generated. The lack of collateral by the marginalized is exacerbated by the lack of property rights and their enforcement to allow financial institutions to realize collateral, which can only be resolved by appropriate legal structures. Further investigation on the effectiveness of substitute and partial collateral accepted by social enterprises is necessary to determine its impact on customers' decisions whether to repay their loans. It was observed that enterprises have historically adopted a ''pay as you go'' policy making and mitigation strategy approach, dictated by challenges encountered, and the larger the enterprise, the more ''bank-like'' their policies become.

The findings of the study notwithstanding, more conclusive evidence can be derived from impact evaluations of social enterprises which are often sadly not conducted. These would provide concrete evidence of their capacity to create social value and establishment of dimensions of social impact. Social enterprises have also adopted a significant array of coping mechanisms against the vagaries of market failure and the effectiveness of these has not been sufficiently investigated. This would contribute to the development of performance indicators and benchmarks. Research into the following is recommended:

(i) The effectiveness of alternative and partial collateral of loan defaults (social bonds)
(ii) The cost and benefits of intensive customer engagement, customer profiling and screening
(i) The dimensions of marginalized populations and significance for financial inclusion interventions

(ii) The ability of commercial banks to scale down for financial inclusion and that of NGOs to scale up for sustainability

(iii) The level of sustainability at which the social mission is not compromised

(iv) Innovative solutions to create financial market

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11. ANNEXES

Annex 1 Interviews participant information

Participant Audio recording	Organization	Interview time (Minutes)	Position
Voice 19	DFI A	58	General Manager
Voice 18	DFI A	47	Senior Manager Finance
Voice 17	DFI A	58	Senior Manager Business Loans
Voice 20	DFI A	63	Senior Manager Agricultural Loans
Voice 23	DFI B	55	Senior Manager Equity
Voice 21	DFI B	75	Senior Manager SME and Agric. Loans
Voice 27	DFI B	47	Manager Finance
Voice 09	MFI A	71	The Director
Voice 11	MFI A	26	Field Credit Officer
Voice 10	MFI A	42	Field Credit Officer
Voice 08	MFI B	79	The Director
Voice 15	MFI B	34	The Finance Risk Officer
Voice 14	MFI B	33	Operations Manager
Voice 30	Cooperative 1	64	The Manager
Voice 31	Cooperative 1	50	Field officer
Voice 32	Cooperative 1	51	Field officer
Voice 25	Cooperative 2	60	The Manager
Voice 26	Cooperative 2	48	Field Officer

Voices 13	SGH A	42	Members
Voices 12	SHG B	65	Members
Voices 28	SCA	50	Members

Annex 1 A summary of findings

	DFIs	MFIs	Cooperatives	Informal Groups
Mission	○ Access to finance for excluded populations	○ Access to finance for the excluded rural populations	○ Access to finance for the excluded	○ Access to finance and savings mobilization
Ownership	○ Government ○ Government and private sector combination	○ Philanthropists ○ NGOs	○ Members mutual funds	○ Members mutual funds
Funding	○ Private capital markets ○ Government ○ Revenue from charges	○ Donors ○ Revenue from charges	○ Members contributions ○ Revenue from charges ○ Donors	○ Members contributions ○ Income from fees and interest charges
Target Customers	○ Large scale Green projects ○ Registered SMMEs ○ Micro-scale market traders with a fixed location ○ DFI A has 58% women ○ DFI B customers mostly male ○ Salaried persons	○ Women ○ Rural poor population ○ Small subsistence farmers ○ Informal traders ○ Hawkers	○ Business owners ○ Civil servants ○ Pensioners ○ Company employees ○ Smallholder rural farmers ○ Rural based salaried employees	○ The rural poor ○ Employed persons ○ Casual workers ○ 95% women members

Sustainability	○ Break even ○ Self-financing ○ Market related charges	○ Below sustainable ○ Subsidized charges	○ Self-financing ○ Subsidized interest charges and fees	○ Self-financing ○ Low interest rates and charges
Operational Strategies	○ Individual and group approach ○ Alternative collateral (customer contributions) ○ Repeat customers ○ Customer engagement ○ Intensive information gathering ○ Extensive screening methods ○ Small start-up loans ○ Holistic services provision ○ Intensive monitoring through site visits or equity position ○ External collaborations to reduce default risk ○ Reliance on stop order arrangements over salaries for retail loan repayments	○ Group approach ○ Savings as part collateral or no collateral at all ○ Use of community based social structures and bonds ○ Customer Participatory approach ○ Permanent on site presence ○ External collaborations ○ Small short term loans >E25K	○ Group and individual approach ○ Members participation in decision making ○ Pre loan vetting and screening is minimal ○ Loan amount leveraged on savings ○ Savings used as part collateral ○ Reliance on relationship bonds ○ Reliance on stop order arrangements over salaries for retail loan repayments	○ Group approach ○ Savings used as collateral ○ Collective decision-making and Management ○ Community bonds and authorities relied upon ○ Employees of the same company legibility criteria ○ Minimal vetting of members. ○ Simple administrative processes ○ Equitable participation of members is emphasized ○
Products	○ Asset lease financing	○ Personal Savings	○ Savings ○ Personal loans	○ Savings ○ Credit

	○ Property acquisition and development ○ Agribusiness finance ○ Order financing ○ Working capital ○ Business acquisition ○ Equity participation ○ Advisory services ○ Retail loans	○ Multi -purpose loans ○ Training and Advisory services ○ External Loan Funds administration ○ Insurance	○ Retail lending ○ Advisory services ○ Training ○ Mentorship ○ Collective businesses	○
Comparative advantage	○ Non-profit making ○ Customer Relationship building ○ Equity taking	○ NPO NGOs ○ Donor funding ○ Low interest and fees charges ○ Social authority participation ○ Customer participation and loyalty ○ Employment of community members as field officers	○ Members contributions ○ Members participation and ownership ○ Below market rate interest rates and charges	○ Self-determination ○ Temporary groupings and adaptable ○ Simple administrative and decision-making processes ○ Unregistered, com[lately independent and self-regulating ○ Do not pay tax ○ Operations aligned with members socio-economic lives ○ Pre-dominantly consumption oriented activity ○ Members' ownership of the schemes.
External environment	○ Poor business opportunities	○ Poor regulatory environment	○ Changing regulatory environment	○ Poor resource conditions

	○ Inadequate / expensive sources of private capital ○ Liquidity constraints ○ Market distorting programs (grants, subsidies) ○ Poor Government linkages ○ Poor inter business linkages ○ Inability to intermediate deposits ○ Changing regulatory authority ○ Deteriorating economic environment and loss of FDI ○	○ Government and donor direct intervention in same markets distorting effect and posing unfair competition ○ Poor business environment ○ Inconsistent informal produce markets ○ Women customers social status (multiple roles) limit their participation ○ Businesses kept small ○ Too many multi-sectoral interventions in target group ○ Minority status of women ○ Youth mobility and poor participation ○ Excess demand	○ Poor business environment ○ Youth mobility	○ Poor economic environment ○ Restrictive socio-political environment

		○ Social ties ○		
Performance	○ Use of financial indicators predominant ○ Impact evaluations rare	○ Donor funded MFI experiencing growth and good performance ○ Self-financing MFI shrinking ○ Transforming subsistence farmers into commercial farmers	○ Poor financial performance of the facilitating cooperatives ○	○ Transient nature of operations restricts growth (lack of permanency) ○ Impact on rural poverty small

Annex 2 A summary of the policies to minimize credit risk

- Matching repayment schedules to customer revenue inflows times
- Loan ceilings based on the size and needs of the business or regulation for retail lending
- Determination of loan size based on project appraisal
- Keeping initial loans small where possible, encouraging customers to start small
- Prioritizing repeat customers
- Limits on total exposure to a single borrower
- Limits on sectoral / industry exposure based on general performance
- Levels of approval up to board level depending on the amount
- Collaborations with supportive organizations
- Providing business development and advisory services to enhance customers capabilities and improve chances of business success and those of loan repayment
- Conducting own appraisal and customer information gathering
- Restriction of cash disbursements to customers and disbursing to input suppliers
- Submission of all supportive documentation such as market contracts, evidence of customer qualifications, evidence of availability of technical support, input quotations etc.
- Tailor made products and processes that compatible with the needs of the target group such as decentralization of services through field officers rather than complex and expensive branch networks, insurance products to mitigate defaults and widening the range of products.
- Group or collective services to exploit peer pressure
- Collective responsibility for informal groups

Annex 3 Social Enterprises Customer Participation Structures

Social Enterprise	Participation structures
DFIs	• Micro loans for semi-formal enterprises (market traders) • Sugarcane loans for collective farming (farming cooperatives or companies comprising large numbers of farmers) • Company loans • Individual loans
MFIs	• Local Membership Committees (LMC)- community participation groups • Savings groups • Individual loans (must be a member of an LMC) • Swazi Nation Land Communities
Cooperatives	• Savings and credit groups • Income generating projects groups • Individual savings and credit
Informal Groups	• Savings and credit groups • Individual loans