Economically feasible, but not financially sound? Charity and/or business in rural development

Kroesen, Otto; Ndegwah, D.J.

Publication date
2016

Document Version
Final published version

Published in
Proceedings of the 14th Rural Entrepreneurship Conference

Citation (APA)

Important note
To cite this publication, please use the final published version (if applicable). Please check the document version above.
Economically feasible, but not financially sound? Charity and/or business in rural development

ABSTRACT

Instead of presenting a business approach or a community (NGO) approach towards development as an either-or alternative, these two in actual fact constitute a continuum. This is particularly the case if the bottom of the pyramid is targeted, like smallholder farmers. Social enterprises often cannot avoid building the social and institutional conditions for proper functioning as a business. That may take investment costs (including social investment costs, time and energy) that cannot be integrated into a revenue model. This analysis is corroborated by examples and cases from a minor and internship program from the Delft University of Technology on international entrepreneurship and development. The paper adopts a civil society approach whereby a well-functioning civil society is understood as a condition for doing business. This entails free association, shifting memberships of individuals and organizations, lack of confinement to specific ethnic groups or strict state authority, and disentanglement from patrimonial systems. Then there are requirements for a universalist state (rule of law, law enforcement, transparency) and capable citizens. Where such an institutional framework is lacking either NGOs or social enterprises have to fill the gap. And since the costs of these activities cannot be covered by the revenue model, a bottom of the pyramid approach can be designed more effectively by including civil society partners and by understanding the roles of the different stakeholders. Thus cooperation between social enterprises and NGOs will be more effective if they have a better understanding of their mutual contribution and role in development.

KEY WORDS: Civil society, Bottom of the pyramid, Social entrepreneurship, Capacity

Introduction/First section

Normally a start-up cannot do without external support in order to take off, in terms of subsidies, cooperation, niche management and so on. In that respect there is no difference between the Western situation and developing countries. The surrounding society constitutes an enabling environment as part of capacity building for the company (Kroesen et al, 2015). In low income economies, however, formal institutions are often weak and companies often follow traditional management styles (Jackson 2004, 2008). This is the case for the individual company, but also for civil society in general and for the state bureaucracy. These three levels, company, civil society, and state bureaucracy, constantly
influence each other as drivers and barriers for change. Development interventions from both Western donors and businesses are geared towards change no matter whether defined as increase of production or growth of capabilities (Robeyns 2006, Nussbaum 2006).

However, the debate about development, good governance, increase of production and change in Africa largely bypasses the question “how much”? How much traditional patrimonial (Ayittey 2006) or patriarchal (Jackson 2008) and how much modern governance (Fukuyama 2011) should be installed and in what pace? Well-functioning institutions are all important (Acemoglu and Robinson 2013) and a convincing argument is made for rule of law, transparency, law enforcement (Harrison 2000, Porter 2000). In this paper a slightly different approach is adopted. Although change is necessary, it should connect to traditional patterns (Kelsall 2003, 2008, Hyden, 2008); build on the achievements of the past (Deneulin 2006, Ayittey 2006) and create a bridge towards the future. Change should be manageable to act as a connection point at the interface of tradition and innovation. This paper therefore explores this interface in terms of what companies can and should do and how civil society agents like NGOs, universities, and churches can contribute. The efforts of companies and civil society institutions should be well attuned in order to have a lasting effect. To that effect focus on service delivery from NGOs sometimes stands in the way of market development, and one-sided emphasis on profits by companies should also be overcome. Their efforts are necessary and both need each other to realize their goals particularly where small-scale farmers are targeted.

Small-scale farmers and rural entrepreneurship

The 500 million small-scale farmers around the world produce up to 80% of food consumption, especially in Asia and Africa (UNEP 2013). Mostly they do not produce beyond the immediate needs of their families and agriculture is often exercised by women as an additional source of income. This is the tradition, because women spend much of their time on childcare and agriculture functions as a form of household entrepreneurship (Fox & Sohnesen 2013) providing extra income on top of the income from the full time employed husband. But also for the men it is becoming a part-time job, because it is increasingly impossible to make a living only from agriculture. In many parts of Africa large tracts of land are sold to big farmers or companies for large-scale agriculture, which brings in foreign currency as an immediate gain for the state. However, the land rights of many traditional farmers are not well protected, due to lack of ownership titles, and as a consequence they are gradually pushed from their lands, ending up in the slums of the metropoles. The prognoses indicate that around 2050 more than half of the population will live in cities,
including in Africa and Asia (United Nations 2014); and that is not good news for the small-scale farmers.

At the same time small-scale farmers are a difficult target group because they are still embedded in the traditional social values of their communities. They suffer from lack of education, capital, and enabling environment in terms of regulation, policies, and taxation. They are not well connected to markets, and often have to deal with exploitative middlemen, and lack of information about market prices (Vorley e.a., 2012, KIT 2008). Finally, with the next generation agriculture is not in high esteem. It is considered as a last resort if no other options are available.

There are also cultural impediments, where lifelong solidarity and sharing are valued more than individual success and reinvestment of profits and growth of the company (Jackson 2004, Tshikuku 2001). Most entrepreneurs prefer to spread their activities among a diversity of businesses and markets. This is not just a matter of spreading risks, but particularly a matter of optimal use of the potential of their networks, which mostly are of a clientelistic or patrimonial and therefore personalized character (Hyden 2008, Bryceson 2002). Trust, a necessary condition for doing business, is established by means of gated networks via friends, friends of friends, and friends of those other friends. Shared education, family, shared regional origins, ethnic identities or language are sources of trust and once established, these solidarities are of a long-lasting character. They need to be maintained because no other sources of trust are available. If these networks offer a business opportunity in a different field of specialization, the entrepreneur will not allow this opportunity to pass by. One would rather diversify the business (Hansen et al 2015) and operate in all patrimonial networks that one can access. Hence there is no environment of anonymous trust.

**Civil society and governance**

It takes time to discover that a Western styled civil society is only fragmentarily available. In Western societies family ties are lose and people are engaged in multiple memberships of an often temporary character, advancing their interests by a constant realignment of coalitions. This is supported by (and also conditional to!) universalist governance from the top of society: rule of law, transparency, equal access to the government bureaucracy by all citizens and equal treatment (although even in Western societies some people are more equal than others), and not the least, law enforcement (Fukuyama 2011, Stackhouse 1984, Wiarda.2003, Rosenstock-Huessy 1993). This creates the conditions for anonymous trust and thereby a strong business environment, reducing transaction costs tremendously as
compared to the gated networks and lack of law enforcement usually dominant in many African contexts.

Oftentimes it is contended that governance institutions in Africa are weak. Corruption, for instance, is widespread in the entire social fabric. Although this is true the analysis misses the point and the problem should be framed differently in order to understand and handle it. Universalist and civil society institutions in Africa are not weak but rather limited. They have to compete with another more traditional socio-political system that is equally or more powerful. The Western styled system of governance institutions is present and functioning to a degree, but the traditional way of establishing relations of trust is still very powerful. We can call this System I, the system of lifelong solidarity and of gated networks of trust. It often overrules the Western system of universalistic governance and civil society, which we from now on propose to call System II. Since the system of lifelong solidarity and gated networks, System I, is not recognized by Western partners dealing with Africa it mostly remains invisible. Its internal dynamics reinforces this invisibility. The leader of a network has to satisfy and consolidate the commitments and loyalties of his dependents and it is then recommendable not to show to one partner what privileges one may have granted to another partner or dependent in the network. Western partners, NGOs or companies alike, deal in terms of System II in drawing up contracts, budgeting, and devising policies. This is the formal system, and the African partners will comply and deal with their counterparts according to these established codes of doing business (Bayart 2000, Kelsall 2008). All that is visible is System II. In the meantime, the African counterparts also have to deal with something like System I, gated networks and lifelong solidarity (Hyden 2008). The deal to provide for some good will be kept, if that is the formal arrangement according to System II, but for instance by providing a friend in the network with the opportunity to deliver this service or good so that on the surface of things everything seems to run smoothly according to System II, while at the same time System I is served and maintained. Mostly that means that things do not run that smoothly, because transaction costs will increase: the production of the good may last longer, the quality may be lower, the price may increase.

Different roles of NGOs and companies

We can describe the above-mentioned contextual dynamics between System I and System II in terms of management style, civil society and governance. Neither NGOs nor companies have much experience in making the above-mentioned dynamics part of their operations. They get involved in the complexities and the tensions between System I and System II and in course of time they learn to deal with them pragmatically (companies) or in a more principled way (NGOs promoting civil society and good governance). Many do so but fail to
frame their development interventions in terms of a deliberate interaction and trade-off between the two systems. So the bone of contention is how to harmonise these two realities and attune the different systems to create a synergy and tenacity of purpose for both to succeed.

Entrepreneurs and NGOs should first understand that they need each other instead of competing with or criticizing each other (Boschee 2006) all the time. The point of departure is that projects for social change will not be initiated without commitment, donations and charity. However, they cannot be sustainable if they are not cost effective and if external money needs to be constantly poured in. Through focus on societal needs, education, and healthcare, NGOs can contribute by helping to organize their target groups beyond family lines and closed in-groups. They can create new bonds of trust around social projects by community management (Schouten & Moriarty 2003). Due to the recent budget cuts of the donors many local NGOs are taking the road from service delivery towards entrepreneurship and cost recovery, although it is difficult for them to shake off their social responsibilities. Often it is impossible to realize the same project goals, while remaining profitable as a social enterprise. The social targets included in the business plan cannot be dealt with in a cost effective way. On top of that a Western enterprise in a bottom of the pyramid venture with a local company is mostly less experienced than the local NGOs in dealing with the local society and traditions (Rivera-Santos & Rufin 2009, Schuster & Holtbrügge 2012).

This is more emphatically true if the tension between System I and System II is taken into account and if a strategy for a social business that bridges the gap between the two is to be devised. Where in Western societies such activities in institution and capacity building can be externalized to civil society and to effective governance, in low income economies often these need to dealt with by the business itself. They cannot avoid to contribute to the creation of the business environment required for their own proper functioning. That means they either have to take upon themselves the roles that oftentimes NGOs and civil society institutions fulfil, or enterprises and NGOs/civil society initiatives should complement each other and recognize their mutual contributions.

International Entrepreneurship and Development Program

At the Delft University of Technology there is a program for building expertise and capacity for technology transfer to the different cultural and institutional contexts of low income economies. Besides master thesis projects, each year 60 students divided into groups of 3 conduct an internship on assignments like making a business plan, a feasibility study, market research, prototype design, etc. After three months of preparation, whereby students
take preparatory courses and work on a project plan, they leave for destinations in Asia, Africa and Latin America. These projects are especially successful if they can follow up on each other. In any case they are a great learning experience for the students. They also contribute to the expertise of the researchers and teachers involved, but more importantly is the challenge it presents to the hosts that students can come all the way from Delft to teach them how to harness their locally available resources. Although the program has been going on for the last eight years, each entrepreneurial project has to deal with the contextual issues raised above, and sometimes successful and creative solutions are invented. A few examples related to the labour division between NGOs/charity and entrepreneurship/value for profit in general, and also to the transition between lifelong solidarity (System I) and an entrepreneurial approach backed by civil society and universalist governance (System II) will clarify this dynamics.

In general, the projects themselves are a mixture of charity and entrepreneurship. Most of the participating students are motivated by the challenge of entrepreneurial solutions for development problems. But in spite of (or perhaps because of) their entrepreneurial motivation they offer their labour for free, they pay for the travel costs and sometimes fundraise for a prototype, say a greenhouse, a bio-digester, vegetables drier, etc. In many cases NGOs and universities are involved or sometimes a local entrepreneur, a farmer or a shopkeeper is the commissioner of the project and local supervisor. In that sense the very set up the projects exemplifies the point made earlier that charity and inspiration are the starting point, but the continuity and long-term sustainability takes a cost effective business approach.

**Agriculture in Namelok**

Among the Maasai in the surroundings of Namelok in Kenya a team of students introduced the technique of tomato drying and for that purpose they designed and built two prototypes that made use of convection. The first group of students built a prototype (Looff et al 2013), did some experiments and together with the local population they developed a business plan for drying tomatoes during times of abundant harvest.

They needed the approval of the chief and the council of elders for this initiative. One of the members of the council of elders was a very entrepreneurial person and real community leader. On his request a follow-up group took the project further, improved the design by including easier cleaning procedures and together with the local population they developed a process of preservation of the dry tomatoes in oil and spices in small jars that could conveniently be sold on the marketplaces (Benjamens et al 2014). They also explored the market and found customers and even initiated the official certification procedure. From
there on, a committee of local Maasai entrepreneurs took over, and it was not anymore necessary to send follow-up groups.

Some institutional and civil society related problems were already lurking around the corner, complicating the initial success. It is a blessing to have an enterprising person and community leader in a locality, but it also involves a risk. A lot of funds were channelled to diverse projects via this one person, which made him quite important and influential locally. Some of the funds were used to build him a very good-looking and big house. Many of the readers would think: “corruption!” But the local Maasai did not consider it like that. The man was respected and when some members of a Dutch NGO criticized him for using funds for personal benefit, they did not get support within the Maasai community. They were dropped instead and had to stop their operations. Why? The in-group solidarity was stronger than the need for financial transparency and honesty. The person in question was the leader of the community, an important man, and in traditional African custom such a “big man” is allowed to benefit from the support he mobilizes. He is allowed and even expected to show off, on the one condition that he also shares his riches with the community (Sardan 1995, 1999). And he did exactly that. So where was the problem?

Many farmers in the surroundings of Namelok have their origin outside Maasai ancestry, and work on land they hire from the local Maasai owners. Most of the Maasai involved in agriculture in this region gain an income from the lease fee they charge the foreign farmers. It is actually a patrimonial system of rent gaining patrons and dependent clients. That also means that it is not an open market of land leasing and crop growing in the sense of System II, but rather a constant redistribution of efforts and rewards through the gated networks of different families and other clientelistic affiliations, in the sense of System I. Larger scale chain management, and activities like certification and maybe eventually export of the dried tomatoes would definitely take more alignment with System II, because a well-functioning government bureaucracy and equality before the law in licensing and exports are indispensable for the investments required for larger scale operations. Gated networks and lack of transparency present risks for long-term investment because of their fluidity. But in Maasai land, where the long arm of the law is not that long after all, there is no other option than dealing with the traditional patrimonial system, including the competition between “big men” as leaders of the community, in order to operate a business (Vansina 1990, Opalo 2011).

Greenhouses for smallholder farmers

A very interesting technological option for smallholder farmers is the use of greenhouses. They require a small portion of land, and they can easily quadruple the production, thanks to
year-round harvests through drip irrigation. The result is that products (like tomatoes) can be brought to the market in times of scarcity due to frequent droughts. For household enterprises such options could also be attractive, because a greenhouse does not necessarily mean full-time occupation. Several projects like designing cheap and effective greenhouses (Cherim 2013, Slob et al 2014) have been conducted in the recent past. They include designing a business plan for smallholder farmers making use of greenhouses (Falcone 2016), experimenting with microfinance and groups of farmers (Matthijssen et al 2015) cooperating with a university, in this case JOOUST in Bondo (Sheombarsing 2015, Braak et al 2016).

Experience shows that there is more to it than just a straightforward business approach might expect. Designing a cheap greenhouse for effective use is not that easy. There are some trade-offs in the design. A greenhouse including an irrigation system of the size of 8 to 15 m still costs around €3000-€4000. In Surinam students designed an open greenhouse made of wood of that size for €1500 (Falcone 2016), but that may not last long in a tropical climate, although it is good for a start. It is possible to recover the investment costs with the use of one or more of such greenhouses within one year, but only if the greenhouses are used properly. In that respect the limits even of social entrepreneurship are met. It takes an enormous increase of knowledge and skills and a change of mind-set for the smallholders, because these two, knowledge/skills and mind-set are, in many ways, intertwined. Take for instance bookkeeping. For greenhouse agriculture this is an indispensable requirement. Smallholder farmers may be used to keep some of the remains of the previous harvest and use it as seeds at the beginning of the new season, although high-quality seeds, bought at the beginning of the season, deliver much higher yields. However, they only do so if the treatment of the soil with fertilizers and early land preparation is properly considered. This does not only take knowledge, but also a change of attitude and values. Investment means taking a risk and on top of that it takes accurate time management. The attitude of traditional small scale farmers is risk avoidance and they are not used to precise labour. They are hesitant to invest, because they would rather not put everything in one basket. And, indeed, if they do not have the capacity to deal with the new situation, and make mistakes with fertilizers, plant treatment and the like, they may easily lose everything, including the investments. The same counts with respect to the marketing of the produce. The smallholder who starts with a small greenhouse has to deal with large transaction costs in selling the produce. This can be solved by means of a cooperative or an intermediary institution in chain management, but this brings other issues, since trust among the farmers and between farmers and middlemen is not to be taken for granted.

The transition from small scale to entrepreneurial farming also has to deal with the complexities of the transition from System I towards System II, lifelong solidarity towards civil
society/universalist governance. An important reason for low-risk farming with little means, in terms of fertilizers and investment costs, is to avoid the dependency of extractive patrimonial systems – the middlemen or large-scale extractive corporations or patrimonial networks – beyond the power of the smallholders. Thus risk avoidant farming has been the old-time strategy of free farmers (Tshikuku 2015), as the System I solution to avoid exploitation through autarky to the greatest possible extent. A System II solution, however, would be different, as it would require universalist governance and an open civil society and a well-educated and capable citizenry. A capable citizenry would be able to produce effectively, but also be able to raise their voice by organizing themselves within the larger framework. That would be the Western approach. But what should farmers do if they are caught up between a not so well-functioning System II on the one hand and a still powerful System I on the other hand?

Conclusion

It appears that many entrepreneurial initiatives that seem to be economically feasible cannot become financially sound due to the required extra investment in capacity and social capital. Such an investment takes time, effort and resources. And even within the parameters of a social enterprise, these efforts cannot completely be covered by a straightforward revenue model. From this perspective there is an indispensable role for NGOs, universities, donor agencies and a clear labour division between these institutions is mandatory. In the past NGOs provided solar lamps, high-quality seeds or fertilizers for free, with unintended consequences of spoiling the market for the few companies on these products. Companies were sometimes pushed out of the market, and when the free services of the NGOs stopped, the little productive capacity that previously had been available was destroyed. On the other hand, our line of reasoning and examples show that building up trust, capacity, institutionalizing cooperation and effective/ good governance is an indispensable and long term task that cannot be performed by enterprises only. This is the truer as soon as the transition from System I towards System II is taken into account as a challenging task.

One other conclusion can be drawn: the usual discourse of “corruption” should be reframed. Entrepreneurs often cannot avoid to be embroiled in so-called corrupt practices, spending extra money on licenses, clearing of imports etc. Big corporations that do not want to get involved in corruption often devolve such jobs to intermediaries, consultancies, for instance, which they pay to do the same, in order to keep their own hands clean. Within System I there is a different logic (Sardan 1995, 1999). Everybody within the community (or gated networks) should be appeased and share in the benefits of an initiative of big players that want to get something done. The larger the scale of operations and the more complex
the technologies involved become, the more costly this system also becomes. Anonymous trust and universalist governance with a capable citizenry can cooperate more effectively and is indispensable as an enabling environment for entrepreneurship and large-scale operations. However, change takes time. Otherwise it is not manageable because there is no time for learning. In each case and context it should be decided how much of System I should be allowed and how much of System II can be realized at any moment. From that perspective the question should not be either to accept or refuse so-called corruption, but where to draw the line between accepting the extra costs of a System I approach and/or installing more cost-effective procedures in line with the System II approach.

Text body: 4001 words

References

Braak, S., Jorna, N., Roelvink, F., van der Valk, E., Velde, S., Greenhouse Farming at JOOUST, Students Internship Reports, Delft University of Technology.
KIT and IIRR, 2008. Trading up: Building cooperation between farmers and traders in Africa. Royal Tropical Institute, Amsterdam; and International Institute of Rural Reconstruction, Nairobi.


Wiarda, Howard J., 2003. Civil Society -- the American model and third world development, University of Massachusetts