



**SEED Initiative**

Supporting entrepreneurs for sustainable development

## **SEED Research and Learning Programme 2007-8:**

### **Critical success factors and performance measures for start-up social and environmental enterprises**

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### SEED Initiative

The SEED Initiative identifies, profiles and supports promising, locally-led start-up enterprises working in partnership to improve livelihoods, tackle poverty and marginalisation, and manage natural resources sustainably in developing countries. SEED develops learning tools for the broad community of social and environmental entrepreneurs, informs policy- and decision-makers, and aims to inspire innovative entrepreneurial approaches to sustainable development.

SEED is a global network founded in 2002 by IUCN, UNDP and UNEP to contribute towards the goals in the UN's Millennium Declaration and the commitments made at the Johannesburg World Summit on Sustainable Development.

Partners in the SEED Initiative are **IUCN** (the International Union for Conservation of Nature), the United Nations Development Programme (**UNDP**) and the United Nations Environment Programme (**UNEP**). Major Supporting Partners are the governments of **Germany**, the **Netherlands**, **South Africa**, **Spain**, the **United Kingdom** and the **United States of America**.



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## Executive Summary

*The SEED initiative identifies, profiles and researches promising entrepreneurial approaches to locally-led sustainable development, and provides partnership building and capacity development through a tailored support programme. Drawing from the literature of social and environmental entrepreneurship, and empirical research with the ten SEED supported enterprises, this report suggests eight critical success factors, the presence of which may assist SEED and others in determining levels of investment and support for start-up enterprises in developing countries. Also identified are fourteen performance indicators that can be used by the enterprises and investors alike to monitor progress towards the business, social and environmental goals of the enterprise.*

Eight critical success factors and fourteen performance indicators identified through this investigation form the basis for a robust rapid assessment process for social and environmental enterprises. Such a process can be self directed by the enterprise leaders, to determine in the early stages of their development whether they have the critical elements in place for successful growth. These success factors can be also used by SEED itself, by other similar recognition and reward programs, by development assistance agencies, foundations and venture capitalists to help determine the likelihood that an enterprise will succeed, and so guide decisions about levels of investment and support.

### **Critical Success Factors**

The success factors are:

1. **Leadership** : The commitment and continuity (able to sustain involvement for the long haul) of one or two individuals to lead and coordinate the enterprise is essential.
2. **Partnerships**: The ability to negotiate and maintain a core set of relationships for the benefit of the enterprise is important for growing the enterprise and ensuring equitable benefits.
3. **Proof and clarity of innovative concept**: Not only is it necessary to be able to explain the concept clearly, but testing and external validation is essential to demonstrate that a new *idea* has market potential.
4. **Business planning and marketing**: Either the leaders of the enterprise have business and marketing skills, or they have access to those skills in their key partners; or they have ready access to training to attain these skills
5. **Triple bottom line planning**: The conscious and deliberate alignment of economic benefits with social and environmental benefits is an important element of achieving sustainable development.
6. **Short and long term benefits management**: The enterprise should demonstrate how it is planning to deliver not only longer term benefits for its stakeholders (including how those benefits will be shared), but also the short term benefits that will keep stakeholders engaged and committed to the enterprise.
7. **Community engagement**: Long term success and sustainability lies with the successful engagement of the local stakeholders and beneficiaries.

8. **Risk management:** Demonstrated planning for mitigation of risks and externalities helps ensure long term functioning of the enterprise.

If these eight success factors are in place, an enterprise is more likely to attract the necessary investment and financing to get the enterprise up and running. Using key performance indicators to monitor and report achievements will also help to gain the confidence of prospective investors.

### **Key performance indicators**

The following fourteen performance indicators can be adapted to the specific circumstances of each enterprise, so they can monitor their performance against these simple but informative indicators of progress towards their economic, social and environmental goals. These indicators can also be monitored by those investing in and supporting an enterprise to assess whether the potential of the enterprise is being realized, and to recognize early signs of crisis that can be mitigated if addressed in time. These indicators address:

- **Business performance:** Financial viability of each start-up enterprise has improved

**Indicator 1: Business plan in place, reviewed and updated regularly**

**Indicator 2: Marketing networks established and new opportunities investigated**

**Indicator 3: Livelihood provided for the enterprise manager**

Business plans should demonstrate that the enterprise is establishing objectives, products and service lines; setting up supply chains; identifying revenue targets and the investment and financing requirements and marketing strategies to meet those targets; as well as outlining the roles and responsibilities of those involved in the enterprise -- all of which are essential to improving financial viability. The provision of income for the enterprise manager suggests that a measure of stability and continuity is being achieved that will allow the enterprise to grow.

- **Social performance:** The provision of income or employment to community beneficiaries and contribution to community livelihood and well being

**Indicator 1: Income provided**

**Indicator 2: Delivery of occupational education and skills training**

**Indicator 3: Fostering stronger community organization, in particular women's and youths' roles**

**Indicator 4: Social development benefits secured**

In addition to the provision of employment or sharing of revenues, the enterprise contributes to social development through education and new skills training which help to sustain and diversify economic activities within a community. Improvements in community health and well being that result from increased income, new skills and stronger community organization can be signaled by more children attending school; improved access to health care; and so forth. Observing and documenting such changes for annual reflection will help triple bottom line enterprises ensure that the downstream social benefits are in fact being realized by their target beneficiaries.

- **Environmental performance:** Contribution to conservation and sustainable management of resources in the area

***Indicator 1: Evaluation of environmental impact of enterprise***

***Indicator 2: Delivery of environmental awareness, training and education***

***Indicator 3: Changes in community choices and actions***

***Indicator 4: Technological innovation occurs***

In order to determine environmental benefits, benchmarks need to be set against which environmental changes (either positive or potentially harmful) can be monitored. Observations of change need to be validated to provide assurances that environmental improvements are in fact taking place, and on what scale. Community involvement through public outreach and awareness raising, leading to changes in community choices and actions are additional signals that environmental goals are being achieved.

- **Partnership arrangements:** Relationships are built which contribute to enterprise development and growth (funders, supply chain, markets) and lead to the success of the enterprise, achieving multiple goals of economic development, social benefits and environmental conservation

***Indicator 1: Roles, responsibilities and expectations established and monitored***

***Indicator 2: Regular communications maintained***

***Indicator 3: Monitoring and managing change in partnership composition***

The enterprise leader should map the key relationships required for the attainment of objectives, and monitor on a regular basis how those relationships are serving the enterprise. How communications are maintained among partners can reveal much about partnership "health". Changes in partners – who joins, who stays, who leaves – can also signal whether the partnership as a whole has the capacity to achieve its goals.

# 1. Introduction

## 1.1 Background

The SEED Initiative -- Supporting Entrepreneurs for Sustainable Development -- inspires, supports and researches **exceptional, entrepreneurial, start-up, multi-stakeholder partnerships** for **locally-led sustainable development**. It was founded by **IUCN, UNEP and UNDP in 2002** to deliver concrete progress towards the internationally-agreed, aspirational goals in the UN's Millennium Declaration and the commitments made at the World Summit on Sustainable Development in Johannesburg. SEED does this by offering an integrated package of awards, technical support, research and learning. These activities are outsourced to specialist service providers, and managed by a central Secretariat.

SEED's Research and Learning programme delivered by the International Institute for Sustainable Development (IISD), studies the Award Winners, the SEED Support activities, and other partnerships to draw out lessons and to develop generic management and assessment tools and relevant knowledge to inform and inspire the SEED and other social and environmental entrepreneurs.

The following is one of a series of published reports prepared by the Research and Learning programme that covers the following issues of interest to the international partnerships and sustainable development community:

1. Partnership typologies: Exploring SEED winners through two lenses: as partnerships for sustainable development and as social/environmental enterprises
2. Recognition and reward programs that support sustainable development entrepreneurship
3. Critical success factors and performance measures for start-up social and environmental enterprises
4. Scale-up and replication

## 1.2 Purpose of the research

The objective of this research is to identify key factors that are critical to the success of social and environmental enterprises which SEED can evaluate as part of identifying potential award winners and which can be used to establish a baseline for performance of new winners, and a number of performance metrics or indicators that can be used by SEED and the winners to help measure their progress as they develop their enterprises.

There is growing evidence of a significant causal relationship between entrepreneurship, economic growth and poverty reduction. Small, micro and medium-sized enterprises (SMMEs) are often the backbone of the private sector in the developing world, creating jobs and providing a tax base for local government. Frequently, SMMEs offer the only employment available to millions of poor people. Understanding the importance of particular relationships or factors that result in successful micro-businesses or entrepreneurial partnerships is important for several reasons. Firstly, for determining which new enterprise one should focus on and invest in as a donor, or a financial institution. Secondly, in many developing countries, the growth of microenterprise

provides the most visibly vibrant and growing economic activity and offers the potential for increased livelihood among poorer populations. Although considerable effort and resources are being directed toward microenterprise promotion schemes, empirical research on the subject is quite limited on success factors, and practitioner information on success factors and performance measurement, while somewhat richer in content, often looks at enterprises which are already operating rather than a means to determine if a new enterprise has the right ingredients of support to be successful. Finally, there is a need to look at how SMMEs can and are addressing the need for *sustainable* development – reaching for triple bottom lines goals in economic, social and environmental performance.

SEED seeks to be a catalyst not only for creating business and employment opportunities, but to foster enterprises which have both social and environmental benefits which succeed through effective partnership among diverse actors. The stated goal of the SEED initiative is to be an instrument that “inspires, supports and researches exceptional, entrepreneurial, nascent, multi-stakeholder partnerships for locally-led sustainable development” (SEED, 2007).

SEED’s eligibility criteria require that the work of the winners:

- relates to the three pillars of sustainable development: environmental, social, and economic in an integrated manner;
- has the potential to contribute towards the internationally agreed goals of the Millennium Declaration and/or the Johannesburg Plan of Implementation;
- displays entrepreneurship in its broadest sense and has to be driven by local actors;
- helps to demonstrate innovative ways of doing business through partnerships;
- has a draft business plan and has partners that have already agreed in principle to work together.
- has the potential to serve as inspiration to others

SEED’s approach is innovative with a goal to support the development of locally led start-up endeavours into successful partnership enterprises which can provide social, environmental and economic benefits. Start-up or “nascent” partnerships, as defined by SEED, are “in the **planning and set-up phase** or in the early stages of implementation”. “Locally-led” is defined as “The project reflects local expertise, interests, and commitments. Local partners and/or their communities benefit from the project. Local partner/s is/are fully engaged in and actively drive the project”<sup>1</sup>. The primary characteristic in common for SEED winners is that they are all trying to commercialize their project, product or service in order to generate a revenue stream, either for themselves or for another group of stakeholders, and, in so doing, provide environmental and social benefits at the local level.

The identification of critical success factors and performance indicators will help SEED winners achieve their goals, will help enterprises similar to SEED winners also to be successful, and ultimately will help SEED to identify future winners with increasing reliability based on the presence of key success factors. (See Appendix 1 for a list of 2005 and 2007 winners).

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<sup>1</sup> SEED Eligibility Criteria, SEED website 2008: [www.seedinit.org](http://www.seedinit.org)

## 2. Literature Review

### 2.1 Critical success factors for new enterprises

The most common method people use to measure business success is financial worth. The more the entrepreneur and business are worth the more successful the entrepreneur is considered to be. While economic growth and financial viability are important factors in a successful business, this measure is not sufficient to assess the potential for success of SEED applicants or winners. The defining factor of both Social and Environmental entrepreneurs is that these entrepreneurs “recognize a social (*and/or environmental*) problem and use entrepreneurial principles to organize, create, and manage a venture to make social (*and/or environmental*) change”. (Gregory Dees, 2001 pg. 4; *italicized text in parentheses added*) The literature on social/environment entrepreneurship tends to draw upon examples and case studies of established ventures, rather than an exploration of the process of becoming a success (Creech, Paas 2008). This also holds true for metrics and indicators for traditional business entrepreneurship, social enterprise, nonprofit enterprise and those micro-enterprises supported by micro financial institutions.

A literature review conducted by Per Davidsson and Benson Honig (Davidson and Honig, 2002) finds that contemporary definitions of entrepreneurship or delineations of entrepreneurship research focus on emergence (Gartner, 1988 and Shane and Venkataraman, 2000). The suggestion therefore is that entrepreneurship research should deal with the early stages of start-up, such as how opportunities are detected and acted upon, or how new organizations come into being, rather than how established enterprises are functioning. But in spite of the suggested focus on the emergence of entrepreneurial enterprise, a review of the literature finds that entrepreneurship research is dominated by studies based on samples of established business firms (Davidsson and Wiklund, 2001). Studies that include the earliest stages of entrepreneurship are rare. Where this research does exist, it tends to focus on intentions rather than behaviour, and uses samples of individuals who have not yet entered into nascent entrepreneurial activity (e.g., Bird and Jelinek, 1988; Davidsson, 1995; Krueger and Brazeal, 1994 and Krueger and Carsrud, 1993). Therefore, despite the avowed importance of entrepreneurship to the economic system, it becomes clear that empirically, academically based knowledge about entrepreneurship understood as emergence is still very limited. For example, little is known or documented about the specific social processes that may enhance the ability to recognize or exploit opportunities. Are memberships in social networks a potential source of scarce information leading to recognition of entrepreneurial opportunity? How do various forms of educational and social resources contribute to the dynamic processes of developing successful enterprises?

Those studies that do exist on these issues are primarily based on research from North America and Europe and may not fully capture these issues from a developing country context, but do offer some insights that may be useful for determining success factors for new enterprise partnerships or entrepreneurial undertakings. The study conducted by Per Davidsson and Benson Honig examined nascent entrepreneurship by first comparing individuals engaged in nascent activities with a control group of non-entrepreneurs both drawn from a sample of the general population of Swedish adults. The primary objective of their research was to help close a research gap regarding human capital and social

capital influences on nascent entrepreneurs. Issues studied included the comparative importance of various contributions and factors, such as personal networks, business networks, contact with designated assistance agencies and taking business classes, on the likelihood of successful emergent activity.

The findings of this research support the role of formal education, as well as previous start-up experience, in predicting who among a cross-section of the general population would attempt to engage in any nascent activities. Social capital variables were found to be very strong and consistent predictors in the analysis. Overall, social capital was found to be higher in the nascent group than in the control group. Bonding social capital based on strong ties, such as having parents who owned businesses or close friends who owned businesses, was a good predictor in differentiating those engaged in nascent entrepreneurship from the control population, as was active encouragement from family and friends. The findings from this study suggest that entrepreneurs would be well advised to develop and promote networks of all sorts with careful attention toward the promotion and development of social, network and mentoring capabilities.

Research that focused on 215 informal micro-enterprises in Jamaica studied the influence of human capital, social capital, and financial capital of the owners on their business profitability. This research found that different structural environments, even within a singular and small economy, may considerably alter the rates of return to human, social, and financial capital. Several factors were determined to enhance the profitability of the businesses in all categories; Vocational training, for example, demonstrated consistently strong and positive effects. Mother's high occupational status (a proxy for socioeconomic status) and years of experience in the business were also consistently positive and strongly associated with increasing profits. (Honig, 1998) Social capital, such as frequent church attendance and marital status of the owner, was found generally to increase the profitability of the business. These data demonstrate that social networks play an important role in the success of these businesses.

Practitioner information reports that training and business education is one important factor that can be pointed to as increasing the likelihood that a new entrepreneur will succeed. The Aspen Institute found that substantial numbers of low-income individuals start, stabilize and expand their businesses within 18 months of completing training. At four programs studied by Aspen, ownership increased by an average of 49% among those who entered training prior to business start-up. Research by Aspen Institute also found that financial skills matter. In one program studied by Aspen, the clients who achieved economic self-sufficiency during an 18-month period were much more likely to report using key financial skills — such as cash-flow projections and management, break-even analysis and pricing — than other clients. (Aspen Institute, 2003)

Multiple sources on entrepreneurship recognize ten key factors which often lead to business failures:

### **Factors which Lead to Start-up Business Failure<sup>2</sup>**

1. Inadequate planning of the business

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<sup>2</sup> Compiled from [www.succelinc.com/PDF/Reasons\\_why\\_Business\\_Fail.pdf](http://www.succelinc.com/PDF/Reasons_why_Business_Fail.pdf) and [http://1000ventures.com/presentations/start\\_ups.html](http://1000ventures.com/presentations/start_ups.html)

2. Insufficient initial capital for start-up period and development stages due to inadequate planning
3. Mistaken estimate of market demand for product or service
4. Lack of management ability
5. Failure to select and use appropriate outside professional advisors
6. Inability to market product or services effectively
7. Over dependence on a single individual or on a predicted specific event
8. Failure to understand capital requirements of a growing business
9. Poor timing of expenditures due to poor planning
10. Expedient rather than reasoned decision-making

Conversely, another Aspen Institute Study, a 2006 literature review of scaling-up enterprise went beyond looking at domestic micro-enterprise in the United States to also include community development finance, international micro-credit, and human services industry. They found that many of the factors that contribute to success are opposite of those above:

### **Factors Contributing to Successful Growth of a Start-up Enterprise**

(Aspen Institute, 2006)

- Scaling-up does not happen by accident, rather it requires a clear and consistent focus by the organizations board and management;
- Leadership and good management are essential to taking an organization to scale;
- Market knowledge and information is critical to scaling-up;
- Marketing of product or services which is active and proactive is an element of successful scale-up;
- The ability to create a diversified yet complementary set of products is important for scaling;
- Scale-up can take place at the product level but this is a process rarely seen at the community development finance level;
- Geographic expansion is also critical;
- Partnership, mergers and other approaches to strategic restructuring often play a key role in expanding geographic coverage or expanding/adding product lines;
- Partnerships also require considerable commitment and negotiation which can be intense and time consuming;
- Replication can also be a path to greater scale, but successful replication is difficult;
- Standardization may be a necessary precursor to growth;
- Investments in technology play a role in expanding services, increasing efficiency and cost savings;
- Significant investment in infrastructure –the basic systems, technologies and resources to a program – will be critical to successful growth;
- New staff and management skills and capacities are needed at different points in the growth process;

- Organizations focused on scale-up use performance measurement to guide decision making;
- Organization scale-up takes time and money;
- Significant growth requires substantial investment of capital investment; growth without adequate financing can in fact endanger an organization's sustainability;
- The legal or regulatory environment can also play a key role in driving or facilitating expansion or growth to scale;
- The funding environment is also critical to supporting scale.

## 2.2 Critical success factors for social/environmental enterprises

It is interesting to note that this long list of factors for successful growth of business enterprises overlaps with critical success factors identified for social/environmental enterprises, as illustrated in Table 1 below. Thus, while social/environmental enterprises may seek to provide social and environmental benefits which go beyond what we think of as traditional business or enterprise with profit as the sole bottom line, they face the same basic issues as well as having to address a broader set of success factors as they try to achieve multiple goals.

<b>Type of enterprise; corresponding SEED winner</b>	<b>Description &amp; generic objectives</b>	<b>Examples of Critical Success Factors</b>
<b>Production and marketing cooperatives</b> <ul style="list-style-type: none"> <li>• [no SEED winners in this category]</li> </ul>	-Established to collectively own and manage the production and sale of goods (agriculture coops; arts coops, and so forth)	<ul style="list-style-type: none"> <li>• Sufficient equity before start up</li> <li>• Maintaining an adequate business volume;</li> <li>• Keeping and distributing accurate financial records;</li> <li>• Previous cooperative experience and continued management training for both the board and manager;</li> <li>• Marketing agreements</li> </ul>
<b>Community services</b> <ul style="list-style-type: none"> <li>• <b>Bolivia</b></li> </ul>	-Established to supplement services provided either by the public or private sector, where those services may not meet the needs of everyone in the community, especially the poor and marginalized; or to provide services where none exist. -eg, utilities; waste collection and recycling; community communications (community radio, TV, telecentres); health; education	<ul style="list-style-type: none"> <li>• Management expertise</li> <li>• Access to professional and technical support</li> <li>• Enabling legal / regulatory environment</li> <li>• Coordinated support (working with public sector agencies)</li> <li>• Community ownership (social capital)</li> </ul>
<b>"Green" products</b> <ul style="list-style-type: none"> <li>• <b>Ecuador</b></li> <li>• <b>Nepal</b></li> </ul>	Marketing of products originating from sustainable production practices or manufactured from waste products	<ul style="list-style-type: none"> <li>• Business planning</li> <li>• Following industry standards</li> <li>• Marketing; in particular,</li> </ul>

<ul style="list-style-type: none"> <li>• <b>Vietnam</b></li> <li>• <b>Peru</b></li> <li>• <b>SRI</b></li> <li>• <b>Nigeria</b></li> </ul>		<ul style="list-style-type: none"> <li>• understanding the green consumer market</li> <li>• Participating in labeling/certification schemes</li> <li>• Enabling state/national policy environment</li> </ul>
<p><b>“Green” services</b></p> <ul style="list-style-type: none"> <li>• <b>Brazil</b></li> <li>• <b>Sierra Leone</b></li> </ul>	<p>-Services designed to promote enjoyment of and respect for local social and environmental assets</p> <p>-eg, Ecotourism; Traditional healing services with traditional medicines and practices</p>	<ul style="list-style-type: none"> <li>• Developing synergies with other established services in the sector</li> <li>• Collaboration with other businesses</li> <li>• Effective target marketing</li> <li>• Key personal qualities for front line service delivery</li> <li>• Personal networking</li> </ul>
<p><b>Ecosystem services management<sup>3</sup>.</b></p> <ul style="list-style-type: none"> <li>• <b>Madagascar</b></li> </ul>	<p>- Promotes the rational use of the surrounding ecosystem to provide the highest sustainable quality of living for the community</p> <p>-eg, setting up parks, protected areas to help manage a resource base (such as a watershed)</p>	<ul style="list-style-type: none"> <li>• Must become part of the local community;</li> <li>• Active and effective project champions;</li> <li>• Getting stakeholders to agree on courses of action through encouraging active partnership and participation ;</li> <li>• Strategic identification of priority areas; Good integration with other biodiversity agencies and organizations;</li> <li>• Strong promotional component within the project</li> </ul>

### 2.3 Field lessons from Business for Conservation initiatives

The Biodiversity Conservation Network supported a number of enterprise development projects in Asia to support conservation via community based enterprise development<sup>4</sup>. This program conducted an extensive evaluation of the results and extracted lessons learned which are valuable for considering when considering support to these types of enterprises.

The approach put forth three hypotheses:

*Linkage between viable enterprise and biodiversity-* The enterprise must be financially viable but it must also depend on the in-situ biological resources of the region -- the enterprise will fail if this biodiversity is significantly degraded;

<sup>3</sup> Cited from <http://www.environment.gov.au/biodiversity/publications/case-studies/pubs/woodland.pdf> and <http://intranet.iucn.org/webfiles/doc/CEC/Public/Electronic/CEC/Reports/StepstoSuccess.pdf>

<sup>4</sup> For more information, see [www.bcnet.org](http://www.bcnet.org).

*Generation of short and long-term benefits* – the enterprise must generate benefits (economic, social and/or environmental) both in the short run and with high probability, in the long run, after BCN funding ends;

*Stakeholder involvement* – the enterprise must involve members of the local community, who are stakeholders of the enterprise and biodiversity of the area, and who can take action to counter threats to the biodiversity.

The resulting learnings from the evaluation of these enterprises are:

- An enterprise can lead to conservation but only under limited conditions and never on its own;
- An enterprise strategy can be subsidized yet still create a net gain for conservation, and;
- To determine how to use an enterprise strategy (as well as other conservation strategies), you need to use adaptive management at both the project and program level.

What is clear from these field studies is the significant level of support (financial, local community, institutional backing) needed by enterprises in order to create both conservation and economic benefits for stakeholders, together with the need to ensure both short and long term benefits for the enterprise and its multiple goals to succeed.

## 2.4 Critical success factors for partnerships

One of the core elements of the SEED program is the role of partnerships for achieving successful enterprises which has social and environmental benefits. This view of the importance of partnerships for sustainable development emerged from the conference on sustainable development held in Johannesburg, South Africa in 2002. Much has been written on multistakeholder partnerships; the following table prepared by the Wilder Research Centre presents many of the factors noted throughout the literature:

<b>Table 2: Partnership success factors (Wildridge, 2004 p.8)</b>	
<b>Membership</b> <ul style="list-style-type: none"> <li>• mutual respect, understanding and trust;</li> <li>• appropriate cross section of members;</li> <li>• members see collaboration as in their self-interest;</li> <li>• ability to compromise.</li> </ul>	<b>Purpose</b> <ul style="list-style-type: none"> <li>• concrete, attainable goals and objectives;</li> <li>• shared vision;</li> <li>• unique purpose.</li> </ul>
	<b>Communication</b> <ul style="list-style-type: none"> <li>• open and frequent</li> <li>• informal relationships &amp; communication links</li> </ul>
<b>Process and structure</b> <ul style="list-style-type: none"> <li>• members share a stake;</li> <li>• multiple layers of participation;</li> <li>• flexibility;</li> <li>• clear roles and policy guidelines;</li> </ul>	<b>Resources</b> <ul style="list-style-type: none"> <li>• sufficient funds, staff, materials and time;</li> <li>• skilled leadership.</li> </ul>
	<b>Environment</b> <ul style="list-style-type: none"> <li>• history of collaboration or co-operation;</li> </ul>

<ul style="list-style-type: none"> <li>• adaptability;</li> <li>• appropriate pace of development.</li> </ul>	<ul style="list-style-type: none"> <li>• collaborative group seen as a legitimate leader;</li> <li>• favourable political and social climate.</li> </ul>
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## 2.5 Performance indicators for enterprises

While the research on critical success factors for new enterprises or social/environmental enterprises is somewhat limited, there is a growing body of literature on how and what to measure as indicators of successful performance in enterprises, albeit few of these are specific to enterprise which seeks both social and environmental benefits. That being said, the field of social entrepreneurship or enterprise does have a breath of approaches, methodologies and tools used to measure performance.

One website alone, by the New Economics Foundation (nef), *Prove and Improve*, a quality and impact assessment toolkit for practitioners in social enterprise, (<http://www.proveandimprove.org/new/tools/index.php>) provides information and methods for twenty five different types of impact measurement and performance tools. These range from CSR reporting like the Global Reporting Initiative and AA1000S, to ISO standards like ISO 9000 and 14000, to those developed for specific sectors like cooperatives, to those which seek to measure “triple bottom line” or social performance alone. This organization notes that the pages (tools) are not an exhaustive catalogue of all the possible tools and resources available; they do introduce some of the major methods which can be used within the social enterprise, corporate or voluntary sector. In order to choose an approach, or tool that is most relevant to the needs of the particular organization, it is critical to be clear about the goal. This implies that these tools are geared for those with knowledge in the field, and whose practice is to evaluate a range of enterprises. For a new entrepreneur in a developing country context whose first priority is to make their business succeed, they are perhaps difficult to use.

Some examples of commonly used tools to measure performance and impact of social enterprises include:

**Achieving Better Community Development (ABCD)** is a general framework for planning, evaluating and learning from community development interventions. It encourages those involved in community development – whether as funders, policymakers, managers, practitioners, volunteers or community members, to be clear about what they are trying to achieve and how they should go about it. It also helps them to develop a theory of how community development happens and how to measure the changes along the way. It does not provide prescriptive measures or processes for an organization to use, but sets out a broad framework. ([www.proveandimprove.org/new/tools/ABCD.php](http://www.proveandimprove.org/new/tools/ABCD.php))

**The Big Picture** is an organizational development framework for identifying the strengths and areas for improvement of an organization across all of its activities. It is non-prescriptive and does not involve strictly following a set of rules or standards, but provides a broad and coherent set of assumptions about what is required for a good organization and its management. (<http://www.proveandimprove.org/new/tools/thebigpicture.php>)

**C3Perform** has been designed to help social economy organizations to improve performance. It is a ‘diagnostic workbook’ that provides a simple framework for evaluating how an organization is performing and identifies strengths, weaknesses and areas for

improvement. It should be seen as an approach to embedding quality and improving performance into the culture, the strategic and operational values of the enterprises and of the sector. ([www.proveandimprove.org/new/tools/C3Perform.php](http://www.proveandimprove.org/new/tools/C3Perform.php))

**Look Back Move Forward (LBMF)** is a simple participative project evaluation and learning tool. The tool guides a two-hour self-facilitated workshop that focuses on an interactive poster. The poster comes with instructions to guide participants through a series of stages, giving them the opportunity to reflect on a project they have worked on together from a number of different perspectives, as well as to compare and learn from each other's experiences. The finished poster provides a visual record of the participant's views on the project, which can be used for discussion and learning.

(<http://www.proveandimprove.org/new/tools/lookbackmoveforward.php>)

**Prove It!** was developed by nef in partnership with Groundwork UK and Barclays PLC to provide a method for measuring the effect of community regeneration projects on the quality of life of local people. This tool was originally conceived to help those managing neighborhood renewal projects look beyond the physical and environmental changes that had taken place (e.g. the number of trees planted; amenities created) and be able to highlight the positive outcomes of regeneration that can often go unnoticed. (<http://www.proveandimprove.org/new/tools/proveit.php>)

**The SIGMA Guidelines (Sustainability – Integrated Guidelines for Management)** are an overarching integrated system developed to manage the social, environmental and wider economic impacts of an organization's activities. Their key aim is to improve an organization's performance. This is achieved not by prescribing levels of performance in the Guidelines themselves, but by laying out how organizations should set performance targets that are consistent with the operating principles they have adopted; measure their performance against these targets over time; and report against them – taking action to remedy any situations where the level or speed of performance improvement is insufficient to achieve the targets that have been set.

(<http://www.proveandimprove.org/new/tools/sigma.php>)

**Social accounting** establishes a framework for ongoing monitoring, evaluation and accountability to stakeholders both internal and external to the organization. The process of social accounting can help an organization to investigate its performance against social, environmental and economic objectives, and ensure that it is working in accordance with its values. In the private sector, social accounting is aligned with corporate social responsibility. (<http://www.proveandimprove.org/new/tools/socialaccounting.php>)

**Social Return on Investment (SROI)** aims to help organizations understand and manage the social, environmental and economic benefits (value) that they are creating. It is a measurement approach, developed from traditional cost-benefit analysis that captures the economic value of social benefits by translating social objectives into financial measures and focuses on the most important sources of value as defined by stakeholders. (<http://www.proveandimprove.org/new/tools/sroi.php>)

**Social Enterprise London's (SEL's)** version of the Balanced Scorecard (BSC) was developed expressly to help social enterprises to clarify and articulate their strategic objectives, and decide how they will deliver their multiple bottom lines. It was also designed to give organizations a mechanism to track their performance holistically through both quantitative and qualitative information. This is primarily an internal management tool,

drawing upon business concepts. Some of the measures the organization adopts may also be used for external reporting as appropriate.

(<http://www.proveandimprove.org/new/tools/socialenterprise.php>)

**The Values-Based Checklist** was developed for the Social Firm sector and outlines the required criteria for being considered as a Social Firm under the three key values of Enterprise, Employment and Empowerment. It was developed in consultation with the Social Firm sector and its need originates from 2002 when members of Social Firms UK opted to take a values approach to the Social Firm model instead of being judged purely on percentage of income through trade and percentage of disabled staff. The Checklist is in a user-friendly format and lists desired and essential criteria with suggestions of evidence to support these criteria. The Values-Based Checklist is now the main tool used for mapping of the sector and forms the basis for the Social Firm accreditation scheme being developed by Social Firms UK for implementation early 2008.

(<http://www.proveandimprove.org/new/tools/valueschecklist.php>)

This listing is only illustrative and does not represent the full scope of tools and techniques for measuring performance and impact in the social enterprise sector, let alone in micro-enterprise or traditional business metrics. In addition to these practical tools there is an extensive body of academic research on the topic which goes beyond the scope of this review, or practical usage by those who seek to foster social/environmental enterprise. While all these tools may be useful and have their place in business development, for the most part they require constant and ongoing engagement with the business, and a level of sophistication within the business or enterprise itself. This level of support to SEED enterprises could be aspired to by SEED as it explores how to expand its program for the future; but for the most part the SEED winners themselves do not have the capacity to work with these frameworks. Simpler metrics are warranted.

### **3. Methodology for empirical research into success factors and performance indicators**

The research conducted by the International Institute for Sustainable Development was designed for two purposes:

- a) to develop a rapid assessment methodology that could be deployed easily for every SEED award cycle.
- b) to determine a set of critical success factors which SEED can evaluate prior to winner selection and can be used to establish a baseline for these factors or indicators for new winners, and a set of general metrics or indicators that can be adapted by each SEED winner to measure progress towards their goals as they develop their enterprises.

#### **3.1 Rapid assessment methodology**

The methodology consists of:

- A review of background information on the enterprise (web site, media stories, case study information such as that compiled by Global Public Policy Institute for the 2005 SEED winners)
- A review of award application data
- Pilot in-person interviews at the SEED Winners workshop
- Follow-up key informant interviews by phone or email with each of the SEED winners, using a semi-structured survey instrument, with the lead proponent of the enterprise and between one and four other individuals who are partners, or have an important working relationship with the enterprise.

The survey instrument is key to the rapid assessment (See Appendix 3). The questions have been based on factors currently examined in the SEED application process; on pilot in-person interviews conducted with 2005 and 2007 winners at the 2007 SEED Winners workshop in Pretoria; and from existing tools and metrics used in social enterprise development and partnership activities.

The instrument has two sets of questions that assess pre-award information and post award information about the enterprises. In this first application, the questions had to be asked at the same time, limiting the effectiveness of using the instrument to actually monitor change within the partners, but still providing sufficient insight to establish common success factors and metrics.

The instrument was structured to assess the following areas:

- Business
- Social
- Environmental
- Partnership
- Scalability and replication

Responses were then evaluated to look for commonalities among the enterprises with respect to those factors which have been critical to the success of all enterprises, those that were specific to the type of enterprise, and those indicators that could serve as useful markers of progress for each enterprise.

For each enterprise interviewed a short case report was developed which contained the basic information of the enterprise and its partners; overview of progress of the enterprise since award (from current documentation, or through asking respondent); and information gathered on each of the five assessment categories with a focus on where there is agreement among interviewees with note of areas where there were differing views (based on respondents' answers to interview). This data served as the basis for the report on success factors and metrics.

### **3.2 *Strengths of the methodology***

The initial face to face contact with winners ensured a high response rate for the subsequent phone interviews. The leaders of all but one partnership participated in this round of research, even though many have extensive business travel and can be hard to reach (See Appendix 4 for the list of key informants). The 6 month time interval between the face to face contact and the phone interviews provided an important opportunity to observe changes in each of the enterprises that resulted from receiving tailored support through SEED (2007 winners) and to view longer term viability and vulnerability of the 2005 winners who were no longer receiving SEED support services.

### **3.3 *Limitations of the study***

The depth of information provided from the key informants over a significant period of time, from the original 2005 case studies conducted by the Global Public Policy Institute (GPPI), to the interviews with 2005 and 2007 winners at the SEED workshop in 2007, through to the 2008 interview process, provides the beginnings of a robust longitudinal study of these start-up social and environmental enterprises.

At this stage, however, a few limitations were encountered. In most cases, the number of people interviewed in the end was restricted to leaders of the enterprise, which may not give a full perspective from the various partners involved in each enterprise. Interviewing others in the partnership was often limited by language barriers, and poor communications access from rural communities. See Appendix 4 for a list of key informants.

### **3.4 *A note on scale up and replication***

The responses related to issues of scale up and replication raised a number of larger questions about roles and responsibilities for the scale up and replication of start up enterprises, beyond the enterprises themselves. This warrants separate treatment, and is therefore covered in a separate report.

## 4. Eight critical success factors

Based on the rapid assessment approach, eight critical factors have emerged which appear to influence the likelihood of success of enterprises that seek economic, social and environmental benefits for the communities in which they operate.

### 4.1 Leadership

#### ***The commitment and continuity (able to sustain involvement for the long haul) of one or two individuals to lead and coordinate the enterprise***

Within all enterprises there is a dominant leader who helps coordinate the enterprise and enables the partnership to develop and function through the many stages of development required for success. It is preferable to have a person paid to lead or coordinate the partnership. Many noted they worked without salaries and this limited time and effort that could be put into developing the enterprise. When funding was available for even part time coordination, the enterprise often had immediate growth, as in the case with SRI in Madagascar, where part time funding enabled the coordinator to make important market links, send samples to buyers and develop proposals for funding. In the case with Brazil's Projeto Bagagem, the leader and instigator of the initiative was working for free, but then won an Ashoka fellowship which would pay her salary for 3 years. This has enabled her to concentrate fully on the project and its growth.

Leaders or coordinators need to be able to work among all sectors (or types of partners) from understanding the business aspects to building support at the community level, to negotiating with government actors and markets. They also must need to have a keen understanding of cross-sectoral issues and constant attention to securing private and/or public investments.

Being able to deal with governments is also an important part of leadership. In Nigeria, Vietnam and Bolivia this has involved a lengthy process of negotiation and engagement in order to secure required licenses, or engage the government as a partner. The ability to weave through bureaucracy, work with different ministries and levels of government and to enable these actors to support the enterprise is a skill that leaders have had to develop or bring to play in most of the partnerships.

While a good leader is important, spreading these skills and responsibilities among the partnership seems important for long term sustainability. In the case of SRI (where the USAID funder coordinator is leaving because funding has ended), and Sierra Leone, having the person who served as leader leave the project has set each of them back considerably. In the case of SRI, the point person has all the contact and relationship with farmers and cooperatives. In Sierra Leone, the person with business experience now lives in US and partners have reverted to more traditional ODA support for projects around health and hygiene with the international tourism component postponed indefinitely. Both Bolivia and Nepal however have endeavoured to train people within the communities to assume responsibilities for working more directly with the local stakeholders.

## **4.2 Partnership Management**

***The ability to negotiate and maintain a core set of relationships for the benefit of the enterprise is important for growing the enterprise and ensuring equitable benefits***

Partnerships need attention to keep them going and some type of benefit must be realized by each of the partners directly involved. Those partnerships which are not financially resourced well or do not offer tangible benefits to being in the partnership often suffer from unequal participation of partners, with one partner doing most of the work. On the other side, when they do work well, each partner's expertise and knowledge contribute to the success of the enterprise. The best example from interviews was Nigeria: Dr. Adelegan's MBA education helped from the start of the project with developing financial proposals; however there were many other skills needed in the business start-up that came from other partners, particularly legal assistance from the Centre for Youth, Family and the Law when dealing with the government. The Centre has also provided legal advice for all aspects of the partnership, and has attended meetings for both developing the business, and those World Bank, UN and other such global meetings to which Cows to Kilowatts was invited. The Thai partner provided the needed technical and engineering expertise. For Projeto Bagagem in Brazil, the contributions of the business partner, which is attracting clients to the enterprise, and the NGO, which is training community leaders to receive clients, are key to the success of the partnership.

## **4.3 Proof and clarity of innovative concept**

***Testing and external validation to demonstrate that an idea has market potential.***

A number of SEED projects have their roots in or are in some way linked to an earlier project or process supported through overseas development assistance (ODA) or similar international project funding, enabling a "proof of concept" that has demonstrated the viability of commercializing the product or service. In the Vietnam enterprise, the active chemical compounds in the traditional plants were originally identified by a New Zealand research company with New Zealand Aid support. T'ikapapa in Peru grew out of Incopa, a Peruvian government and the International Potato Centre initiative to promote traditional potato crops. The SRI initiative promoted a proven rice cultivation technique. The Ecuador business began with an idea supported by a GEF small grants award to work with local women to conserve and restore local biodiversity. The Madagascar community managed marine protection area was championed by a foreign NGO working with the local communities on a daily basis. With the SEED award many of these initiatives are now going the next step to make the concept a functioning enterprise that can deliver a range of economic, social and environmental benefits to both the partnership and the communities where they are located.

One of the strong points of being a SEED award winner is that it allows a start-up partnership/enterprise to gain greater exposure outside of their country or region which often results in further funding or access to markets. The proofing of the idea followed by its endorsement by SEED is an important signal that the idea has merit and opens opportunities for the partnership with other donors or other award programs which may

otherwise have seen the enterprise as too risky. In the case of Nigeria, they approached the World Bank Development Market Place early on for funding as a health and sanitation project, without success. After modifying the concept and receiving the SEED award, which enabled the business planning and greater exposure for the project, they have been successful in gaining recognition from World Bank and other potential investors. Three SEED winners have, subsequent to the SEED award, received Ashoka fellowships.

Another aspect of the concept that is also a critical success factor is whether the idea has an inherent logic and clarity. Where a product or service is known and a demand is recognized there seems to be an easier road to success, such as water delivery in Bolivia or the need to properly dispose of slaughterhouse waste in Nigeria. On the other side are enterprises where new products or services must be introduced, explained and promoted to the market; these start more slowly and have a greater chance of failure. The Sierra Leone project not only had to introduce a form of healing that was not well known outside of this region or Africa, it also had to convince foreign tourists that Sierra Leone was now a safe place to visit, despite the negative press the country often receives. The project partnership came to recognize this dilemma and now is focusing on marketing to people within the country.

#### **4.4 Business planning and marketing**

***Either the leaders of the enterprise have business and marketing skills, or they have access to those skills in their key partners; or they have ready access to training to attain these skills***

Almost without exception, SEED winners noted the need for business planning and marketing support as critical to the success of their enterprises. Business plans should demonstrate that the enterprise is establishing objectives, products and service lines; setting up supply chains; and identifying revenue targets and the investment and financing requirements and marketing strategies to meet those targets. Access to investment is often mentioned as a critical success factor for enterprises; understanding what investors might be looking for, and recognizing where there might be barriers to investment, is part of the larger skill set necessary to grow the business.

All the leaders of the winning enterprises (excluding only Madagascar) stated that they needed many new business skills. But it was also clear that when these skills were not vested in the leader of the enterprise, they were able to find the skills among their key partners, or they were able to access training on specific skills needed to make the enterprise function well. After Cows to Kilowatts received their SEED award, they attracted the support of expatriates with business skills, who now help them develop their business plan and market analysis. A further two week training program in business planning and market analysis together with the expatriate advisors has facilitated a good business plan for the enterprise. The project leader in Vietnam stated the need to develop many skills, and that the SEED winners workshop in Pretoria was very useful in initiating their first business plan.

Acquiring new business skills must be recognized as an ongoing endeavour, with the capacity to learn about new business opportunities as they arise. For example, Cows to Kilowatts is already keeping an eye on options for selling carbon credits from their energy

production, based on training at a US EPA carbon credit meeting in South Africa and a World Bank meeting on carbon trading.

While many necessary business skills were accessible within the enterprise and partners, almost without exception the SEED winners lacked one essential business skill: an understanding of marketing, locating buyers or attracting clients. An enterprise depends on bringing income in through selling a product or service, yet as a whole, each winner interviewed noted they had never thought about marketing, had no skills in this, as most partners come from NGO or Government sectors, and have found it one of the more difficult aspects of initiating their enterprise. Lack of information about buyers was commonly stated, and many did not know where to start. Even the Internet was not a solution, as many did not have good internet access, or it was not the first place they would consider as a source of information, or their partners did not have or know how to use a computer. In Vietnam, according to the coordinator, partners have no experience with marketing and this is still a weak point for the project. They need more advertising and marketing needs more investment than they have available. In Peru, the success of the project depended initially upon developing local markets by creating consumer awareness of the benefit of buying native, organically grown potatoes for personal health and for the local economy. This required a long term, targeted plan to create a new market demand for a luxury organic product, which may not actually be feasible in a developing country like Peru. The Peruvian project organizers are finding that it may be easier to tap into established overseas markets for organic produce (eg, Europe). Most SEED winners have used SEED's support services to strengthen their marketing skills, and to network with local and international sources of expertise.

#### **4.5 Triple bottom line planning**

***The conscious and deliberate alignment of economic benefits with social and environmental benefits is an important element of achieving sustainable development.***

Dr. Adelegan of Cows to Kilowatts observed that having important management skills in place at the start such as his own business education did not prepare him to understand social enterprises, or to develop businesses to have environmental and social benefits. Training and contacts which SEED enabled in these areas were important new learnings for him. The Brazil project also gained more of a triple bottom line focus from SEED, and now plans to implement more of the conservation or environmental aspects to its tourism program through teaching communities about sustainable fishing and farming in order to provide organic, sustainably harvested produce to tourists, as well as providing sustainable energy supplies for tourists throughout the trip (e.g. solar heaters for showers).

Although all SEED winners identify economic, social and environmental benefits at the outset, this ability to plan consciously, proactively and in detail to achieve all three types of benefits is not evident with all SEED winners. Without the deliberate setting of social and environmental plans, comparable to business plans, it is more difficult to ascertain whether such benefits can be realized. Nevertheless, there have been four cases where such benefits are being reported. In Sierra Leone, the communities have increased awareness through the project of the island reserve being a tangible asset which could

make them money if properly conserved. Poaching of game has nearly been eliminated, and the communities no longer harvest wood or Non-Timber Forest Products (NTFPs) from the island. In Vietnam, medicinal plants are a diversified crop for farmers and need less land and lower quality land to grow them, so it has provided a new crop/income without affecting food production. Farmers can make better use of their marginal land. Growing the plants has taken pressure off the native populations and has allowed some native regeneration. In Bolivia, the engineering firm which implements the water systems has been able to learn about ecological water management (including alternative solutions such as dry toilets and constructed wetlands) and has already started some pilot projects in these areas. The firm will now offer an integrated water management solution instead of simply access to water or normal sanitation solutions. In Madagascar, the coastal fishery is recovering inside the community managed protected zone.

#### **4.6 Short and long term benefits management**

##### ***Demonstrated planning for short and longer term benefits; and how economic benefits will be shared***

An important factor for success is that all stakeholders -- not only the leaders of the enterprise, but their key partners and the local community -- feel they are receiving benefits from the effort they are putting in to the enterprise. Those that seem to have more success plan ahead and define potential benefits to the beneficiaries in the development of the project. It is much more difficult when benefits are not clear or will take time to be realized. This is particularly true when natural resources that need a long time to grow or regenerate are involved. In the case of Nepal's seabuckthorn harvesting project, it was reported that the leader has to constantly encourage the community (involved in cultivation) to continue with the enterprise, since the plants need four to five years to mature before producing fruit. The leader noted that a previous ODA-funded seabuckthorn project failed because international organizations do not have the time to wait for longer term projects to come to fruition and provide benefits. Likewise in Madagascar, community attention to the current limits on harvesting in the marine protected area must be sustained while the ecosystem recovers sufficiently to support a fishery once again. With SRI however, there are immediate rice harvest results that one farmer can then demonstrate to another, leading to longer term, wholesale change in agricultural practices. In Vietnam, despite the difficulties of starting the enterprise, community farmers and the community cooperative have stayed engaged and involved because they perceive benefits for the partnership. Farmers now have a new crop which they can grow on spare land that is unable to support other crops. The organization has gained more support in the community because of the project and is now seen as legitimate in representing the community and developing new opportunities for economic growth. On the conservation side of the equation, the cultivation of medicinal plants has taken pressure off of wild stocks allowing these to regenerate in areas that were once over harvested. If the enterprise requires a significant lead time before a tangible benefit can be secured, the leaders should plan for either a shorter term benefit to be offered or have a concrete strategy to keep everyone engaged while waiting for the longer term benefit.

## **4.7 Community engagement**

***Long term success and sustainability lies with the successful engagement of the local stakeholders and beneficiaries.***

Successful community engagement was cited as especially crucial to the success of most enterprises interviewed, although enterprise leaders found that training at the community level was necessary for the success and further expansion of the enterprise. The leader of Nepal's Harvesting Seabuckthorn project noted that without being able to effectively engage the local community, it would be impossible to make the project work, as did Ecuador, Bolivia and Sierra Leone, and earlier interviews with Madagascar. In developing nations, this can be a challenge, with education levels and cultural understandings varying widely among different economic classes. Many communities are struggling with basic needs (food, shelter, health, sanitation) and often are not formally organized. One of the benefits cited in nearly all projects was the resulting organization of a community into more formal, legal or political structures, which has helped the community to gain access to non-enterprise related benefits such as health care, education and other basic needs.

## **4.8 Risk management**

***Demonstrated planning for mitigation of risks and externalities helps ensure long term functioning of the enterprise.***

Those enterprises that anticipate and plan for risk often have an easier time of adapting to unforeseen complications or problems which may arise. Those that plan only for the best are often surprised and unduly slowed by the unexpected which inevitably occurs. In Vietnam, it was not expected that it would take two years to get a license to sell their products in Hanoi; this slowed expected income to the project. In Nepal political instability has been a barrier to implementation and there are indications that others are "copycatting" the idea and risking both depleting the wild sea buckthorn resource and undercutting the market. In Peru, severe frosts took out the native crop one season, which alerted the founders of T'ikapapa to the vulnerability of the product supply. At present, the enterprise leaders admit that there is little that can be done to avoid future crop failures. Some thought has been given to helping farmers choose planting areas that may be less susceptible to extreme weather events – and it is this attention to risk management that improves the likelihood of success.

## 5. Performance indicators

Identifying the presence of critical success factors, and addressing gaps, will help a start up enterprise get underway. But these enterprises also need to watch for indications of progress: are they in fact achieving the success they seek? The rapid assessment methodology revealed a small number of common performance indicators – 14 in total – which may reveal whether an enterprise is functioning well and moving towards its goals. These indicators are in the areas of business, social, and environmental performance – achieving the triple bottom line for the enterprise. A final selection of indicators is suggested for monitoring the health of partnership arrangements.

Social and environmental enterprises should adapt these generic indicators to serve their own enterprise goals. More specific targets (such as revenue goals; or numbers of homes provided with clean water; or numbers of hectares of an ecosystem restored) may be warranted for each indicator. All 14 indicators can be monitored on an annual basis, as part of an overall strategic business assessment and annual reporting process.

### 5.1 Business performance indicators

***Goal: Financial viability of each start-up enterprise has improved by the end of the first five year business cycle.***

#### ***Indicator 1: Business plan in place, reviewed and updated regularly***

The Business Plan and planning process is important for the organization and development of the enterprise, establishing objectives, products and service lines, supply chains, revenue targets, marketing strategies and investment and financing requirements. It should help to define roles and responsibilities of partners and how profits would be distributed, often serving as a de facto governance document as most of the partnerships do not have formal governance agreements (with the exception of those who currently have a Memorandum of Understanding with their key partners). The development of a business plan is one strong indicator of performance of the enterprise and partnership. In the case of Nigeria, the business plan, and exposure SEED has offered, has fostered interest from others outside of Nigeria and from the government within Nigeria, suggesting an even greater market potential for the technology.

#### ***Indicator 2: Marketing networks established and new opportunities investigated***

One of the greatest challenges seems to be gaining market access and building networks for distribution of products or services. The establishment of these is one good indication that the enterprise is moving towards success. In Bolivia, there is now demand for additional services from Agua Para Todos. In Cambodia, there has been a contract signed with a German firm for 400 tons of SRI rice; in Madagascar Lotus Food from the USA has found a variety of SRI rice they want to distribute. Brazil has expanded tourism routes and locations. In all these cases time and effort was needed to develop appropriate marketing plans and approaches, and it took dedicated effort to make market linkages and develop them to the point of success.

Application to a fair trade or sustainable resource certification program may also support a marketing strategy. Several winners have requested help in particular with understanding and applying to appropriate certification programs.

### ***Indicator 3: Livelihood for the enterprise manager***

Having a full or part time paid leader seems to be one of the most critical aspects of achieving success and an important indicator that the partnership and enterprise is functioning. With SRI Rice a paid coordinator has enabled market linkages and access to more funding. In Brazil, the Ashoka award has enabled more effort to go in to development of the enterprise. In the case where there is not funding for a salary, such as Vietnam and Sierra Leone, this is cited as one of the limiting factors which has slowed progress.

## **5.2 Social performance indicators**

***Goal: To provide income or employment to community beneficiaries and contribute to community livelihood and well being***

While all SEED enterprises could clearly and passionately articulate their social and environmental goals, they were less likely to have systems in place to monitor whether those goals were being achieved. Based on the interview data and related literature, the following appear to be among the most common, and useful, indicators of social performance.

### ***Indicator 1: Income provided***

Have the community beneficiaries received income from the enterprise, in addition to the key leaders of the enterprise? In Bolivia, the company has hired local workers and a new micro industry was created in the manufacturing of water meter boxes. Likewise in Nigeria, local workers are involved in the construction of the biogas plants. In the cases of Cambodia/SRI and Vietnam, both have set up community funds where profits from the enterprise are put and then invested in local projects for the benefit the whole community. In the longer term, this indicator may also reveal whether the community has been able to diversify and strengthen its economic base through the enterprise.

### ***Indicator 2: Delivery of occupational education and skills training***

Education and training in new skills can help to sustain existing economic activities more efficiently and effectively as well as diversify the economic base of communities. SRI rice planters learned improved methods for cultivation leading to higher, more sustainable yields with reduced water dependency. Local workers in Bolivia gained new skills in water supply systems. Nigerian abattoirs are learning to diversify their revenue opportunities through the acquisition of new biogas technology.

### ***Indicator 3: Fostering stronger community organization; in particular women's roles***

SEED winners' experience suggested another common indicator of progress towards social goals: the development of stronger community identity, organization and empowerment. Evidence for this finding lies in the new women's association that emerged from the Ecuador project; in the communities coming together in Brazil to

provide an integrated travel experience for tourists; in the shared ownership among Madagascar villages for the protection of their marine area. Most striking was the situation in Bolivia, where the process of organizing to pay for the new water service helped the periurban areas to gain more formal political recognition.

***Indicator 4: Social development benefits secured***

Improvements in community health and well being that result from increased income, new skills and stronger community organization can be signaled by more children attending school; improved access to health care; and so forth. Observing and documenting such changes for annual reflection will help triple bottom line enterprises ensure that the downstream social benefits are in fact being realized by their target beneficiaries.

### **5.3 Environmental performance indicators**

***Goal: Contribute to conservation and sustainable management of resources in the area***

In looking to achieve environmental benefits one must consider whether the enterprise has actually set benchmarks against which environmental changes can be monitored.

***Indicator 1: Evaluating environmental impact of enterprise***

While most of the SEED enterprises put much value on determining and measuring social and economic benefits, not all have given equal thought or consideration to the measurement of environmental impacts and benefits. A signal of successful performance is whether these impacts and benefits are identified from the beginning of the enterprise and taken into equal consideration with economic and social performance.

Where the enterprise has been started by champions with a background in environment and conservation, there is a systematic approach to the setting of targets for ensuring that environmental objectives are being achieved. For example, the Madagascar marine protected area has established a system to monitor improvement of the fishery and indicators to determine when it is suitable to harvest again. Other enterprises rely on a key partner to take responsibility for monitoring and reporting on environmental progress: in Sierra Leone, the environmental NGO partner monitors reductions in poaching of game and illegal timber harvesting on the Tiwaii Island reserve.

Some winners were able to point to environmental improvements (for example, in Vietnam, the enterprise leaders suggest that marginal land use has improved through cultivation of the medicinal herbs and there is noted improvement in wild regeneration for these plants); but the means by which this is tracked and validated is unclear. This might call into question whether these environmental improvements are in fact taking place, and on what scale. Further, where conservation is not planned or well monitored there are potential negative consequences such as in Nepal where creating a market for seabuckthorn that cannot be met yet by the cultivated sources has led to depletion of wild sources.

The setting of environmental targets, and the systematic observation and documentation of such changes for annual reflection will help triple bottom line enterprises ensure that the environmental improvements are in fact happening.

### ***Indicator 2: Delivery of environmental awareness, training and education***

Remediation and protection of local ecosystems requires local community support and engagement. An important indicator for environmental performance, therefore, is the provision of environmental awareness, training and education programs and related communications activities. Sample metrics might include numbers of presentations at community meetings, materials provided to schools, stories in local media, and so forth.

### ***Indicator 3: Changes in community choices and actions***

Are there any indications that community behaviour in general is changing? Do communities understand the value of local environmental resources or better agricultural practices, as in the cases of Vietnam and Sri Lanka. In Sierra Leone, the education of the community to the value of Tiwai Island for purposes other than resource extraction has drastically reduced poaching of game and illegal timber harvest.

### ***Indicator 4: Technological innovations***

Such innovations can include both the development of a new technology (such as Nigeria with the development of a better canister for biogas) and the seeking out and adoption of technologies for local applications (such as Bolivia with the investigation into ecological water management solutions).

## **5.4 Partnership arrangements**

***Goal: Relationships are built which contribute to enterprise development and growth (funders, supply chain, markets) and lead to the success of the enterprise, achieving multiple goals of economic development, social benefits and environmental stewardship***

The literature on multistakeholder partnership management is extensive and a number of training programs are now well established. For small, start-up social and environmental enterprises in developing countries, however, it can be daunting to consider how best to manage the complexity of relationships that they need to achieve their triple bottom line goals. The SEED research suggests that the following three indicators are the most common, and most important indicators that can signal to the enterprise leader whether and how partnership arrangements are serving the enterprise goals.

### **Indicator 1: Roles, responsibilities and expectations established and monitored**

The interview data suggested a wide range of practices among the winners with respect to the identification of partners, and the assignment of roles and responsibilities among partners. One informant admitted that the partnership has not been fully defined, with perhaps too many separate interests involved. As a result, the many disparate interests cannot be accommodated by the enterprise – and this has slowed their progress. Another suggested that a key partner does not always clearly understand its role in the enterprise, and sometimes views the enterprise as a business competitor.

Achieving clarity on roles, responsibilities and expectations is an important indicator of progress. Some winners have chosen to prepare formal documents to describe the nature of the partnership. As noted above, under the business performance indicators, there is also the opportunity to use the business plan, and the description of the roles of different partners within that, as the de facto governance agreement.

Regardless of the level of formality of documentation, the enterprise leader should map the key relationships required for the attainment of objectives, and monitor on a regular basis how those relationships are serving the enterprise.

### **Indicator 2: Regular communications maintained among partners**

The style, frequency and openness of communications between the enterprise leaders and the partners were found to be unique to the needs of each enterprise. Only one SEED winner suggested that the openness and transparency of communications with all partners -- sharing all meetings and all correspondence -- was necessary to ensure that partners did not feel they were excluded from discussions or decisions. All others clearly interacted with their partners on a more individual basis, depending on the nature of the relationship with each unique partner and their role within the enterprise. The only common factor was the recognition that regular communications with partners must be maintained to ensure that partners are performing their agreed upon roles within the enterprise.

How this is accomplished is an ongoing challenge, even though communications and the transfer of critical information to key actors are acknowledged to be essential to enterprise development. Several winners have experimented with internet based electronic communication and information sharing networks, using websites, email lists, and so forth. They have found that such tools are not well used, and those who serve as leaders seem to be the only ones putting information and discussion into these electronic based communication exchanges. Also many noted that their partners often either do not know how to use computers, or do not have easy access to one and often do not think of the internet as the first place to go to interact with the enterprise. However, with the rapid growth of mobile telephony and the low cost of text messaging services, some of these barriers may be more easily overcome in the near future.

In order to secure the benefits of good communications with their partners, enterprises should develop and maintain a simple communications plan that will best serve the needs and capabilities of partners to stay connected to the enterprise.

### **Indicator 3: Monitoring and managing change in partnership composition**

The third and final indicator is derived from the many comments made by SEED winners about turnover within their core group of partners. Partners that joined the initial enterprise are in many cases no longer involved, for a variety of reasons. Why and how this change takes place is a strong indication of good partnership management. Negative signals may include a lack of interest/responsiveness on the part of the partner, or poor communications with the partner, leading to reduced participation and withdrawal. Constant turnover among staff representing the partner in dealings with the enterprise also may signal a lack of consistent commitment on the part of the partner. Bolivia experienced real challenges in having to deal with many different representatives of a key partner; but they persisted in demonstrating the value of their enterprise to the partner, to the point where the partner has now established a part time position for a delegate whose sole responsibility is to work with the enterprise.

Positive signals of good partnership management also include:

- Weaker partners are replaced with more suitable partners that are actively sought out by the enterprise, and which bring stronger skills, expertise into the enterprise

- The strategy of the enterprise has evolved, requiring different skills not available among the original partners, and so again, new partners are sought out and engaged.

In the case of Peru, the T'ikapapa project originated from a Peruvian government project which aimed to increase the value and perception of native grown potatoes. The leader of the project established all the partnerships needed, but since has handed over leadership of the new enterprise to the private sector partner. This partner is developing a new marketing strategy and is now changing the partnership composition to meet the needs of the new strategy.

## 6. Conclusions and suggestions for further research and learning

The eight critical success factors and 14 performance indicators identified through this investigation can now form the basis for a robust rapid assessment process for social and environmental enterprises. Such a process can be self directed by the enterprise leaders, to determine in the early stages of their development whether they have the critical elements in place for successful growth; and to monitor their performance against a number of simple but informative indicators of progress towards their economic, social and environmental goals.

These critical success factors can be also used by SEED itself, by other similar recognition and reward programs, by development assistance agencies, foundations and venture capitalists to help determine the likelihood that an enterprise will succeed, and so guide decisions about levels of investment and support. The performance indicators can be monitored by those investing in and supporting an enterprise to assess whether the potential of the enterprise is being realized, and to recognize early signs of crisis that can be mitigated if addressed in time.

The authors of this report suggest two new directions and related activities for SEED research and learning, based on the results of this investigation.

### **1. Establish the research agenda as a significant longitudinal study into the success of start-up social and environmental enterprises that use partnerships to achieve their goals, by interviewing earlier and new SEED winners on an annual basis using the rapid assessment methodology developed as part of this research cycle.**

- Apply the critical success factors analysis to the 3<sup>rd</sup> round of finalists for the SEED award
- Using the performance indicators, and the corresponding survey instrument for pre-award status, interview the 3<sup>rd</sup> round of winners to establish a baseline for their performance, against which they can measure their progress for the future.
- Design a short training exercise for the 2005 and 2007 winners to adapt the performance indicators to their specific enterprise circumstances, so they may prepare a simple annual report of their enterprise, to share with their partners, community beneficiaries, investors and peers. Such an exercise could be delivered on SEED's new community platform, currently under development.
- Between six months and one year after the 3<sup>rd</sup> cycle of winners has benefited from their tailored support, conduct the post award questions and review whether progress on performance indicators is underway.
- At the same time, repeat the interviews for 2005 and 2007 winners, to continue progress on SEED's longitudinal study of startup social and environmental enterprises.

### **2. Based on the demonstrated need for each of the critical success factors, including specific business planning and management support for social/environmental entrepreneurs, research and develop a major online resource of information, guidance and tools to serve not only SEED winners, but all small, micro and medium sized enterprises that have social and environmental goals and benefits.**

## **Appendix 1: SEED Winners**

The following is taken from [www.seedinit.org](http://www.seedinit.org).

### **2005 Winners**

#### **1. Cambodia, Madagascar and Sri Lanka: Environmentally-Friendly Rice (aka A Global Marketing Partnerships for SRI Indigenous Rice)**

Farmers in Asia and East Africa are partners in an initiative to boost rural incomes through the marketing of indigenous and environmentally-friendly grown rice varieties. Commercial rice cultivation in the developing world is becoming increasingly questionable as a result of low market prices and the financial and environmental costs of using chemicals and fertilizers. Conventional methods of rice production are also extremely water intensive.

Some farmers in Cambodia, Madagascar and Sri Lanka have turned to a production method known as the 'System of Rice Intensification' or SRI. It involves an a la carte menu of actions including when to plant out Seedlings, weeding regimes and the spacing of plants, which can be adapted to local conditions and indigenous rice varieties.

Small rural producers who are taking part are achieving water savings of up to 50 per cent and increased yields of up to 100 per cent. This is because SRI, a collaborative effort between Cornell University, several non-governmental organizations (NGOs) and local communities, works without flooding rice paddies and results in stronger plants that need less chemical fertilizers and pesticides.

Rice produced in this way commands higher prices. The trick is to empower and assist producers to exploit and benefit from these premium prices in local and international markets. This new project, which has brought together research institutes from the United States and Cambodia and farmers organizations, is pooling experiences and skills to develop strong marketing programmes. Export markets in Europe and North America are also being explored using, in some cases, certification schemes like Fair Trade.

The Seed Award for this winning partnership was generously sponsored by Swiss Re, Switzerland.

#### **2. Himalayas Harvesting Seabuckthorn at the top of the world**

Seabuckthorn is a deciduous shrub that is common in the Himalayas. It has a highly developed root system that binds soils on fragile slopes. The presence of a natural seabuckthorn 'forest' can decrease monsoon-related loss of topsoil by 30 percent. The plant also has a wide range of commercial applications which are beginning to be exploited by commercial companies in countries like India.

The berries are highly nutritious and yield juice, as well as oils for cosmetics and traditional medicines. The leaves are also used in traditional medicines, as well as for livestock fodder, and the branches can be used for firewood.

The international HimalAsia Foundation together with local Tibetan cooperatives and a family of traditional medical practitioners are developing a sustainable programme for cultivating and marketing seabuckthorn and other medicinal plants for the local and international market. In doing so, they are not only developing sustainable livelihoods for local people, but playing an important role in conserving biodiversity in this Himalayan mountain area.

Plans for the future include expanding on three existing seabuckthorn nurseries, training locals in the extraction and preparation of juice and helping to broker fair business relationships between international companies and local communities.

### **3. Madagascar's first experimental community-run marine protected area**

An estimated 11.5 per cent of the Earth's land surface is now held in protected areas but only about one half per cent of the world's seas and oceans enjoy the same rights.

The 2002 World Summit on Sustainable Development's Plan of Implementation called for the establishment of representative network of Marine Protected Areas (MPAs). An experimental, community-led, scheme in Madagascar aims to be one of these light-houses by illuminating how partnerships between local people, research institutes and NGOs can deliver marine conservation and sustainable livelihoods.

The project, focused around the 1200-strong community of Andavadoaka, is balancing the needs of local fishermen and protection of the area's important coral reefs. Eco-tourism is being promoted as a way of generating income for conservation work, diversifying the local economy and to reduce the pressure on fish stocks.

It is hoped that the experiences from this project will act as a blueprint for similar projects in other regions.

### **4. Bolivia: Water for All**

Relevant websites: <http://www.aguatuya.com>

Access to clean water is an emotive issue in developing countries and sometimes leads to civil unrest and major social problems. The Millennium Development Goals call for a halving of the level of people without access to fresh water and sanitation and this project directly addresses this aim.

The 'Agua Para Todos' initiative in Bolivia has found a way of solving the seemingly intractable problem of who pays for secondary water networks, i.e. delivering water from the municipal supplier's main pipe to the consumer.

Under the project, a consortium of local communities, an NGO and a pipe manufacturer is building water distribution systems in coordination with the municipal water company in Cochabamba, each connecting between 100 and 500 poor households. The costs are being met by the communities concerned through a micro credit scheme, repayable within a year.

Five pilot projects are under way, already halving the cost of water for 3,000 people in Cochabamba. Ambitious plans currently under development in partnership with the municipal government would provide 17,000 connections serving 85,000 people over the next five years.

### **5. Nigeria: Cows to Kilowatts**

Effluents and waste products from abattoirs are a problem for human health and the environment across the developing world. A project being piloted in Ibadan, Nigeria, is turning these wastes into energy to generate income for poor urban communities and reduce the gases linked with climate change.

The project treats the abattoir wastes and turns them into a 'bio-gas' suitable for cooking and other uses. A further by-product is agricultural-grade fertilizer.

The partnership behind the project claims their bio-gas is significantly cheaper than current, commercially available, liquefied gases. The scheme will cover its costs and become profitable in three years and has a fifteen year life expectancy.

## **2007 Winners**

### **1. Vietnam**

In Vietnam, Bridging the Gap uses sustainable cultivation of traditional medicinal plants to develop high value-added products, the manufacturing and proceeds of which improve the livelihoods of ethnic minority communities.

### **2, Peru**

In Peru, T'ikapapa links small-operation potato farmers in the Andes with high-value niche markets in urban centers. T'ikapapa promotes biodiversity conservation and environmentally friendly potato production techniques while giving farmers open access to technological assistance and innovation, encouraging local farmer's associations and propagating the flow of market information.

### **3. Ecuador**

In Ecuador, a partnership also operating in the Andes has reintroduced native cereal and tuber crops that diversify food production, improve local food security and reduce soil degradation. The partnership then sells surplus yield through a women's organization it has created in three communities resulting in new economic, financial and marketing engines for the area.

### **4. Brazil**

In Brazil, Projeto Bagagem creates unique travel packages that give visitors a first-hand look at local development initiatives and nature reserves in a novel approach to community-based ecotourism.

### **5. Sierra Leone**

In Sierra Leone, a unique partnership between a traditional healers' association, an academic research institute and local communities will help to protect biodiversity and provide sustainable livelihoods for local communities through the establishment of the Tiwai Island Health and Fitness Center—a facility to provide health services based on principles of West African ethno-medicine.

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## Appendix 3: Survey Instrument

### Survey Questions (Semi –structured Interview)

#### 1. **Business approaches**

##### **Objectives:**

Financial viability of each pilot enterprise has improved by the end of the project.

Small businesses created and developed that have an impact on poor people and environmental stewardship by the end of five year business plan cycle.

##### *Prior to Award:*

- 1.1. Does (Did) your partnership have a Business plan in place? How was it created and by whom?
- 1.2. Have (Did) you completed a Market Analysis or Marketing Plan for your product or service? Who is your primary market?
- 1.3. Has (Had) anyone involved in your partnership had training in business management, financial management, marketing or other types of business skills? What will be their role in the enterprise?

##### *Post award period:*

- 1.4. Did the business plan unfold as expected over time? What differed from the plan and why?
- 1.5. What were the challenges in marketing your product or service?
- 1.6. Were there new business skills you had to develop in order to achieve the business objectives?

#### 2. **Successful Social Enterprise**

##### **Objective:**

To provide income or employment to partners or community and create a multiplier effect which contributes to community livelihood and well being

##### *Pre award:*

- 2.1. What do you see as the potential benefits for partners and the community where the enterprise is located?
- 2.2. If there are profits, how will these profits be distributed among partners?
- 2.3. What are the conditions needed for your enterprise to contribute to economic development in the community?

##### *Post award:*

- 2.4. How has your enterprise contributed to the community?
- 2.5. What are the benefits partners received from being in the partnership?
- 2.6. Are there other contributions the enterprise has made to the community besides employment or income?

### **3. Achieving Conservation Goals**

#### **Objective:**

To achieve principles of environmental sustainability and contribute to conservation of resources in the area.

#### *Pre award:*

- 3.1. What environmental benefits do you foresee to enterprise providing to the community, or area?
- 3.2. If your enterprise uses a biological inputs, (nature products, uses natural resource, etc) how will the enterprise ensure it will not be exhausted or irreparably damaged as the business grows and expands?
- 3.3. What do you see as the environmental limitations or challenges to your enterprise?

#### *Post Award:*

- 3.4. What environmental benefits have been provided to the community or area as a result of your enterprise?
- 3.5. Were there environmental challenges (ability to use resource, get enough, unexpected environmental problems) faced by the enterprise? How did you overcome?
- 3.6. Did (Do) these environmental issues cause challenges to growing or expanding the business?

### **4. Scalability and replication**

#### **Objectives:**

To develop and facilitate the scaling-up and replication of effective approaches to socially and environmentally enterprise development.

#### *Pre award:*

- 4.1. Is your product or service unique in your market area?
- 4.2. What do you see as the potential for expanding the business or replicating it in different areas?
- 4.3. What are the key things needed to expand the enterprise?

#### *Post Award:*

- 4.4. How and where have you been able to expand the business or replicate it in different areas?
- 4.5. What factors help lead to expansion?; or What factors made it difficult to expand?
- 4.6. How have partners contributed to expanding the business?
- 4.7. Do you see your business as sustainable?, if not, what do you need to make it sustainable? (financially, social, environmental)

## **5. Partnership**

### **Objective:**

Relationships are built which contribute to enterprise development and growth (funders, supply chain, markets) and lead to the success of the enterprise, achieving multiple goals of economic development, social benefits and environmental conservation

#### *Prior to Award:*

- 5.1. How and why was the partnership established? (see application)
- 5.2. How does the enterprise see the role of partners in developing and expanding the business?
- 5.3. Is there a partnership leader(s), and is his/her role (s) defined? (refer to our notes on leadership)
- 5.4. What means does the partnership use to make decisions about the enterprise? If decision can not be made what is done?

#### *Post award period:*

- 5.5. What were the factors that contributed most to the success (or not) of partnership?
  - Cooperation, collaboration, commitment of team and partnering institutions
  - Common vision, mission, goals, and champions for the initiative
  - Frequent communication;
  - Listening to partners;
  - Clear plan / model
  - Partners with established relationships;
  - Others?
- 5.6. How did partners contribute (in what way?) to the business? Did this lead to an increase in business? (refer to 2 above)
- 5.7. What were your greatest partnership challenges, and how did you address them?
  - Getting appropriate attention from the partners
  - Time to devote to the project, and appropriate timelines
  - Different cultures across the partnering organizations
  - Maintaining communication;
  - Partners not delivering as promised;
  - Other?

## **Appendix 4: Key Informants**

Bolivia, Agua Tuya: Gustavo Heredia (Director, Agua Tuya)

Brazil – Projeto Bagagem: Cecilia Zanotti: (President, Projeto Bagagem)

Cambodia/Madagascar, SRI (Rice): Olivia Vent-Cornell Univ.

Ecuador – Cultivos Equandinos: Teresa Pagalo-Pagalo (Manager, Women's Association)

Nepal-Harvesting Seabuckthorn at the Top of the World:

Nigeria-Cows to Kilowatts: Dr. Joseph Adelegan

Peru – The T'ikapapa Initiative: Kurt Manrique; (CIP and INCOPA project); Marcus Velasques – (Manager of A y L processing company); Mario Sevilla (CAPAC association)

Sierra Leone, Tiwai Island: Dr Eluemuno Blyden; Tommy Garnett-EFA

Viet Nam Medicinal Plants: Do Thi Thu Ha-SPE