

*Social Entrepreneurship in the US:
A Way for Replication by Non-Governmental Organizations in Kyrgyzstan*

Aida Alymbaeva

Social Research Center

American University in Central Asia

Kyrgyzstan

Joel L. Fleishman Fellows in Civil Society Program, Duke University

October 2007

Acknowledgements

I am grateful to several people who have helped me to write this paper. I am especially indebted to Ms. Melynn Glusman, director of the Fleishman Fellowship in Civil Society Program at the Institute of Public Policy (IPP), who made our program at Duke University very rich and intense. I am also very thankful to Matthew T.A. Nash, Associate Director of the Centre for the Advancement of Social Entrepreneurship at Duke University's Fuqua School of Business for his sound advice and wholehearted support in designing the paper. Mr. Nash was a great resource during my stay at Duke University. The recommendations of Professor Tony Brown, who until 2007 taught Social Entrepreneurship at IPP and is currently the president of the Robertson Fellows Foundation, have been very helpful. I also appreciate the advice and support provided by Christopher Gergen, Visiting Lecturer at IPP.

Abstract

Non-governmental organizations (NGOs) started to appear in Kyrgyzstan in mid-1990s after the collapse of the Soviet Union. Their creation and development was heavily supported by international development organizations. At present, NGOs act as powerful civil activists and important players in the delivery of social services. However, their strong dependency on foreign aid makes them financially and institutionally vulnerable. This represents serious concern regarding their ability to bring about social change in long run. This paper aims to explain the concept of social entrepreneurship and describe benefits of social enterprises for sustainable development of NGOs. The paper also provides recommendations for replication of social entrepreneurship model in Kyrgyzstan.

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Part I: NON-GOVERNMENTAL ORGANIZATIONS IN KYRGYZSTAN:

WHAT ARE THEY?

This chapter provides introductory notes about non-governmental organizations (NGOs) in Kyrgyzstan. The first section contains descriptions of major challenges faced by NGOs in their current stage of development. The second section presents the findings of a small-scale survey conducted to determine how aware Kyrgyz NGOs were of the concept of social entrepreneurship.

1. Non-Governmental Organizations in Kyrgyzstan: The Dependency Syndrome

The collapse of the Soviet Union and the political decision of the new leadership of sovereign Kyrgyzstan to build a democratic society laid the foundation for the creation of NGOs. The absence of any knowledge or experience in building a democratic society, as well as the risk of the country's return to the former authoritarian regime, forced Western countries to support the establishment of NGOs in Kyrgyzstan. These NGOs were primarily seen by donors as players maintaining a system of checks and balances and bearers of a new value system.

In their efforts to implement various development models, Western states have imported their own paradigm. This paradigm implies that the successful development of a market economy is impossible in the absence of democratisation.¹ This model is different from models employed in Southeast Asia and China. Therefore, the democracy-building was highly prioritised and supported by the Western states. In this model, civil society organizations, including NGOs, were regarded as the key institutions in ensuring democracy and thus, they were given much attention and backing.

Although NGOs are quite new to Kyrgyzstan, they have succeeded in gaining a reputation as the most important players in the social sphere.² Indeed, NGOs have become

¹ Aida Alymbaeva, Anara Alymkulova, Elmira Shishkaraeva and Bermet Stakeeva, Review of the History of Establishment and Development of the NGO Sector in Kyrgyzstan, Bishkek, 2006.

² Alexander Pugachev, Financial Sustainability of NGOs in Kyrgyzstan: Challenges and Risks. Analytical Report, SRC, www.src.auca.kg

essential tools in the delivery of social services. The number of existing NGOs in Kyrgyzstan has reached 8,000 today.³ Most NGOs provide valuable services in the healthcare, education, environment, and social safety net sectors, thus acting as a substitute for government in providing social services. However, the existence of a large number of NGOs does not necessarily represent a guarantee of their sustainability. Only a quarter of all registered NGOs in Kyrgyzstan play active roles, while the remaining three quarters play more passive roles. It has been observed that most NGOs are quite active as long as there is foreign support available for the implementation of their projects, but are unable to perform on their own when their revenue sources run dry.⁴

The majority of NGOs in Kyrgyzstan largely depend on funding provided by foreign donors. This represents a problem for four reasons. First, donors normally instruct NGOs how their money should be spent, emphasizing the concerns they see as crucial rather than consulting the local community or the NGOs. As a result, social changes are not always brought about in the community. Second, to be able to meet grant requirements, NGOs are supposed to be flexible with their missions and this inconsistency jeopardizes their standing. When this happens, NGOs involuntarily put themselves into the position of perpetual financial dependency, which, in return, affects the scope and quality of their services as well as their sustainability.⁵ Third, many grants are provided to cover direct project-related costs, but few are available to aid the institutional growth of NGOs. As a result, NGOs suffer from poor organizational capacity. Fourth, there is a high level of competition among NGOs for increasingly limited funding from donors, due to the large number of NGOs in the country. This results in a lack of cooperation among NGOs in implementing community projects.

³ Aida Alymbaeva, Anara Alymkulova, Elmira Shishkaraeva and Bermet Stakeeva, Review of the History of Establishment and Development of the NGO sector in the Kyrgyz Republic, Bishkek, 2006.

⁴ Asiya Sasykbaeva, NGO as a Part of Civil Society in the Central Asia, INTRAC Newsletter, 2006

⁵ Anara Alymkulova and Dmitry Seipulnik, NGO Strategy for Survival in Central Asia: Financial Sustainability, 2005.

As the majority of NGOs in Kyrgyzstan rely on financial assistance from international donors, their sustainability is uncertain. As a result, the withdrawal of external donors from the country is currently resulting in a failure of NGOs to make social impacts in communities.

In order to be successful, NGOs should not restrict their funding resources exclusively to donor aid, but rather should explore and mobilize their internal resources. In this regard, it is advisable for Kyrgyz NGOs to employ the social enterprise techniques that are described in the next two chapters.

2. Survey Results: “Social Entrepreneurship: Unknown or Known Concept in Kyrgyzstan?”

Survey goal: The aim of this small-scale survey was to determine how aware Kyrgyz NGOs were of the concept of social entrepreneurship.

Survey method: A short questionnaire with open and closed questions was developed. The survey questions and answers of respondents are described below. For this survey, NGOs were identified through a random selection process using the 2006 Kyrgyz NGO Electronic Database. This is a national database including NGOs from all of Kyrgyzstan’s provinces and cities. The database is maintained by the Kyrgyz Association of Civil Society Support Centers and is normally updated every two years. In the database, NGOs are listed in alphabetical order but not by their field of practice. This layout helped cover NGOs specializing in different sectors.

The questionnaire was emailed to senior managers of NGOs that are based in capital city of Bishkek and in Chuy Province, the largest province in Kyrgyzstan. These two areas were selected because NGOs located there are considered to be more active than those located in other parts of the country. In total, the questionnaires were sent to 40 NGOs. Responses were received from 32 of them.

Survey results: The following sections summarize the survey responses.

i. Focus Areas: In Question 1, respondents were asked to indicate their field of specialization. Table 1 presents the responses and shows a wide coverage of sub-sectors but with scattered representation.

Table 1: Focus Areas

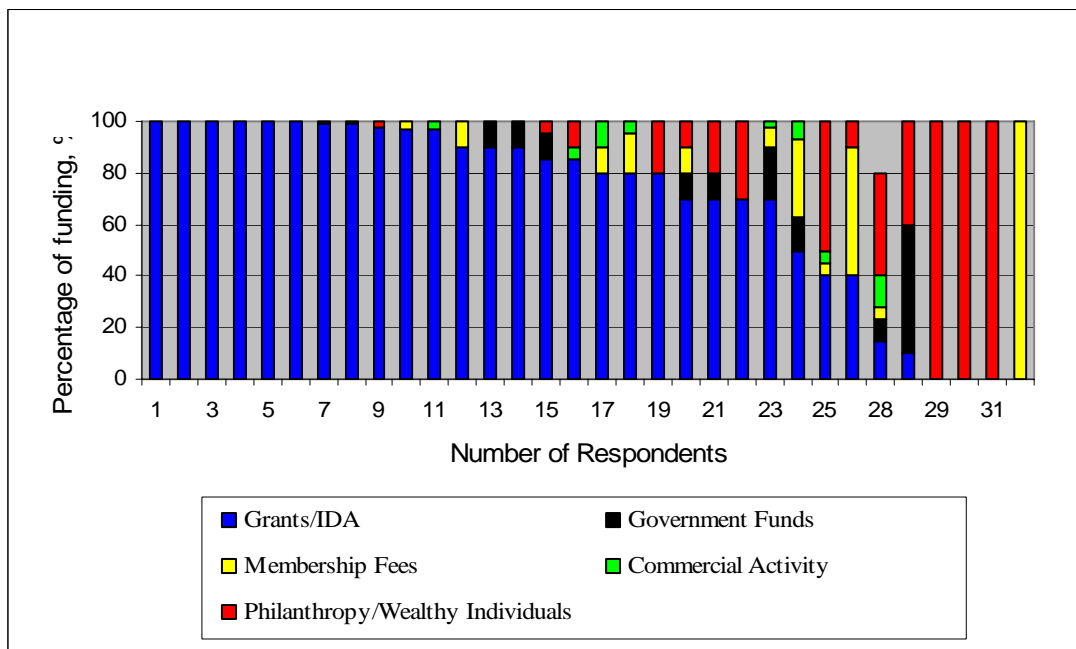
#	Focus Area	Number of Respondents
1	Disabled People	2
2	Economic Development	8
3	Education	2
4	Elderly	1
5	Environment	3
6	Migration	1
7	Women's Empowerment	5
8	Human Rights	4
9	Organizational Support for NGOs	3
10	Youth	3
	Total:	32

ii. Funding Sources in 2006: To identify sources of funding, the respondents were requested to indicate the distribution of their revenue streams in 2006. Figure 1, which pictures the responses, shows that the dominant funding sources for the majority of respondents were grants from international development agencies (IDAs) such as the United States Agency for International Development (USAID), the UK Department for International Development (DFID), the European Commission (EC), the United Nations Development Program (UNDP), etc. Nineteen NGOs reported that at least 70 percent of their funding was provided by IDAs while 14 of them depended on IDA funding for 90 percent. The second most common funding

source was the philanthropic sector. Three NGOs responded that 100 percent of their funding came from philanthropists.

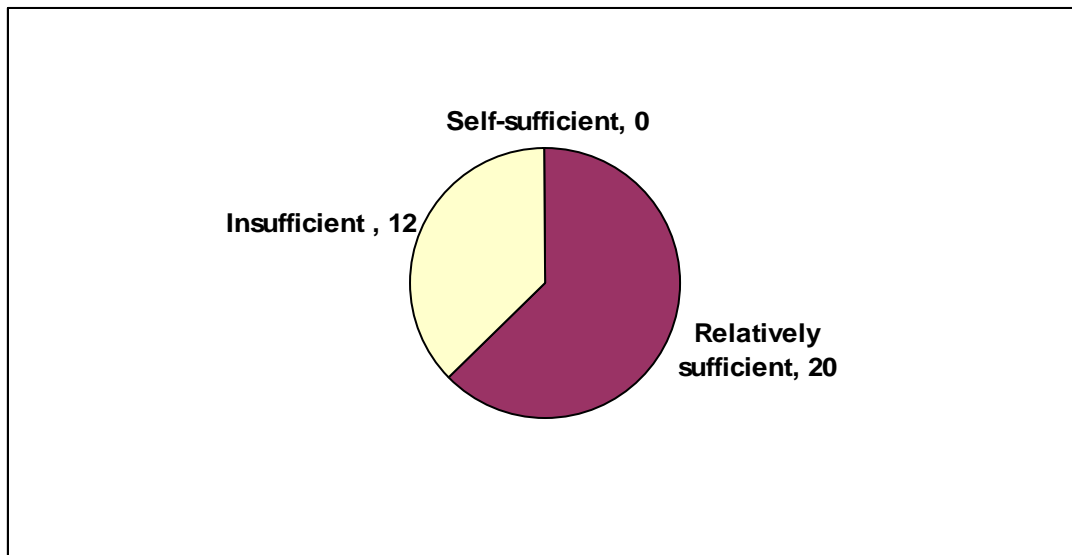
The least significant funding source was commercial activity, including services provided by NGOs on a paid basis. Only eight NGOs stated that they had commercial activities in 2006. Even for these eight NGOs, commercial activities provided only a fraction of their funding. Two of them raised 10-12 percent of their funds from commercial activities while the rest raised only 2-7 percent from commercial activities. Respondents' commercial activities included consulting, training, as well as evaluation and monitoring services.

Figure 1: Percentage of Funding Sources



iii. Financial Self-Sufficiency: The next question was about the financial self-sufficiency of NGOs. Figure 2 shows that none of the respondents called their organization financially self-sufficient. Only 20 NGOs stated they were relatively financially self-sufficient.

Figure 2: Financial Self-Sufficiency



iv. Awareness of the Concept of Social Entrepreneurship: To the question: “Is the concept of social entrepreneurship known to your NGO?”, the majority of respondents (28 NGOs) replied negatively. As Table 2 shows, only two respondents were aware of this concept. The remaining two said they had heard of the concept, but were not fully aware of the details.

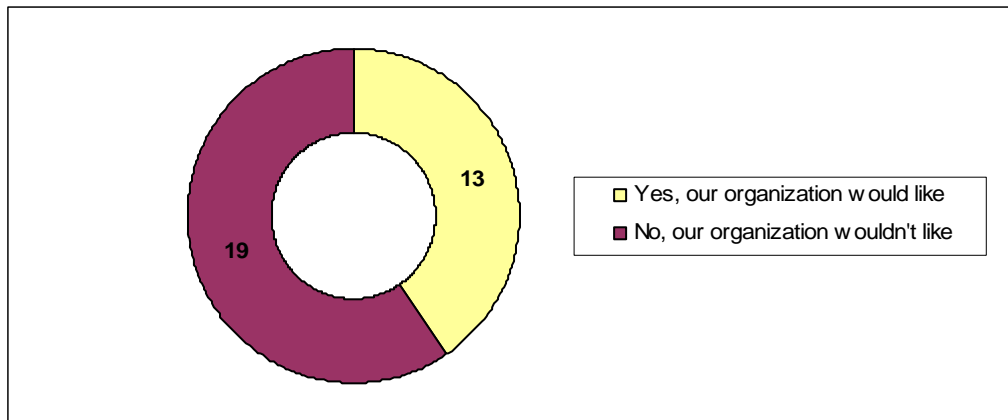
Table 2: Awareness of the Concept of Social Entrepreneurship

Unaware	Have Heard, but Not Fully Aware	Aware
28	2	2

v. Goals of Social Entrepreneurs/Enterprises: Those respondents who were aware or relatively aware of the concept of social entrepreneurship, i.e. four NGOs, were requested to specify the main mission of social enterprises/entrepreneurs. All four responded that these entities are for-profit agencies driven by social missions. For example, one of the respondents replied: “*Social enterprises are citizen sector organizations, but structured and operated like business companies. Their profits are reinvested into social projects.*” Another respondent answered: “*Social enterprises are employers of marginalized groups; they educate and provide them with jobs.*”

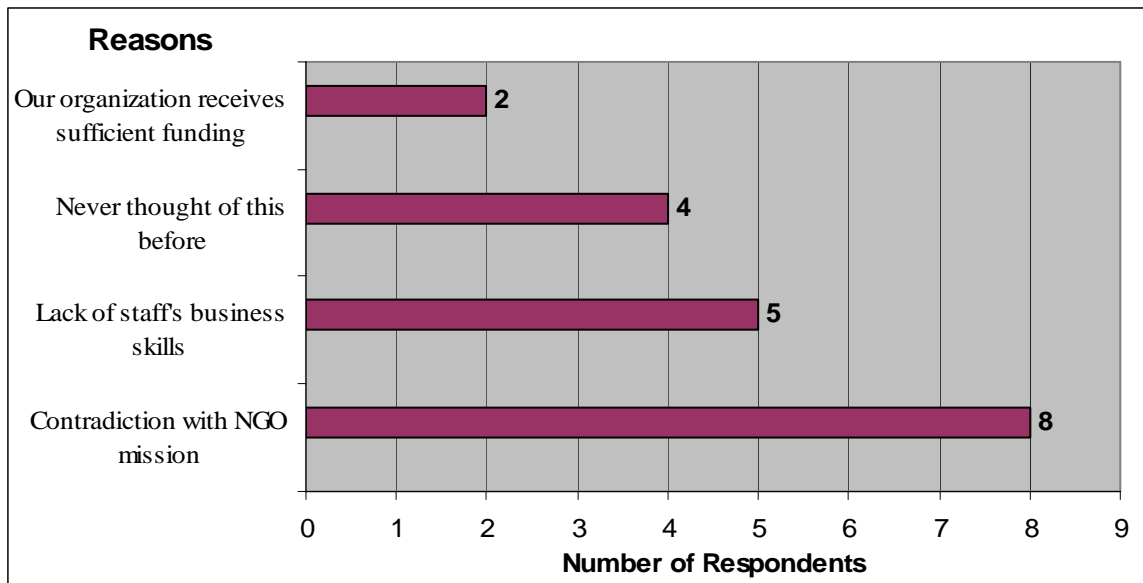
vi: Business Principles and Activities: One question on the survey asked respondents whether their organizations would be interested in using business principles such as business management practices, innovation, entrepreneurship, and income generation to better tackle social problems. As Figure 3 shows, more than half of respondents replied negatively (19 respondents). There were only 13 NGOs that were interested in adopting business principles.

Figure 3: Would Your Organization Like to Use Business Principles?



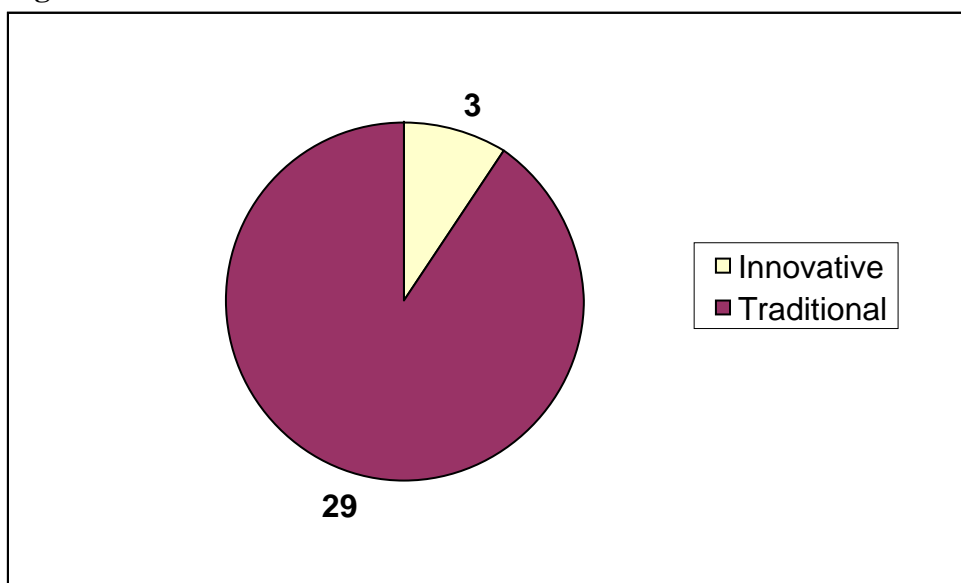
Those respondents who answered that they would not like to use business principles, were asked to explain. They were asked to select the one or two most relevant answers out of four options. Figure 4 demonstrates that eight NGOs answered that business practices contradict the NGO's nonprofit values. Five NGOs reported that their staff did not have the professional skills to manage business activities. Four respondents asserted that they had never considered this approach before. The remaining two respondents stated that they received sufficient funding for their activities, and therefore, there was no need to adopt business activities.

Figure 4: Reasons Not To Use Business Practices



vii. Innovation vs. Conventionalism: In the next question, the respondents categorized their NGOs as either traditional or innovative. Traditional NGOs were described as organizations providing services and products that were already known in local and/or international arenas. Innovative NGOs were organizations providing completely new products and services and/or using innovative operational techniques. As Figure 5 demonstrates, the majority of respondents identified their organizations as conventional. Only three NGOs categorized themselves as innovative.

Figure 5: Innovative vs. Traditional NGOs



viii. Interest in Learning Social Entrepreneurship: In the last question, respondents were asked if their NGOs would be interested in building synergies between business and social practices to make greater social changes while remaining citizen sector organizations. Almost all of the respondents, i.e. 31 NGOs (97 percent of respondents), answered affirmatively.

Table 3: Interest in Learning About the Concept of Social Entrepreneurship

Interested	Not interested
31	1

Conclusion:

From the results of this small-scale survey, it is clear that the majority of NGOs are unaware of the concept of social entrepreneurship. The survey also provides a few insights about why social entrepreneurship principals such as innovation and income-generation are not widely used by Kyrgyz NGOs. The issue is that most NGOs believe business practices contradict to the core values of non-profit sector. Profit-making behaviour is regarded as the main obstacle. Secondly, NGOs are reluctant to think out of box and accept business practices as alternative tools to better tackle social problems. In particular, on the programming level, NGOs are not innovative; they are dependent on products, services, and technologies developed by other organizations.

On the financial level, NGOs rely heavily on external funding provided by IDAs. Since their funding sources are not diversified, they are vulnerable in terms of their future financial self-sufficiency and thus, their ability to efficiently respond to social challenges in the long run.

Although social entrepreneurship is unknown to most NGOs in Kyrgyzstan, they are very keen to learn about using business practices while remaining attached to the non-profit sector. Thus, the core principals of social entrepreneurship -- innovation and entrepreneurship could become new features of the NGO sector in Kyrgyzstan in the future.

Part III: WHAT IS SOCIAL ENTREPRENEURSHIP?

This chapter is designed to provide a general description of social entrepreneurship. The first section portrays social entrepreneurship as a global process with examples from a few countries. The second section explores the definition of social entrepreneurship through the lenses of two schools of thought. Types of social enterprises are described in the third section. The fourth section highlights key barriers and limitations to the growth of social enterprises. The chapter ends with the author's conclusions concerning the notion of social entrepreneurship.

2. Social Entrepreneurship: A Global Process

Social entrepreneurship is not a new phenomena; it has existed in Europe and the US for more than a century. “In the United Kingdom (UK), cooperatives functioned as a means to fund socio-economic agendas as early as the mid-1800s. Beginning in the 1960s, US nonprofit organizations experimented with businesses to create jobs for disadvantaged people. Micro-credit organizations had appeared in developing countries by the 1970s and at about the same time, community development corporations were gaining popularity in the United States.⁶ However, as a movement and a discipline, social entrepreneurship has started to attract increased attention of practitioners and scholars only during the last two decades. It was only in the early 1980s, when Bill Drayton, founder and CEO of Ashoka: Innovators for the Public, a civil society organization, coined the term social entrepreneurship.”⁷

Today, social entrepreneurship is a global process involving more and more organizations in both developed and developing countries. In the UK, a survey conducted on social entrepreneurship as a part of the 2004 Global Entrepreneurship Monitor Report indicated that new social enterprise start-ups were merging faster than conventional commercial

⁶ Alter, Sutia Kim, Social Enterprise Typology, Virtue Ventures Company, April 2006. Retrieved from www.virtueventures.com/setypology.pdf

⁷ OECD, 2006. Emerging Models of Social Entrepreneurship: Possible Paths for Social Enterprise Development in Central East and South East Europe, September 2006. Retrieved from www.oecd.org/dataoecd/8/26/37508561.pdf.

ventures.⁸ In Asia, one of the greatest examples of social enterprises is Grameen Bank, which is the world's pioneer in the micro-lending sector. Established in Bangladesh in 1976, today the Grameen Bank has 7.27 million borrowers. Around 97 percent of all its borrowers are women. With 2,459 branches, this bank currently provides services in 79,539 villages, covering more than 95 percent of all the villages in Bangladesh. Grameen Bank is now owned by the rural poor whom it serves; people who have borrowed from the bank own 90 percent of its shares, while the government owns the remaining 10 percent.⁹ In South America, Irupana, a Bolivian social enterprise founded to help the poor, helps Bolivian farmers improve their livelihoods. In particular, it sources organic food products from farmers for local and international sale. Today, Irupana markets more than 80 products, including coffee, honey, dried fruit and nutrition bars to Bolivian, as well as overseas markets (including markets in the US, Israel, Eastern Europe and Germany). The enterprise generates about \$1 million in sales annually, and sources raw materials from 1,700 subsistence farmers who otherwise would have very limited market access.¹⁰

As social enterprises have become more well-known, private donors have begun to actively support them. “High-profile donors such as Goldman Sachs, the Pew Charitable Trusts and the Kauffman Foundation saw the allure of programs that would help pay for themselves and began to encourage nonprofit organizations everywhere to embrace entrepreneurship as they never had before.”¹¹ Today, the list of supporters of social entrepreneurship not only includes foundations, corporations, and bilateral and multilateral development organizations, but also governments. In several countries, especially in Europe, government agencies have adopted legislation to ease the entry of new social enterprises into the market and to facilitate their operations. In 1991, for example, “the Italian Parliament enacted a law giving special

⁸ Nicholls, Alex. *Social Entrepreneurship: New Models of Sustainable Development*. Oxford University Press, 2006, p.3.

⁹ Grameen Bank, www.grameen-info.org

¹⁰ International Finance Corporation, www.ifc.org/ifcext/gbo.nsf/Content/Irupana

¹¹ Ibid

status to social cooperatives, which went on to experience extraordinary growth. In 2002, the British government created a Social Enterprise Unit under the Secretary of Commerce and Industry. This Unit was established to improve the knowledge of and promote social enterprises throughout the country.”¹²

In the US, the number of social enterprises is increasing. Some of the success stories are spectacular. The following sections of this chapter illustrate a few striking examples from the US. However, it is hard to calculate the total amount of funds generated by nonprofit organizations in the US through social enterprises. According to the Seedco Policy Center, the difficulty lies in how International Revenue Service (IRS) data for 501(c)(3)s is collected. Revenue streams are broadly consolidated and funds ranging from hospital fees to college tuition and even multi-million-dollar government contracts are all considered commercial revenue. It is not surprising then, that according to IRS data nonprofit organizations seem to be generating a tremendous amount of earned income. In 2002, 72 percent (\$955 billion) of funding for nonprofit organizations was recorded as commercial revenue.¹³ Nevertheless, the scale of many social enterprises in the US (e.g. the Acumen Fund), the emergence of new forms of social enterprise ventures like social franchise companies (e.g. Platte River Industries) and venture capital firms (e.g. Community Wealth Ventures, Inc.), as well as the variety of services provided by social enterprises at the grassroots level, make the US experience invaluable.

2. Definition of Social Entrepreneurship

Although social entrepreneurship is becoming a solid new part of the civil society sector and growing into a worldwide process that is constantly penetrating new corners of the world, there is no consensus on how to define it. One of the reasons for this lack of unity is the

¹² Defourny, Jacques, Social Enterprise in an Enlarged Europe: Concept and Realities. 2nd Conference on Social Economy in the Central and Eastern European Countries "Social Entrepreneurship & Economic Efficiency", Krakow, Poland, 2004.

¹³ Seedco Policy Center, The Limits of Social Enterprise: A Field Study & Case Analysis, NY, 2007

embryonic development stage of social entrepreneurship as an academic discipline. Greg Dees, the leading scholar in the area, points out that, “as a field of intellectual inquiry, social entrepreneurship is still in its infancy. We do not yet have the deep, rich explanatory or prescriptive theories that characterize a more mature academic field.”¹⁴ The ambiguity is also explained by the multi-disciplinary nature of the field. Social entrepreneurship encompasses such disciplines as sociology, economics, psychology, business administration, and nonprofit management.

Overall, there are two main schools of thought, which define social entrepreneurship through two different lenses. Creating social value and economic value (a “double-bottom line”) are equally important for the first group of scholars. They stress the importance of incorporating business practices in the nonprofit sector for scaling social impact, reducing dependency on external funding and improving operational performance. The failure of governments and markets to effectively respond to social challenges, the heavy dependence of nonprofits on IDA funding, and high competition among them for limited donor funding have forced some nonprofits to rely on internal potential and resources. To create social and economic value, the first school of thought advocates using *income-generating activities*. In most cases, this happens when nonprofits become employers of disadvantaged groups or when they establish a for-profit entity to subsidize the costs of a parent non-profit organization. As Francesco Perrini, a well-known European scholar of social entrepreneurship, states “social enterprises are seen by the first school of thought as the hybrid of nonprofit and profit. They consider entrepreneurship as an ability of the nonprofit sector to reinvest themselves within the nonprofit system.”¹⁵

The most prominent proponent of the first concept is Jerr Boschee, executive director of the Institute for Social Entrepreneurs, who describes a social entrepreneur “as any person, in

¹⁴ Dees, Greg and Beth Anderson, *Enterprising Social Innovation: The Intersection of Two Schools of Practice and Thought*. www.fuqua.duke.edu/centers/case/articles/0806knowledge

¹⁵ Adopted from Francesco Perrini, *Social Entrepreneurship Domain: Setting Boundaries* (Chapter 1). *The New Social Entrepreneurship: What Awaits Social Entrepreneurial Ventures?*, Cheltenham, UK, 2006

any sector, who uses earned income strategies to pursue a social objective.”¹⁶ Boschee points out that “social enterprises analyse each of their products and services both from both a social impact and an earned income perspective.”¹⁷ Another follower of the first group is the Nonprofit Enterprise and Sustainability Team (NESsT), one of the primary US consulting companies in the field. NESsT defines a social enterprise as “a revenue-generating venture founded to create economic opportunities for very low income individuals, while simultaneously operating with reference to the financial bottom-line.”¹⁸

Members of the second group of thinkers expose social entrepreneurship to wider horizons. They also stress the importance of creating social value through innovation and entrepreneurship in order to find creative solutions to social problems. However, they believe that creating social value, rather than generating revenue is the essence of social entrepreneurship. An active supporter of the second concept is Greg Dees, who states that, “the social mission is explicit and central. Mission-related impact and not wealth becomes the central criterion. This obviously affects how social entrepreneurs perceive and assess opportunities. They explore all resource options, from pure philanthropy to commercial methods to create social value that is sustainable and has the potential for large-scale impact.”¹⁹

Jeff Skoll, another supporter of the second definition, points out that “social entrepreneurs have a unique approach that is both evolutionary and revolutionary, operating in a free market where success is measured not just in financial profit but also in the improvement of the quality of people’s lives.”²⁰

According to the second school of thought, social entrepreneurs are driven to make social change, and the use of commercial practices such as income-generation becomes just a

¹⁶ Ibid, p. 9.

¹⁷ Institute for Social Entrepreneurs, www.socialent.org

¹⁸ Nonprofit Enterprise and Sustainability Team, www.nesst.org

¹⁹ Greg Dees and Beth Anderson, “Enterprising Social Innovation”, Social Enterprise Reporter, www.sereporter.com/article.php?a=416

²⁰ Alex Nicholls, Social Entrepreneurship: New Models of Sustainable Development. Oxford University, 2006

tool to help them achieve that goal. Thus, income generation and other commercial practices are conceived as tools, not values. Dees reports: “Social entrepreneurs have to decide how they will approach the markets for resources and the markets for their services or goods. To what extent and in what ways will they rely on philanthropic or 'expressive' motivations as opposed to more self-interested motivations common in commercial markets?”²¹

Despite their different understandings of the contextual and organizational boundaries of social enterprises, the unifying factor between these two schools is that both believe social enterprises are set up to achieve social change through innovation and entrepreneurship. According to both schools of thought, social enterprises are innovators and entrepreneurs at the same time. As entrepreneurs, they strive for change and seek opportunities that can bring change. “Opportunity is defined as the desired future state that is different from the present and the belief that the achievement of that state is possible.”²² The pursuit of opportunity drives an entrepreneur’s behavior and enables him to create new innovations (technologies, products, services, etc.) with the aim of creating change. Thus, an entrepreneur becomes an innovator. Social entrepreneurship scholars Roger Martin and Sally Osberg give a general description underlying the common features of both schools of thought. They write that, “Social enterprises come up with brilliant ideas and against all the odds succeed in creating new products and services that dramatically improve people’s lives. Social entrepreneurship denotes a special, innate ability to sense and act on opportunity, combining out-of-the-box thinking with a unique brand of determination to create or bring about something new to the world.”²³

To differentiate social entrepreneurship from other ventures, Alex Nicholas, a lecturer on social entrepreneurship at Oxford University, proposes focusing on two organizational elements: the social mission focus (the context and outcomes of action that establish the social

²¹ Greg Dees and Beth Anderson, Enterprising Social Innovation, Social Enterprise Reporter, www.sereporter.com/article.php?a=416

²² James Austin, Howard Stevenson, and Jane Wei-Skillern, Social and Commercial Entrepreneurship: Same, Different, or Both?, *Entrepreneurship Theory and Practice* 30, no. 1, 2006.

²³ Roger L. Martin and Sally Osberg, Social Entrepreneurship: The Case for Definition, *Stanford Social Innovation Review*, Spring 2007.

component) and the operational process (the approach to action that establishes the “entrepreneurial” component).²⁴ Conventional nonprofits largely focus on *outcome-generation* and do not consider *process-making* as an important element. Compared with traditional nonprofits, social enterprises act more like business ventures; they link internal operational flows with outcome generation. These two elements, *process-making* and *outcome-generation*, are perceived by social enterprises as closely interdependent factors, the first influencing the success of the second. Social entrepreneurs “look to create social impact both as a result of an operational process and, often, as part of the process.”²⁵ Therefore, they use business management techniques such as business planning, market research, and performance measurement mechanisms, among many others, to scale their program outcomes.

3. Types of Social Enterprises

Social enterprises can operate in any sector where they can pioneer new innovative products and services to respond to social challenges such as poverty, environmental degradation, unemployment, marginalization, and illiteracy. The examples from USA in the boxes below illustrate two different types of social enterprises that generate employment for marginalized groups, including former drug addicts, unemployed people, and disabled people.

Minnesota Diversified Industries (MDI) is a social enterprise operating in St. Paul, Minnesota, USA, with 730 employees, 50 corporate clients and 5 plants throughout the state. It is now a leader in plastics manufacturing, fulfillment, packaging, and assembly services. In 2005, its business activities generated \$40 million.

MDI's mission is to assist people with disabilities and disadvantages by offering jobs in a competitive business enterprise. It provides its employees with competitive wages, formal on-the-job training, specialized vocational rehabilitation, and tuition reimbursement. From 2003-05 there was

²⁴ Alex Nicholls, *Social Entrepreneurship: New Models of Sustainable Development*. Oxford University Press, 2006, p.13

²⁵ Seedco Policy Center, *The Limits of Social Enterprise: A Field Study & Case Analysis*, NY, 2007

not a single layoff in this organization. MDI was originally a traditional rehabilitation center and sheltered workshop. However, it changed its conventional services by launching a business venture operational model.

Today MDI is a nearly self-sufficient organization, with 98 percent of their funding coming directly from business revenues, which is a rarity in the not-for-profit world. MDI reinvests its revenues into the organization, which means hiring more employees and enhancing training programs. This leads to longer-term customer partnerships, which increase revenue opportunities, thus leading to further reinvestment that supports their mission.²⁶

Growing Home (GH) is a social enterprise established in Chicago, Illinois. Its mission is to provide job training and create employment opportunities for homeless and low-income people within the context of a nonprofit organic agriculture business.

GH owns three farm sites that act as literal and metaphorical classrooms as program participants learn job and life skills and gain valuable hands-on experience in organic agriculture. During the program period (March-October), participants receive stipends.

While working side by side with GH's staff on the farm sites, participants are trained in basic horticultural knowledge such as cultivation, harvesting, and processing. GH's staff also trains participants in marketing and sales, educates them about food and nutrition, and provides mentoring in life skills such as personal money management and computer literacy.

Since 2002, Growing Home has:

- *Supported over 100 Chicagoans as they transformed their lives.*
- *Helped 65 percent of program participants-many of whom are recovering from addiction,*

²⁶ Jerr Boschee, Some Nonprofits Are Not Only Thinking About Unthinkable, They are Doing It – Running a Profit, www.socialent.org/pdfs/AcrossTheBoard.pdf and Minnesota Diversified Industries, www.mdi.org

suffering from mental illness, or have not held a steady job in years--find full-time work in the retail, landscaping, and food service industries or placement in further training.

- *Seen a 90 percent success rate in participants improving their living situations, either by finding stable long-term housing or renting their own apartments.*
- *Provided not only tangible benefits such as jobs and more stable housing to program participants, but also intangible ones: a 2006-07 Loyola University Centre for Urban Research and Learning evaluation found that GH's program created "an increased sense of self-esteem" and "knowledge about nutrition and the opportunity to connect with nature."²⁷*

These two examples demonstrate that social enterprises mainly differ from each other in terms of legal form, modus operandi and scale of business activities. Given the ambiguity of the definition of social entrepreneurship, this section attempts to set out the differences among social enterprises by delineating their legal, structural, and programmatic boundaries.

Legal Form:

As outlined in the previous section, social enterprises can be regarded as either profit-making or not-for-profit organizations. Irrespective of their legal form, they aim to attain social change. It is up to an organization to decide which legal form is the most appropriate, which legal form will allow it to generate a greater social impact. Local legislation also regulates the legal forms social enterprises can take.

Structural Form:

Social enterprises take various structural forms. An entire organization can function as a social enterprise or a new subsidiary can be opened. Subsidiaries are normally launched to

²⁷ Growing Home, <http://growinghomeinc.org>

generate revenue for a nonprofit parent organization. Legal forms of parent and subsidiary agencies can be the same or different.

Programmatic Form:

This form defines the relationship between social (social impact) and economic value (profit) creation in any particular nonprofit organization. Kim Alter, a well-known consultant on social entrepreneurship, presents this classification best.²⁸ She categorizes not-for-profit organizations into three types: 1) traditional nonprofits; 2) nonprofit with income-generating activities; and 3) social enterprises.

According to Alter, *traditional nonprofits* are organizations that have a mixture of funding from governments, foundations, corporations, and other external sources for their program activities. She defines *nonprofits with income-generating activities* as organizations that generate revenue to subsidize program costs related to the organization's mission. Facility rental, paid training courses, and consulting fees are examples of the income-generating activities these organizations use. An income-generating activity, according to Alter, becomes a social enterprise when it is operated as a business, when the activity is established strategically to create social and/or economic value, has a long-term vision, and revenue targets are set out in an operational plan. Alter categorizes *social enterprises* as business ventures created to generate social value while operating with the financial discipline, innovation and determination of a private sector business.²⁹

4. Limitations of Social Enterprises and Barriers to Growth

As pioneers of new ideas and solutions, social entrepreneurs encounter substantial cultural, economical and organizational challenges. Ideally, social entrepreneurs do not limit themselves to any tangible or intangible obstacle; they use any method possible to make the change. The earlier chapter identifies innovation and entrepreneurship as integral and

²⁸ Sutia Kim Alter, Social Enterprise Typology, Virtue Ventures Company, April 2006, www.virtueventures.com/setypology.pdf

²⁹ Ibid

fundamental features of the social entrepreneur. In pursuit of opportunity, social entrepreneurs create new innovations. They create new products, services or technological paths or modify the old ones with the purpose to create more value. However, innovations are not always recognized. Muhammad Yunus comments: “Today, if we added up the assets of all the social enterprises in the world, they would not add up to even a tiny friction of the global economy. It is not because they lack growth potential, but because conceptually we have neither recognized their existence.”³⁰

Another limitation that social entrepreneurs often face is that their innovations are not always put in practice. They encounter multiple barriers in introducing innovations – cultural tensions of stakeholders, economic risks, adverse legislation, and limited access to start-up capital. Therefore, not all social entrepreneurs succeed. In June 2007, Seedco Policy Center in New York produced a report that explored the limits of social enterprises.³¹ The report indicates that, “the most thorough review of profitability was conducted by two consultants writing for the Harvard Business Review. According to this review, in a random sample of social ventures in 2001, 71 percent lost money, 5 percent broke even, and 24 percent turned a profit.” According to Kim Alter, social enterprises, like venture capitalists, are not averse to risk and understand that perhaps 10 percent to 20 percent of social enterprises will generate the major impacts they are striving for while others will fail and the rest will muddle along.³²

However, as the second school of thought on social entrepreneurship argues, social value creation – rather than profit making – is the essence of social entrepreneurship. Even if a social enterprise does not make a profit, its activities can result in positive change. Therefore, true social entrepreneurs continue their revolutionary journey by building on their experience, passion, and desire to transform society for the better. As Jim Collins states: “Greatness is an

³⁰ Muhammad Yunus, Social Business Entrepreneurs Are the Solution (Chapter 1), *Social Entrepreneurship: New Models of Sustainable Development*. Oxford University Press, 2006

³¹ Seedco Policy Center, *The Limits of Social Enterprise: A Field Study & Case Analysis*, NY, 2007

³² Sutipia Kim Alter, *Social Enterprise Typology*, Virtue Ventures Company, April 2006

inherently dynamic process, not an endpoint. For a social sector organization, performance must be assessed relative to its mission, not financial returns.”³³

Moreover, social enterprises that look deeply into economic value generation could be distracted from their social missions by profit-maximization. This is, perhaps, the sector’s main challenge. The desire to create more wealth and generate higher economic returns could mislead a social entrepreneur. Peter Brinkerhoff, a prominent consultant in the field, notes that, “There is way too much use of the term ‘for-profit venture’ [applied to nonprofit organizations]. It distracts from the focus on the mission. As long as nonprofit organizations keep their missions first, thinking in a business-like way is a good thing.”³⁴

The most common reason that social enterprises fail is that their leaders and/or staff do not have an entrepreneurship culture. The spirit of entrepreneurship lies in the aspiration to pursue opportunity with a view toward making positive changes through innovation. Unfortunately, not all leaders have a sense of entrepreneurship. If a leader does not have the entrepreneurial spirit, he/she may be frustrated by early failures and stop his or her revolutionary journey. Although there is no need for all not-for-profit organizations in the world to act like social enterprises, there should always be some pioneers to propose creative solutions to societies’ problems. It is true that some traditional non-profit organizations perform well using conventional operational methods. Yet, these methods were once known as innovative.

Another key obstacle in building a sound social enterprise is a lack of leadership skills. Quite often, architects of ideas cannot motivate their staff, partners, investors, and other stakeholders to join them in the innovative process. However, true social entrepreneurs are people with the power to make others believe that their ideas and decisions will bring positive change. Leaders also take responsibility for individual and collective actions taken in the

³³ Jim Collins, *Good to Great and The Social Sectors*. 2005

³⁴ Seedco Policy Center, *The Limits of Social Enterprise: A Field Study & Case Analysis*, NY, 2007

pursuit of goals. In expanding the social impact to wide borders, social entrepreneurs become leaders at the local, national and international levels.

The limited access of social entrepreneurs to start-up capital is considered to be a tremendous impediment. As Drayton points out, “Social enterprises need long-term financing more than their business peers.”³⁵ If social enterprises had had long-term investors, the scope of their impact would have been immense by now. Although the number of micro-credit institutions and venture funds is increasing, their services are not always accessible to social enterprises or the amount of start-up capital requested is very high. Donor support is regarded as important to launching new social enterprises. Indeed, philanthropic support can actually strengthen the financial base of a social enterprise. The success of many social enterprises has also been jeopardized by the lack of use of business management tools such as long-term visions and business plans. Kim Alter says: “In drawing inspiration from business, social enterprises have taken bits and pieces but have missed the big picture.”³⁶ However, business planning is an important tool that can help to link *process-making* with *outcome-generation*. As stated in the previous chapter, traditional nonprofits often overlook the *process-making* part. If the process is managed well, it will lead to greater efficiency and more significant impacts.

The legal environment can be another barrier to the development of social enterprises. In some countries, governments actively promote the development of social enterprises (e.g. UK and Italy). These governments make laws that ease entry into the market, create tax incentives, and advocate the notion of social entrepreneurship to the broader community. Cheryl Dorsey, president of Echoing Green, a foundation in USA that provides support for young social entrepreneurs, affirms that government should not be ignored as it can help reach out new groups of potential social entrepreneurs. She added: “Echoing Green is currently

³⁵ Bill Drayton, The Citizen Sector Transformed (Chapter 2). *Social Entrepreneurship: New Models of Sustainable Development*. Oxford University Press, 2006

³⁶ Kim Alter and Vincent Dawans, The Integral Approach to Social Entrepreneurship: Building High Performance Organizations. Social Enterprise Reporter. 2004. http://www.virtueventures.com/files/ser_integrated_approach.pdf

working with one of the State Governors, who is of great help for us to identify outstanding leaders with social mindset.”³⁷

6. Concluding Remarks

Based on the above analyses, it can be concluded that social entrepreneurs have emerged in response to the failure of the government and the market to address growing social problems. They are created to make social change through innovation, entrepreneurship, and the use of business principals. In attaining social change, social entrepreneurs identify which legal form and *modus operandi* – for-profit, nonprofit, or hybrid (mixture of for-profit and nonprofit) – is the best model for them to create greater social and/or economic value.

The author of this paper supports the second school of thought on social entrepreneurship, which sees it as centered on social value creation. The problem with the first school of thought is that the focus on economic value creation can limit social entrepreneurs. This is a particular concern for new social ventures. Their solutions can be very creative, but might never be implemented because they are not profitable. The problem is that, while aiming to reach the double-bottom line, social enterprises are required to constantly measure their success against economic returns. Such a *modus operandi* limits the array of solutions that can be applied, because new technological approaches, products and services will always need to be assessed based on economic parameters.

This failure to create profits can mean the failure of a social enterprise. It is true that profit-maximization can result in self-sufficiency. However, this approach is limited and restrictive. Instead, social entrepreneurs should be guided by the pursuit of opportunity to make social breakthroughs no matter what resources are available and what profit-making results are achieved. In this pursuit, resources (financial, technological, information, human, etc.) become

³⁷ Meeting with Cheryl Dorsey, President, Echoing Green, Joel L. Fleishman Civil Society Group Meeting. October 16, 2007.

instruments for attaining goals, rather than the primary targets. The social mission is the focus of true social entrepreneurs.

In the next chapter, the author views social enterprises as ventures for social value creation. Therefore, their activities are explored through the lens of the second school of thought.

Part IV: SOCIAL ENTERPRISES FOR KYRGYZSTAN: THE WAY FORWARD

1. Mainstreaming the Social Enterprise Concept: Why or Why not?

When a social enterprise becomes a successful venture with a sound institutional base, the next thing it tries to do is increase its impact. Social enterprises strive to contribute to the development of society, and therefore, they aim to further cultivate social value creation. To maximize their impacts, they pursue one of the three operational approaches: 1) scaling up; 2) scaling deeper; 3) or scaling through dissemination.

The first method is scaling up. “Scaling up means creating new service sites in other geographical locations that operate under a common name, use common approaches and are branches of the same parent organization.”³⁸ Minnesota Diversified Industries, a social enterprise described in Chapter 2, has scaled up its operations by opening five plants in different locations in Minnesota. The plants have adopted the same operating techniques, function as one management structure, and have a common brand. Depending on the mission, capacity and targeted customers, social enterprises can scale up their activities either nationally or internationally.

In contrast to scaling up, scaling deeper concentrates on strengthening the internal capacity of a social enterprise in order to respond to societal challenges within a community in a more efficient way. According to Mellisa Taylor, Greg Dees and Jed Emerson, scaling deeper means “focusing your energy and resources on achieving a greater impact in your community by improving the quality of your services, finding new ways to serve your clients, developing innovative financial and management approaches, achieving greater penetration of your target client population and setting an example for others in your field.”³⁹

³⁸ Greg Dees, Jed Emerson Peter Economy. *Strategic Tools For Social Entrepreneurs: Enhancing the Performance of Your Enterprising Nonprofit*. John Willey & Sons, Inc. 2002, p. 236

³⁹ Mellisa A. Taylor, Greg Dees and Jed Emerson. The Question of Scale: Finding An Appropriate Strategy for Building on Your Success (Chapter 10), *Strategic Tools For Social Entrepreneurs: Enhancing the Performance of Your Enterprising Nonprofit*. John Willey & Sons, Inc. 2002, p. 236

If the first two schemes help social enterprises grow within their existing organizational structures (*internal organizational growth*), the mainstreaming approach – scaling through dissemination – is about increasing social value by enabling other organizations to start social entrepreneurial activities (*sector growth*). This scheme is centered on sharing best practices, principles and operating methods with other organizations across a particular sector. Scaling through dissemination helps other organizations to learn, recognize, and eventually enterprise new models.

The mainstreaming approach is regarded as a very lengthy and costly process requiring a lot of time, energy, training, and mentoring. Alter states: “mainstreaming takes a substantial investment in time, resources, and money along with a willingness to expand horizons into unknown territories.”⁴⁰ Mainstreaming also requires a recipient organization to develop that has the capacity to operate the new model. Another perceived setback to this approach is that it is a top-down model that does not always allow for recognizing the indigenous environment of a recipient organization. The legal, economic, and cultural environments of donors and recipient organizations could be different. Therefore, it is possible that the patron’s model might not fit the beneficiaries’ environment.

However, scaling through dissemination should not be seen as the complete imitation of the newly proposed model. This approach is intended to help nonprofit organizations learn, understand and recognize new concepts. If they decide to replicate a new model, the focus should be made on continuously refining it in order to make greater contributions to social improvements. And, this is another way for innovation.

Indeed, the same new approaches and practices could be applied to different geographical locations. The causes of social problems (e.g. health problems such as HIV/AIDS or tuberculosis, poverty, environmental degradation, unemployment) could be similar in different geographical locations. Thus, there is no need to reinvent the wheel. This would save

⁴⁰ Sutia Kim Alter, “Social Enterprise Typology”, Virtue Ventures Company, April 2006

organizational resources (finance, info, technology, etc.) that could be used for other programmatic activities.

In mainstreaming, the differences between the cultural or economic environments of donor or recipient organizations could be overcome by modifying a new model. This process presents an immense learning experience for participating organizations. Moreover, there are opportunities to build new partnerships and networks. New joint projects could be developed and implemented to respond to complex social problems.

Participation in the scaling through dissemination process can also help increase the visibility of a donor organization. Depending on the success of the mainstreaming, the brand name could be recognized at the national or international arena. This recognition could, in turn, facilitate access to new resources, including financial ones.

In the case of Kyrgyzstan, the notion of social enterprise is still new; there is limited information and knowledge about this concept among local nonprofit organizations. The majority of nonprofits perceive the words “entrepreneurship” and “social” as contrasting notions. A very small number of nonprofit organizations might act like social enterprises, but they still do not associate themselves with the social enterprise movement because they are unaware of it. In order to enable Kyrgyz nonprofit organizations to learn about social entrepreneurship and eventually launch their own social enterprises, this paper proposes using the scaling through dissemination approach. If this is successful, it will lead to an increased number of social enterprises in the country. As a result, greater social value could be created.

2. Mainstreaming Action Plan for Kyrgyzstan

This plan will serve as a basic strategy for advocating the notion of social entrepreneurship in Kyrgyzstan. The scope of the mainstreaming approach is designed to be feasible.

The following steps are proposed:

1. Spread the word about social enterprise across the nonprofit sector.
2. Create a network of social enterprise promoters.
3. Involve donors and other external partners.
4. Identify three “champion” Kyrgyz social enterprises from different sub-sectors.
5. Select three potential recipient organizations.
6. Organize workshops for the recipient organizations.
7. Provide mentoring for the recipient organizations.
8. Document and advocate successes and lessons learned.

Description of stages

Stage 1: Spread the word about social enterprises across the nonprofit sector.

Information about social enterprises will be disseminated across the nonprofit sector via various communication channels. The first channel includes national associations, alliances and umbrella organizations. They will be contacted and given information packages (soft and hard copies) about social enterprises in the US, which will include general information on social entrepreneurship and a history of US social enterprises and their success stories. Materials gathered during the Joel L. Fleishman Civil Society Fellowship Program in October 2007 will be incorporated into this package.

Information will also be disseminated via monthly forums conducted by the Social Research Center in Kyrgyzstan. These are forums organized for representatives of nonprofit organizations, during which various issues related to their development are discussed. Special informative sessions will also be organized for a broader nonprofit community.

Another communication channel includes the existing national electronic listserves maintained by associations of non-governmental organizations (ANGOs). Currently, there are several such networks to which the majority of local NGOs subscribe. A short introductory

note explaining social enterprise activities will be developed and sent out through these networks. Local press will also be used to spread the idea of social entrepreneurship throughout the country.

Stage 2: Create a network of social enterprise promoters.

Stage 1 will help identify individuals, organizations and alliances interested in promoting this new notion throughout the country. As a result, a network of social enterprise activists will be established to leverage resources for further mainstreaming this concept.

Stage 3: Involve donors and other key external partners.

Donors (e.g. philanthropists, international development institutions, businesses) as well as other external partners (e.g. training centers and local mass media) will be involved in all the mainstreaming activities. Their expertise, insights and support will be sought.

Stage 4: Identify three champion social enterprises from different sub-sectors.

Three champion local social enterprises will be identified in order to advocate their models to new recipients. These champions will represent three different sub-sectors, which practice different social enterprise techniques. The main selection criteria will be willingness to share insights and innovative techniques with new recipient-organizations and commitment to expanding the social entrepreneurship movement. In return, the champions will gain public recognition, learning experience, new partnerships and networking.

Stage 5: Select three potential social enterprises (recipient organizations).

Three recipient organizations keen to use the *modus operandi* of the champions will be selected. The criteria for selecting the recipient organizations are described in the next section

(section 3, Chapter 3). Each champion organization will be assigned one recipient organization and asked to help it learn, recognize and practice social enterprise techniques.

Stage 6: Organize workshops for recipient organizations.

Workshops will be organized for the recipient organizations. They will be introduced to the principles, *modus operandi* and lessons learned of the champion organizations. Practical recommendations will be given. The best practices of US social enterprises in the respective sectors will be used as the examples. US-based social enterprises will be approached to share their insights and expertise with the Kyrgyz ventures. This could help expand the international network of social enterprises in order to build a stronger movement. The US consulting companies will be invited to these training sessions.

Stage 7: Provide mentoring for recipient organizations.

During the “scaling through dissemination process,” the champion organizations will be requested to mentor and act as resource focal points for the recipient organizations.

Stage 8: Document and advocate successes and lessons learned.

The lessons learned, best practices and failures of the recipient organizations will be documented. Scholars will be invited to take part in this process. The documentation of these experiences will be a great source of information for social enterprises, scholars and the nonprofit sector as a whole.

3. Criteria for Selecting Potential Social Enterprises (Recipient Organizations)

The set of criteria developed in this section is designed to select potential recipient organizations capable of using and then refining the innovative models offered by the champion social enterprises in Kyrgyzstan (see Stage 6 above).

The List of Criteria:

Recipient organizations should meet the following criteria:

1. Relevance of the mission for social change.
2. Significance of the social need to the local community.
3. Readiness for innovation.
4. Solid organizational capacity.
5. Sound management.
6. Access to capital and a financial sustainability plan.
7. Social enterprise plan (business plan).

Description of Criteria:

The following questions will be used to evaluate potential recipient organizations:

1. Relevance of the Mission for Social Change

Is the organization's mission (its reason for existence) clearly articulated? Is this mission directly relevant to the social problem proposed? Is there a need to refine the mission to reflect the commitment of the organization to being in the civil sector?

2. Significance of the social need to the local community

Does the organization realize what causes the problem? Does it recognize what negative effects the problem brings to the whole community? Is the organization aware of the seriousness of the problem? Are the causes of the problem diverse? If so, what are the core driving forces? What future negative effects might the problem cause the community? What particular problem is going to be tackled? Why were the old approaches unsuccessful or ineffective? What factors made them fail?

3. Readiness for Innovation

Is the organization ready to adopt the innovative approaches, products or services demonstrated? Are innovative models appropriate for the organization's current *modus operandi*? If not, what changes must be made (financial, technological, material or human)? Will the demonstrated products and services be refined and if so, how? What makes the refined approaches different from the demonstrated one?

4. Organizational capacity

Is the organization (management and staff) ready to pursue the new *modus operandi*? Do senior managers have strong leadership and entrepreneurial skills? Are the leader and staff passionate about innovation? Is there a need to employ professional staff? Will staff experience cultural resistance while changing over to the new *modus operandi*? Does the organization have an adequate material and technological basis to produce innovative products/services? If not, what needs to be changed and/or acquired?

5. Management (structure and governance):

Is an existing structure appropriate for a new venture or social enterprise activity? Is there any need to open a new subsidiary? Is the board of directors ready for change? Will there be any changes?

6. Access to capital and a financial sustainability plan:

Does the organization have sufficient capital for start-up activities? If not, how will it make up for the shortfall in funds (through a bank loan or other sources)? Will the new activities cover the cost of the loans? Will the new venture or activities achieve self-sufficiency or will a mixture of funding be needed?

7. Social Enterprise Plan (Business Plan):

Is there a social enterprise plan? Is it well grounded? Does it cover things such as business information (nature and types of new products/services), management and organization (governance structure, human resources, management expertise, information systems), market (customers, competitors, pricing, marketing and sales) and financial plan (costs, revenues, and philanthropic funds)?

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