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A social-enterprise development model

Conventional development strategies are losing their effectiveness. A systemic, bottom-up approach is needed for tackling today's complex challenges

Tackling climate change and inequality would be difficult in the best of times. At a time when the war in Ukraine seems set to escalate, the Sino-American rivalry grows riskier by the day and many economies are grappling with soaring debts and inflation, surmounting these challenges seems practically impossible. But even under unfavourable conditions, a systemic, bottom-up approach can yield progress.

In an increasingly divided global economy, conventional development strategies – which depend significantly on international trade and investment – are losing their effectiveness. At the same time, the budgets of both national governments and multilateral development banks are stretched thin, owing to the demands of climate action, the pandemic recovery, debt repayment and, in many cases, conflict.

A failing planetary system

But the problem is even more fundamental. Poverty, inequality, climate change and environmental degradation are complex systemic challenges. Yet prevailing policy approaches focus on devising separate solutions to specific problems, or even specific facets of problems, with little to no regard for how their solutions – and the underlying problems – interact.

The environmental scientist Donella Meadows defines a system as 'an interconnected set of elements that is coherently organised in a way that achieves something.' Our planetary system is failing because the elements of it that humans can control are organised in ways that produce bad outcomes. Only by recognising the interconnected nature of our social, ecological and economic systems, and addressing problems holistically, can we optimise their functioning and ensure human and planetary well-being.

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This cannot be achieved with the kinds of top-down, siloed solutions that governments overwhelmingly embrace. For example, when governments deploy specialised agencies to support rural village development, they increase transaction costs by delivering physical infrastructure piecemeal and failing to build shared databases that facilitate coordination. Weak ties to the local community can also undermine the efficacy of interventions.

Multilateral action – implemented by nation-states – tends to be even less efficient. The scale of multilateral development banks and aid agencies is simply too large, with individual entities and actors each operating according to their own goals and standards.

What is needed instead are bottom-up strategies underpinned by community-based and non-profit social enterprises (entities with both social objectives, in addition to economic targets). Effective social enterprises are, to borrow management guru Peter Drucker's description of successful non-profits, 'dedicated to "doing good"', but also 'realise that good intentions are no substitute for organisation and leadership, for accountability, performance and results.'

Already-existing tools and resources

Micro, small and medium-sized enterprises (MSMEs) are far better equipped than their large counterparts to deploy the mission-driven management social enterprises require. MSMEs – 90 per cent of all businesses globally – account for 70-80 per cent of total employment. These firms, which often make little or no profit, are thus responsible for the livelihoods of billions of workers, making them invaluable repositories of knowledge about most people's needs and interests.

These interests include ecological imperatives, which are inextricably linked to economic and social considerations. The poorest and most vulnerable tend to be most affected by environmental hazards, from pollution to natural disasters. At the same time, poverty can drive communities to over-exploit natural resources, like forests and fish stocks, in a desperate search for income.

Yet, MSMEs do not have access to formal capital markets, let alone the holistic policy and institutional framework – including supporting infrastructure and a consistent legal environment – that would enable them to act as effective social enterprises. A 2015 UN Development Programme report found that these shortcomings significantly impede social-enterprise development.

We have the tools and resources we need to tackle the collective challenges we face. There is no shortage of knowhow globally, nor scarcity of funding.

Meanwhile, a small number of massive firms enjoy enormous wealth and market power – often translated into policy influence. But even as multinationals tout their environmental, social and governance goals, Environmental Social Governance (ESG) considerations remain subordinate to profit maximisation. Less connected to local communities, these firms are not well-suited to provide the kind of bottom-up micro-solutions that, taken together, bring about systemic change.

We have the tools and resources we need to tackle the collective challenges we face. There is no shortage of knowhow globally, nor scarcity of funding that could be mobilised from state, corporate and charitable sources. And we have the means to distribute these assets. Already, technology has enabled the creation of a 'global knowledge commons', through which social enterprises can access the knowhow – and, through trusted accreditation, the financing – they need.

But more must be done to make the most of these assets. Doing so would require leveraging existing technology, knowhow and business models to help social enterprises achieve both sustainability and impact. More broadly, we must revise our sustainable-development strategies accordingly, recognising that systemic problems demand systemic solutions.

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