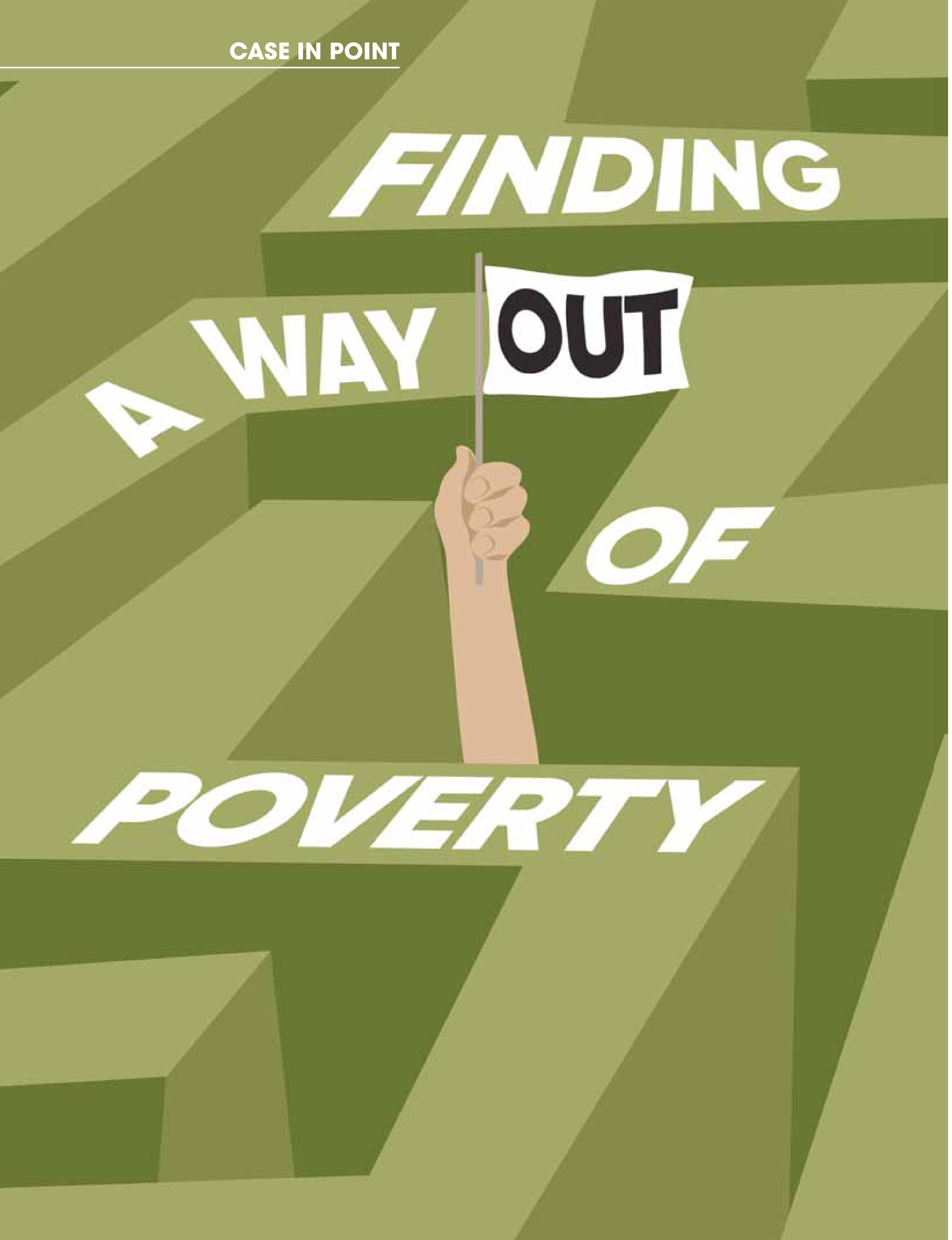

FINDING A WAY OUT OF POVERTY

A social enterprise project that has brought income and dignity to a remote community in Indonesia.

By Jonathan Chang, Christopher Dula and Lakshmi Appasamy

The inability of an impoverished community in Muntigunung to earn a livelihood in the arid lands of northern Bali, Indonesia, has reduced residents to begging in the crowded tourist hubs of the resort island. Generations of beggary have instilled an opportunistic, short term, 'earning a fast buck' mindset among the people, notwithstanding the sight of women and children begging is distressing to the predominantly Hindu population. But finding a path out of poverty requires more than charity and alms giving: community mindsets need to be changed and old habits must be replaced by a sustainable and quality livelihood.

Founded by banker Daniel Elber in Switzerland in 2004, Future for Children (FFC) is a non-profit organisation operating in Muntigunung that seeks to improve the living conditions of the poor in Southeast Asia. Its programmes develop the capabilities of people and subsidise capacity-building projects for two to three years until the projects become profitable, after which it transfers the resulting profitable social enterprises to local community ownership.

The capacity building projects are, as a rule, subsidised with donations for up to three years until product design, quality, production efficiency and marketability have been developed and reached, so that the activity can be transferred to a social enterprise. The social enterprise has to be in local (Indonesian) ownership. Ideally, ownership should transfer to the community but it takes time to develop the younger people from Muntigunung into leaders, managers and business owners. This means that FFC has to recruit business owners from outside the community, mainly from Bali, many of whom have been project managers with FFC.

FFC partners with local professional NGOs, volunteers, government agencies and people in the community. These include the Yayasan Dian Desa Foundation (the Foundation), a reputable non-profit organisation in Indonesia with more than 35 years of experience in community development projects. The Foundation had previously partnered with several governments around the world and is in charge of executing operations in Muntigunung. Other significant local partners include Udayana University and the Mitra Samya Foundation (Yayasan Mitra Samya), a Lombok-based democratic village development organisation.

Switzerland's Honorary Consul in Bali also came on board and nurtured a positive relationship with government agencies in Bali and FFC stakeholders. Meanwhile, the Swiss arm of FFC, Verein Zukunft fuer Kinder Zuerich, and its volunteers raised funds, allocated resources and upheld governance and transparency. By working together with Indonesian non-profits, contracts for project execution were established and the non-profit organisations were then paid directly through FFC Switzerland.

With its mandate of achieving profit-making status for the projects, FFC's programme developers faced several challenges:

1. To decide on a product that is adapted to the skills of the population;
2. To find a product that seems to have a market;
3. To design a product that finds customers;
4. To achieve a product quality that enables the sales of the product;
5. To cope with the fact that there is no management and leadership capacity in Muntigunung and that developing these qualities needs another generation;
6. To find people who are capable of managing production and sales; and
7. To find ways of assuring the transfer of a capacity building project to an independent social enterprise.

Two of these challenges stood out. One was that many within the community lacked leadership capacity and/or were not willing or ready to accept ownership and empowerment. Muntigunung villagers needed to become independent administrators of projects and community leaders capable of planning, executing and managing matters on their own. Another was the lessening of financial dependence on FFC, which had increased due to the inability of the local enterprise to come up with the working capital required to run the enterprise.

THE OTHER SIDE OF PARADISE

Visitors to Bali are familiar with the crowded tourist hubs of Kuta, Nusa Dua and Seminyak located at the island's southernmost region. However few tourists venture northwards to the hilly terrain of Karangasem regency, let alone to Muntigunung. Both are considered to be Bali's poorest regions, with Muntigunung being its most remote as well as poorest settlement.[1]

Part of the Tianyar Barat village in Karangasem regency, Muntigunung has a population of 5,550 (1,058 families/households), with a gender ratio of 45 percent male to 55 percent female. Family income in Muntigunung varies widely from less than US$74.80[2] per month to more than US$374, with more than 75 percent of families having a monthly income of less than US$74.80.[3]

The terrain and duration of the wet season makes irrigation and access to fresh water extremely difficult, while its distance from the tourist centres negates any probability of alternative means of livelihood. The topography and climate are favourable to only certain types of crops and vegetables.

Similar to other impoverished regencies in Indonesia, sourcing water for daily living needs remains a tremendous challenge. This impacts all aspects of life in the village and causes poor health, unsanitary conditions to malnutrition. Most villagers are illiterate, with very limited skills due to poverty-related arrested childhood development. Many are not even registered as citizens of Indonesia and are thus off the radar of the country's administrative and welfare programmes.

Phased progression

Ultimately, FFC secured a sustainable livelihood for the community through three programmes that would later transition into profit-making enterprises, that is, independent, commercially viable and self-financed enterprises. They were administered and operated by Balinese and Indonesian managers, with FFC remaining a non-profit entity. This was done in stages.

FFC and the Dian Desa Foundation then crafted an implementation plan to achieve four key milestones: securing water through communal water catchments, having a livelihood, health and sanitation, and education.

The Dian Desa Foundation team organised meetings in Muntigunung with representatives from all its 36 villages and hamlets. The final report revealed that a lack of access to a convenient source of fresh water was a major contributing factor to persistent poverty. It detailed how a viable livelihood could be secured for Muntigunung.

The idea was to develop a more self-responsible, development-oriented mindset, which would enable the population to emerge from the dependency on non-profit organisations and start taking responsibility for their own lives. For this, FFC chose Mitra Samya Foundation as its special focus on democratic village development, which seemed like the right partner for this completely different approach. The foundation aimed at securing the involvement of every single village and family in the process of evaluating their assets.

With a census and workshops in 36 villages, Mitra Samya Foundation laid the groundwork for the villagers to define their vision and action plans. The remaining job was to coach all the villagers in implementing actions and to monitor the results. In the meantime, 80 percent of the Muntigunung population was registered, as having an ID card was a prerequisite to participating in the health insurance programme and gaining access to doctors and hospitals. At the same time, this programme was aimed at motivating parents to send their children to school and to learn how to register their children for schooling.

WATER SECURITY

A communal rainwater-harvesting project was completed and then scaled up to other villages. Alongside, families were taught effective methods for water purification, safe storage and tank maintenance, resulting in a sustainable supply of water for 19 villages, benefiting 3,200 inhabitants.

SECURING A LIVELIHOOD

With water security in place, villagers had more time to focus on productive activities, which meant the second phase could focus wholly on skills development and capacity-building initiatives. The Dian Desa Foundation's 2006 study provided a clearer picture on the households, their composition, income, sources of income, residents' aspirations, attitudes and willingness to change, as well as their ideas on generating more income for their families. Entrepreneurs from various fields in Bali were then invited to lead workshops and brainstorm ideas for products and services that could be produced in Muntigunung and sold in Bali and elsewhere.

The trekking service proved to be the most successful of the livelihood projects. Established in 2008, it took advantage of the village's spectacular views: located 200 to 800 feet above sea level and overlooking the vast seashore along steep slopes. Supported and endorsed by the 120-member strong Bali Hotel Association, it attracted wide media attention and won multiple awards, including the Skål International Ecotourism Award (2011). In September 2014, a group of international journalists voted the Muntigunung Programme as one of the top 100 social impact projects in the world that could be replicated and measured.

Paid training (at US$1.47 per day) was used to improve or add value to existing products and activities. Training took an average of two years to complete, after which a trainee's skills and social enterprise activities were sufficiently developed to provide a livelihood. More importantly, without the paid training, participants would have reverted to begging as a default means of livelihood.

Future for Children and its partners recognised the need to create a sense of security among the villagers through a stable water supply, better health and nutrition and job creation, in order to establish a firm foundation for the next steps in development.

Special attention was given to improving land utilisation. In response to the dry arid conditions, a drip irrigation system was installed. This enabled the cultivation of vegetables and herbs for commercial purposes. In addition to income generation, the presence and output of the gardens also ensured that the community had access to nutritious food. This programme was later replaced by several reforestation programmes through the distribution of seedlings for over 560,000 trees (including cashew, lontar palms, moringa, teak, and bamboo), which strategically laid the groundwork for additional future economic development.

By 2014, FFC's Muntigunung Community Social Enterprise was overseeing three independent, profitable social enterprises: trekking, food processing and a packaging company. Together they generated annual sales of US$260,000 and created 220 jobs.

HEALTH AND SANITATION

In 2011, the third phase of development was initiated. The Community-Led Total Sanitation (CLTS) programme was launched as a partnership with Udayana University's School of Public Health and School of Medicine and the Mitra Samya Foundation, aimed at encouraging behavioural changes. These included stopping open defecation and the construction of toilets, as well as raising awareness about nutrition, safer birth practices, breastfeeding, and vaccination. The population was also encouraged to register for free access to public healthcare facilities.

The third phase was completed in 2014 and, as of 2015, more than 60 percent of the total population had access to toilets and handwashing facilities, while the mother-and-child health project that was piloted in partnership with the university's faculty was in operation in 21 village communities.

EDUCATION

The education initiative was the strategic fourth phase of the development programme and designed to build the capability of future generations, as well as see the Muntigunung community gravitate to the next phase of mainstream development.

Moving forward: The challenges

Before FFC could move forward and secure success with its programmes, it needed to resolve several challenges, which included:

- The mechanics of its transfer to the community,
- The need for more funds to replicate and scale up operations, and
- A review of the business model to ensure its continuing efficacy.

Transfer of ownership was important because it enabled the interests of the community to remain intact and ensured that beneficiaries are intensely engaged in the transition to a profitable enterprise. A sense of ownership and accountability also helps to preserve the assets and facilities created in the process. However, it requires financial commitment to provide training and mentoring to the new owners, as well as the allocation of sufficient funds.

Funding remains a perennial and universal challenge for all non-profits. Sources of funding need to be considered carefully as each will bring their respective benefits and obligations. Common means include gifts and donations and crowdfunding, all of which are particularly effective for financing small projects.[4]

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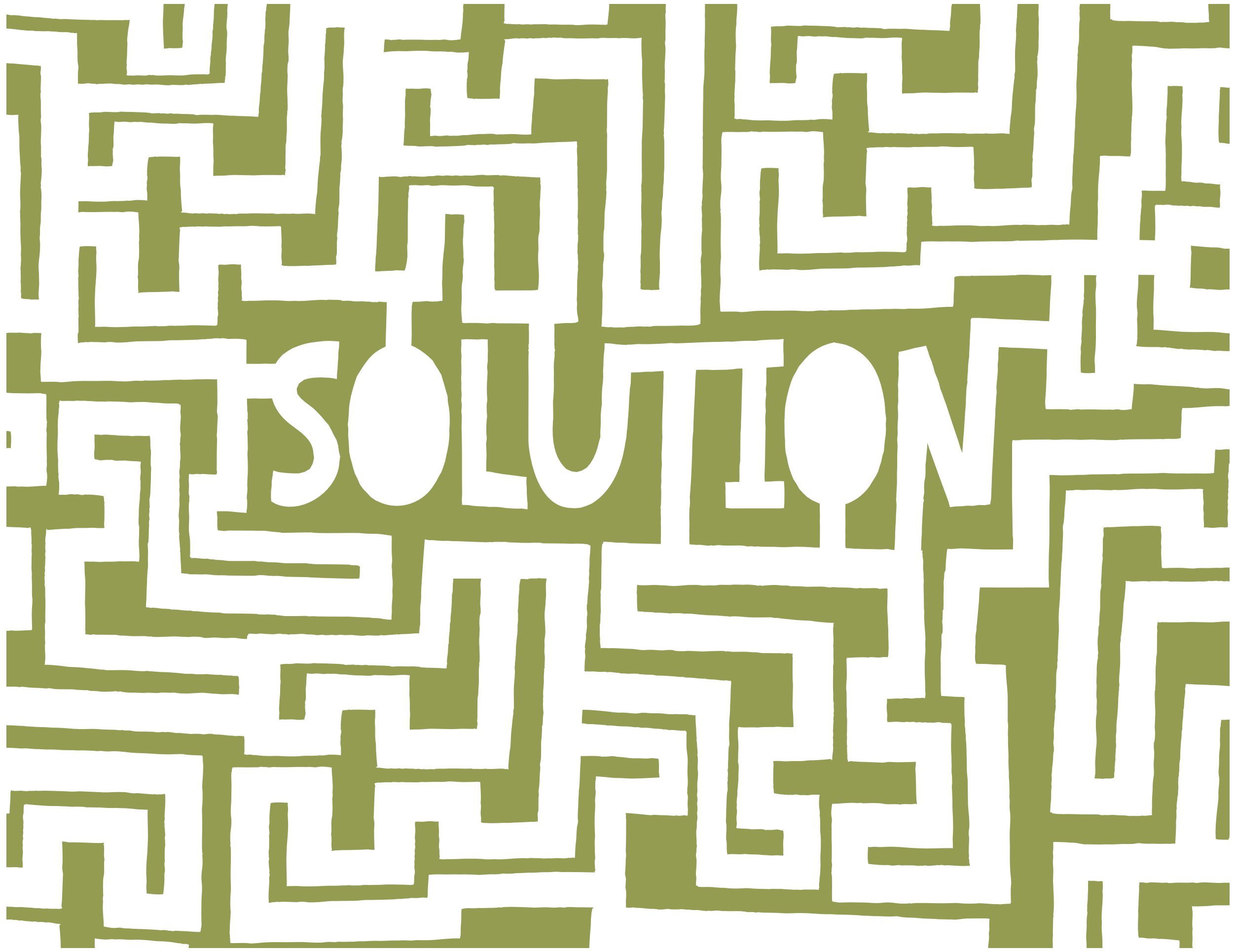
In the case of FFC, traditional sources of finance such as banks and private investors were not viable options for the social enterprises because the operations had not scaled up to a commercial level to meet an attractive return on investment. So FFC had to step in and provide a loan for seed capital. It did so by establishing a Dedicated Trust Fund (DTF) in order to provide start-up, working capital and liquidity to the different social enterprises.

The owners of the social enterprises were bound by a form of charter agreement to return part of their profits into the DTF, build up equity in their own social enterprise, and to distribute part of the profits to the population.

While FFC's fundraising efforts are exclusively focused in Switzerland, it garnered support from business leaders in neighbouring countries of Singapore and Malaysia to purchase the products instead of giving donations.

Interestingly, favourable media coverage of its products and activities also helped establish the credibility of the development programme, enabling it to tap into an extensive network of contacts and references. The network includes businesses, such as those based in Singapore, which earmark significant sums for overseas corporate social responsibility programmes, as well as the Rotary and other organisations with outreach programmes.



Other common financing options for non-profits include grant funding from public sector organisations, charitable trusts and foundations for charitable causes. The drawback is that many grant makers do not disburse grants for charity organisations with substantial reserves or revenue surplus[5] and grantees are often required to fulfil conditions such as results, progress reporting, and returning unspent money.

Evolution of non-profits

Business models change. When non-profit organisations have grown to a considerable size and reached a stage where the stakeholders have multiplied to include not just the beneficiaries, but also the customers, donors, government and channel partners, they need to become more professional in their operations and practice. They may have to uncouple from the social enterprises that they have established when the activities achieve a significant size and scale.

It is not just the legal and tax environment that call for such a decision. The operating model of the non-profit may not be appropriate or adequate to support the vision. The roles and tasks of the board, management and the founder will also evolve. Boards, too, need to review their structure and relevance as this evolution takes place. Above all, a non-profit business needs a participatory approach if it is to remain true to its vision and mission, yet be flexible enough to explore further opportunities to grow and expand, while keeping an eye on achieving results.[8]

Why non-profits uncouple from for-profit activities: Some key considerations

In general, non-profit organisations prefer to incorporate social enterprises as separate entities. Integrating a profit-oriented enterprise into a non-profit organisation tests the culture and integrity of the organisation, eventually endangering the support of the donors. This may shake the very purpose of the non-profit and may lead to mission failure.

Tax issues are another key concern. A non-profit that is generally exempt from tax may lose its tax exemption privilege when the revenue-generating arm of the organisation grows and gains significant size. Meanwhile, access to a wider pool of capital is enabled when for-profit activities are consolidated under a separate legal entity.

EVOLVING FUNDING LANDSCAPE

Social investors and foundations have realised the limitation of conventional sources and methods of funding. Conventional sources include loan financing, which is relatively quicker and easier, and more flexible than grants, but will also attract repayments and interest, require collateral and a credible track record, as well as a viable income source.[6]

Private investors can also provide equity capital in exchange for a stake in the organisation. Typically, social enterprises in their early stage resort to equity capital.[7] But to raise funds through share capital, the organisation must be properly structured. It has to be registered as a company limited by shares, a community interest company, or an industrial and provident society. Charities and companies limited by guarantee cannot raise equity capital.

Newer forms of funding include loan guarantees (guarantee to repay), quasi-equity debt security and pooling. Under pooling, the micro loans of financing institutions or the issuer are pooled into a single entity that issues securities, typically in tranches of varied risk/return profiles.

Where greater amounts of capital are required, social impact bonds help to tap into private investment capital through which the community gets a socially beneficial infrastructure or facilities, the investors get financial returns, and the government gets an efficient and cost-effective solution for the social challenge.

Adopting a phased and progressive problem-solving approach had contributed to the successful rollout of the Future for Children development programme.

Finally, when for-profit activities emerge from a non-profit parent, a third entity also evolves, namely consumers/customers of its products and services. The non-profit, which had been focusing on just the beneficiaries until that point, may find its resources inadequate to service the customers/consumers. As it evolves from a project undertaking to a business undertaking, it feels the constraints of the lack of qualified resources and talent in product design and marketing and sales. Voluntary support used by many early stage non-profits may not be sufficient to run a commercial and revenue-oriented enterprise. This may call for specialised talent to be hired at a competitive pay scale, which may create conflict with the staff of the non-profit parent.

Sound decision-making

Adopting a phased and progressive problem-solving approach contributed to the successful rollout of the FFC development programme. This aided the organisation as well as its clients, the villagers. For the former, it facilitated focus and efficient resource allocation, and for the latter, it was not too overwhelming for them to adapt to the changes. Setting realistic milestones with short timelines, full engagement with its stakeholders, and the use of locally available resources also helped in the success of FFC's programmes.

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