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Strategies for civil society sustainability

Social enterprise development
in Kyrgyzstan

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INTRODUCTION

In a changing development landscape, social enterprise is ever more frequently proposed as an alternative to grant funding for civil society organisations (CSOs). Indeed, many people who spend significant time on fundraising in the CSO sector will probably be interested in its possibilities. Resource mobilisation is a demanding task and any way of gaining a more independent and sustainable supply of income would be attractive. As CSO people, we are almost always ready to try new ideas and approaches, we are already quite entrepreneurial. And yet, many others have questions about this model.

We can perhaps sum up the hopes and concerns around social enterprise with a number of questions. Is it:

- An innovative way of building resources for CSOs?
- A great chance for enterprising CSOs?
- The last hope for financing key activities?
- Yet another challenge for hard-pressed CSO managers?
- Another incursion of the market into the voluntary sector?

It is quite hard to answer these questions because, first, the arguments are quite strong on both sides; and second, the risks in launching social enterprise are quite substantial. And while there is an emerging body of reflective work on social enterprise relative to sustainability, concrete examples from the international development sector that could help to answer these questions are lacking.

Drawing on INTRAC's experience in a project funded by GIZ (Germany) with development partners FAKT and a team of local experts and CSOs in Kyrgyzstan, this paper provides an example of attempting social enterprise in a country beset by economic and political problems. It focuses on challenges faced by CSOs experimenting with social enterprise in the early stages of enterprise set-up; and discusses how initiatives of this kind can contribute to civil society strengthening and sustainability. It is aimed at the civil society support sector and organisations that are looking at alternative ways of sustaining their work.

BACKGROUND: SOCIAL ENTERPRISE AND THE CHANGING AID LANDSCAPE IN CENTRAL ASIA

Foreign funding has been the main source of income for many CSOs and community-based organisations (CBOs) in the developing world for several decades. International CSOs have played a key role in this, establishing partnerships with local organisations in recipient countries and channeling funds to them. However, the situation is changing in different ways. First, some flows of aid are reducing (e.g. due to changes in government funding policy in some countries) and others are opening up (e.g. the emergence of private foundations and new individual philanthropists). Second, some receiving countries have achieved middle-income status and no longer qualify for official government aid from the North.

It is in this environment that CSOs are increasingly reflecting on the way they work, with many considering new funding models and alternative routes to sustainability (Hailey and Salway 2016, p.580). Although the concept itself is not new, there is growing interest across civil society in social

enterprise as one strategy to reduce dependence, generate additional income, and ensure the longer-term sustainability of activities (WACSI 2016; Darko 2016, p.4; Hailey and Salway 2016).

Yet, it is important to consider social enterprise in the context of civil society sustainability more widely, i.e. going beyond the financial to consider the regulatory environment and political space, credibility, and legitimacy of organisations (Hayman 2016). Social enterprise can present a real risk to CSOs, including mission drift and the need for profitability undermining values and identity (Hailey and Salway 2016, p.589).

For example, in INTRAC's experience with CSOs setting up microcredit agencies in Central Asia during the 2000s, a key concern was whether CSOs would succeed in balancing their social aims with economic imperatives (Buxton et al 2007).

If social enterprise is to be increasingly promoted as a source of funds for CSOs, there is therefore a need to understand in more depth what it works for, for whom, where; and the type of capacity building organisations require to engage with this model (Hayman 2015).

BOX 1: SOCIAL ENTERPRISE IN INTERNATIONAL DEVELOPMENT

While definitions are contested (Darko 2016), by its nature social enterprise implies that CSOs will work in a more business-like way, earning money from the sale of services or products to the population. This is a slightly different role than local voluntary action for social or collective aims.

One of the most well-known examples comes from South Asia, which has a major experience of social enterprise with the development of microcredit in Bangladesh. This movement was famously initiated by Muhammed Yunus and the Grameen Bank. The bank began a process of small loans to poverty reduction projects and local organisations representing the poor in Bangladesh. CSOs were among the main organisers of these programmes. Today a large number of CSOs receive a steady source of income from the microcredit programmes they are running; this pays for staff salaries, offices costs and so on. It has given Bangladeshi CSOs a measure of sustainability – reducing their dependence on grants. And yet questions remain about whether CSOs should be funded by clients of microcredit schemes, for example.

WACSI's (2015) study on the state of civil society organisations' sustainability in Ghana also provides useful examples of organisations that have adopted the social enterprise model. These include AfriKids Ghana, whose Social Enterprise and Business portfolio is a major element of the organisation's financial sustainability strategy; and the Tropical Oak Social Development Centre set up by the Ghana Trade and Livelihood Coalition.

INTRAC has been engaged in civil society capacity building in Central Asia for almost 20 years. Our efforts began soon after the collapse of the Soviet Union, when the five former socialist republics attained independence in autumn 1991.¹ The social and economic crisis of the 1990s meant huge problems for the mass of the population. Gross domestic product (GDP) declined by almost 50% across the region and has only slowly recovered. All five countries adopted a presidential system and the development of truly democratic structures has taken longer than development agencies hoped, and with uneven results. CSOs have had a big job to do in the absence of effectively working government systems.

¹ Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan.

In terms of the overall pattern of civil society, government, and donor relations in Central Asia over the last 25 years, three countries have almost completely removed themselves from the international development arena – Turkmenistan, Uzbekistan, and Kazakhstan – albeit for very different reasons and in different ways. In Tajikistan the external political and security situation is so fragile that regular funding of key organisations is all that can be done to keep the civil society sector afloat.

By contrast, Kyrgyzstan has long had the reputation of being the most open and democratic country in the region. This follows two ‘revolutions’ (in 2005 and 2010) that resulted in the creation of a relatively free and open parliamentary system plus a number of mechanisms for civil society-government collaboration. INTRAC’s simple definition of civil society is “*a sphere where citizens meet to collectively solve problems facing them.*” CSOs can be big or small, modern or traditional, based in the capital or a village, secular or religious, offering services or fighting for rights. It is in this general frame that we consider the possibilities for social enterprise as a sustainability strategy for CSOs.

The fundamental challenges for CSOs in developing social enterprise in Kyrgyzstan are little different from those facing organisations in other countries where there is an active development sector. And here, external factors affecting prospects for social enterprise and small and big business include:

Economic depression and widespread poverty: Kyrgyzstan faces a serious economic crisis and many people are disappointed that its 2015 accession to the Eurasian Economic Union (a commonwealth of ex-soviet states led by the Russian Federation) has not brought quicker results. Some 70% of jobs in Kyrgyzstan are in the informal sector. One in three adults are now or have been engaged in work migration to Russia or other countries – permanently or seasonally.

Local government decentralization: In 2000, Kyrgyzstan began a process of local government decentralization that has opened up significant space for collaboration with CSOs, and local self-government agencies are active in all kinds of international development projects. However, the transfer of tasks from central to local government has not been accompanied by the necessary financial resources.

Social sector: The government has initiated several attempts to improve access to local services, including the piloting of social order (the contracting out of social services to CSOs); the promotion of ‘one-stop facilities’ for improving the speed of government information and services to the population; and experiments with citizens’ groups monitoring the quality of local utilities and social services.

Current political restrictions: While Kyrgyzstan remains a politically open country in many respects, attempts in 2015-16 to introduce a law restricting the activities of human rights groups funded by foreign agencies underlined the need for many CSOs to reduce their dependency on foreign funding. Though the new law did not gain approval in parliament, it is likely that the government will continue to demand more accountability from CSOs as to their sources of foreign income.

Weakness of the business sector: Socially-oriented enterprise and corporate social responsibility mechanisms are in their early stages of development in Kyrgyzstan. The Association of Social Entrepreneurs² and other business groups are now giving support to those entering this field.

² The Association of Social Entrepreneurs is a voluntary association providing training and advice to new and developing social enterprises.

THE POTENTIAL FOR SOCIAL ENTERPRISE IN CENTRAL ASIA

Despite these social, economic and political challenges in Kyrgyzstan, there are some prospects for social enterprise to take off. Key factors from the civil society side include: first, a high level of interest from CBOs and CSOs in Kyrgyzstan; second, potential support from an Association of Social Entrepreneurs and other CSO and business support agencies; third, a legal environment friendly to CSOs, allowing them to develop income generation as long as it does not contradict the aims of the founding organisation. Finally, links between CSOs and local government in Kyrgyzstan remain very constructive. While lower levels of public administration are underfunded and overworked, there is very often goodwill and political commitment to new economic and social initiatives. Social enterprise can quite easily be ‘sold’ as an idea at this level – provided there is a practical benefit to local people, whether this is framed as helping vulnerable groups or support to enterprise.

Over 2015-16, GIZ therefore decided it was worth incorporating a component on social enterprise development into a civil society support programme it was funding. In the remainder of this paper I explore the approach taken in this support programme, and lessons from the process.

IDENTIFYING AND TRAINING NEW SOCIAL ENTERPRISES IN KYRGYZSTAN

The examples of social enterprise that follow are taken from INTRAC’s 2015-16 project with GIZ Kyrgyzstan. This formed the final phase in a programme entitled ‘Civil Society Support Fund’, which operated in three regions (Issyk-Kul, Naryn and Jalalabad) and at national level.³ It was a capacity building project with a special component to train social entrepreneurs and fund a small number of local social enterprises.

The lead partner in the project was the German development agency FAKT. A team of international and national experts provided training, organisational development and networking opportunities to local CSOs. INTRAC’s Bishkek office was responsible for country coordination, working with three partner CSO support centres in each oblast: Jalalabad Civil Society Support Centre; Public Association ‘Lider’, Karakol (Issyk-Kul); and the Naryn Economic Development Centre.

The project began with three five-day training workshops on social enterprise. 120 people applied to attend, suggesting a high level of local demand. After the three workshops, 30 applications for small grants were received along with business plans. In March 2015, the selection commission (which included representation from INTRAC, GIZ and government partners) met to decide which projects would be funded.

A key decision in the selection process was to consider social enterprise projects based in registered CSOs so as to ensure the social aspect and support to CSO sustainability. All were socially-oriented organisations that were developing a business idea, rather than business organisations developing social projects. A total of 10 projects were agreed, four of which were continuing enterprises, while six were start-ups (**Table 1**). A total of 42,000 Euros was disbursed, ranging from 3,000-5,000 Euros for each project and these funds had to be spent in a four-month period.

³ For more information see: <https://www.intrac.org/projects/development-fund-cooperation-civil-society-kyrgyzstan/>

Table 1: Examples of social enterprises supported in 2016

Organisation and location	Project	Continuing enterprise or start-up	Use of grant	Social benefits	Key issues raised
ARIET Women's Association, Jalalabad oblast	Develop an existing bakery and confectionery business	Continuing	Purchase of kiosk, oven, refrigerators	7-8 jobs supported / created for village women; good links with local authority	Health and safety; how to improve marketing and upskill staff
RAVENSTVO Association of People with Disabilities, Issyk-Kul oblast	Computer equipment for existing taxi service for people with disability	Continuing	Three jobs created and discounted taxi service for people with disability	Computer equipment, advertising and promotion costs	Changes in expenses plan, maximizing use of equipment for other money-earning purposes
MAANI Micro-Credit Association, Naryn oblast	Building energy efficient stoves for rural homes	Continuing	Bricks and iron parts for stoves, transport of materials from Bishkek	Environmentally efficient heating for remote mountain villages, wages for craftsmen	How to link to microcredit and fit existing production timetable
CHYRAK Water Users Association, Issyk-Kul oblast	Production of drying equipment for fruit	Continuing	Fruit drying equipment, raw materials	Maximizing income from orchards, supplying good quality dried fruit to schools	Type of drying equipment, final product sales strategy
JERGETAL Village Association, Naryn oblast	Felt and wool products development (carpets, clothing, souvenirs)	Start-up	Purchase of wool carding machine	8-10 villagers employed; matching funding from local authority for premises costs	Payment of staff, pricing, sales potential, profitability
NUR SEDEP Public Foundation, Issyk-Kul	Develop production of woolen goods (clothing, household linen, souvenirs)	Start-up	Equipment for production, materials	Six staff and economic opportunities for villagers	Review support from local government, widen production and use equipment for other purposes
MUMKUNCHULUK Public Association, Naryn	Computer and language courses, mobile repairs	Start-up	Computers, furniture	Four staff planned and services for people with disability	Improve financial systems, sales plan
ERBAKO Water Users Association, Issyk-Kul	Production of drying equipment for fruit	Start-up	Equipment materials, transportation	Two staff and economic opportunities for villagers	Issues of production, sales, other uses of equipment
AITOLDU Public Foundation, Jalalabad	Equipment for drying fruit	Start-up	Equipment, materials	Local jobs and healthy food for public institutions	Premises issues, review strategy
DAANAKER Public Association, Jalalabad	Sewing machines for felt and craft production	Start-up	Design equipment, materials	Four staff planned including people with disability	Equipment too complex, review production and sales strategy

GETTING GOING: HELPING THE START-UPS ADDRESS INITIAL CHALLENGES

The CSOs faced five main issues in starting up their social enterprise projects: developing their business idea; conducting market research and assessing potential demand; understanding finances; deciding on staffing; and finding a premise and buying equipment.

a) Developing an idea

At the same time as inviting applications from local CSOs to attend the training course on social enterprise, we (the selection commission) asked them to suggest business ideas. The ideas that they suggested varied. Many of them were agricultural in focus – covering almost all spheres of the rural economy. Others focused on the needs of the organisation's existing target group – for example children, elderly people, or people with disabilities – and services appropriate to them (e.g. laundry services, special transport facilities). Some were interested in providing technical services, such as printing or computer services. For village-based CSOs, their ideas were often located somewhere between the social and economic and did not have a narrow client focus.

Examples of some initial ideas which required clarification:

- A CSO running a residential children's home plans to open a greenhouse for selling vegetables and also for providing more healthy food to its children. Which was the priority?
- A parents' group for children with disability wants to open a chicken farm. The leader has some experience with poultry but just on a household level. Is expansion realistic?
- A group of women members of a water users association want to develop fruit dryers. What is the link with their main mission?

The five-day training for interested CSOs provided sufficient time to clarify ideas, and consider if they had any chance of success. It was important for participants to come to this conclusion themselves. Many developed their ideas and gave them greater focus. Others were abandoned after discussions revealed their shortcomings. In some cases, participants hung on to an idea even when the trainers indicated its current weaknesses.

CSOs could suggest completely new ideas that did not relate to their existing activities. However, it was useful to ask *why* the organisation wanted to do it. At the same time, proposals to extend existing services were attractive because they are less risky. For example:

- A CSO serving elderly people operated a public bath-house, and wanted to add laundry services.
- A disabled people's organisation was already running a profitable taxi-service business. Their idea was to expand this by computerising the bookings and management of calls.

It was also important to try to assess what elements of the CSO's previous experience (overall and in terms of its leader and staff) would help to ensure the success of a new social enterprise. For example:

- A well-established provincial youth association with strong links with local government on youth policy might be able to get official support for a new business providing educational, cultural or leisure services for youth.
- A CSO with a good reputation in its chosen field has many advantages. A women's group proposed to open a bakery. A few years before they had successfully baked bread for selling locally. Now their idea was to provide jobs to parents with handicapped children by opening a social enterprise.

This experience confirmed that strategically, the business idea should have a good connection with the CSO's own mission and unique selling point, ideally its target and beneficiary groups. Having a strong social or ecological component will help if it wants to attract support from government or the donor community. Women's, youth, and disability groups could all point to this social benefit, and many of them had accessed business training through their own networks before. However, some faced practical challenges in developing an enterprise, as running an organisation with an active or demanding membership as well as a business is a big task to take on.

→ **Key Lesson:** The first lesson from our experience is therefore that detailed discussion of social enterprise ideas is vital at an early stage.

b) Conducting market research

We recognised that at the incubation stage, a business idea might be discussed within the CSO's office or with friends or relatives; and the wider these discussions have been the better. However, a strong concept also has to be based on facts and analysis. From the very first stage we asked all applicants about the informal or formal market research they had done. Questions included: Have you got an idea of how many customers there might be for your product or service? What volume of production or service are you thinking about? Do you have potential partners for technical support, production, marketing and sales?

Many CSOs have wide experience of needs assessments for projects but with social enterprise the questions are a bit different as they have to take account of the market. Most of our grantees had an idea of what segment of the market they were aiming at and were able to collect short market information quite quickly (within a month). However, they were clearly not used to writing a convincing analysis and INTRAC's partners in the three regions were called on to give advice before the final proposals were submitted to the grants commission.

We found that identifying the market 'segment' to aim for is very important. Examples included:

- One CSO had a very short and clear definition of how it might promote dried fruit products on the market: it planned to work with institutional buyers like schools and nurseries. But the following issues could come up: how to win the tender to deliver dried fruit to schools; and how much can the schools pay since education budgets are very limited?
- A different CSO said they want to deliver dried fruit to hotels on the north shore of Lake Issyk-Kul. This seemed like a good market segment, but they would have to take into account the short tourist season.

Location is a key factor in marketing and local CSO presence in the village is an advantage. If you can offer a good quality product close to people's home, they will buy it.

→ **Key Lesson:** The second lesson is that CSOs and their staff have a huge amount of informal knowledge and know-how, but may need support formalising it.

c) Understanding finances

Our experience also emphasised that financial and management skills are vital to social enterprise. We found that new social enterprises did not calculate enough time for preparatory work needed to set up the business, for example to take into account time for building work which is often delayed. It is important that income from sales at the start of the project is calculated modestly.

Cash flow was also a key question. Many CSOs cannot start project work because donor money comes in too late and they have no resources of their own. As social enterprise projects will receive a grant to buy equipment but not for initial running costs, the cash flow must carefully take into account what resources are available each month.

Sales and price setting for produce and services was a new capacity area for a number of CSOs, and many struggled with this. For example:

- The older people's project mentioned above requested funds to buy washing machines for their laundry service. They said they would do washing for old people for free or with a significant discount; and they had good financial and cash-flow calculations. But the selection commission had a question about who would pay for laundry services if the organisation's main target group was getting the service free. How would the business fund itself?

→ **Key Lesson:** Donors and advisors need to walk a delicate line between offering too much and too little support to new social enterprises. However, in almost every case offering training or technical advice in financial management will be needed.

d) Identifying staff and leaders

Since our grants did not fund staff salaries and running costs, the role of CSO members and paid workers was very much an open question at the end of the inception period. All of the social enterprises had submitted revenue budgets but until sales are regular it is difficult to commit salaries to staff. Another question raised in our discussions was about the nature of jobs created. If the social enterprise is to use voluntary labour at the start (and this is almost inevitable), it needs to negotiate with volunteers at what point they can expect to be paid, and this should be recorded in writing. If staff are taken on part-time, the social enterprise should record carefully how many hours a week they are expected to work and make payments accordingly. If staff are full-time, it is just as important to limit the hours worked or at least to discuss this question at the start.

Work done by vulnerable groups is also an important aspect for many social enterprises. Some of the workers may be members of the CSO, others might be its beneficiaries. This needs to be thought out carefully. For example, one CSO's idea was to provide jobs to parents with handicapped children by opening a kindergarten for the children. But questions included: are the parents qualified to do this? Will the CSO be able to gain registration if it uses unqualified staff?

There are also leadership issues to be considered. Existing staff in the CSO clearly play a key role in launching a new project. On the other hand the leader or executive director of a CSO is unlikely to have the time to manage the social enterprise directly. Or if he/she does this, the main organisation is likely to suffer. For example:

- The director of a CSO involved in national and regional meetings on ecological issues has applied to open a greenhouse and says that members of the CSO are keen on the idea. But who will actually manage it? The leader is clearly too busy in lobbying and networking to do so. Without a named manager the project looks weak.
- Sometimes the people writing the application to set up a social enterprise are experienced political activists or local deputies – they are the kind of people who can get decisions made. However, this in itself is not a guarantee that a new business will be successful, or that they individually are suited for business. They may be better in their current role.

There are different possible models for social enterprise governance, depending for example on whether the founding CSO is a membership-based organisation. The governance system will have to deal with sensitive issues such as how any surplus from the new enterprise is used.

→ **Key Lesson:** Once a social enterprise has been set up and starts running properly, consideration should be given to who will become project manager. A balance must also be kept between staff time spent on the main CSO activities and the social enterprise.

e) Finding premises and buying equipment

Many donors or banks supporting social enterprise prioritise funding equipment or adaptation of premises, such as workshops, for production. In our project, around 95% of the funds were allocated to equipment or adaptation of premises.

Plans submitted by CSOs included buying equipment and materials to create fruit dryers, for wool for felt and shyrdak (carpet) production; and for bakeries and confectionary. Requests were also made for adapting workshops and for purchasing computers and furniture for training classrooms.

If the social enterprise wanted to buy expensive equipment, it was important for the selection commission to question how many hours per day or week it would be used. If it was only for part of the week, the question was asked: what can you do to earn money with this equipment the rest of the time? For example, if the CSO used sewing machines to create traditional wedding dresses for part of the week, could they use it for simple garment repairs for the rest of the time?

Another important factor that the selection commission had to consider was the time it would take to get the project started. Project start-ups are not only risky, but they can take a long while to produce results, particularly if building work is needed for a new production unit. In some projects, the request for equipment was judged to be too high and a smaller amount of money was agreed. There was also a 'minimum' activity level, lower than which the project is not likely to be viable or to produce significant economic or social results.

One of our main findings was that good relations with local authorities are vital for the success of social enterprise. As with donors and banks, local government and businesses are unlikely to contribute regular cash to an enterprise. Experience shows that they mainly contribute non-cash elements such as equipment, contacts, and one-off events. Some CSOs are able to persuade their local government agency to give them premises for free or without payment of services. It is therefore important to take these connections into account when estimating the usefulness of the project and its likelihood of being successful.

Networking between the social enterprise projects was also found to be a way to develop production, and promote products and services. However, the boundary between competition and collaboration needs to be established. For example, a CSO working with young people with disabilities wanted to set up an education project. They defined their competitive advantage as lower prices for their courses, and the length of experience of their language and computer trainers. But we had to ask whether they really wanted to compete with other local training centres or the town employment centre. Partnership may perhaps have been a better strategy.

→ **Key Lesson:** Early consultation with local authorities to gain their active support is vital for most social enterprises, particularly on issues like location, premises, and health and safety.

CAN SOCIAL ENTERPRISE SUCCEED IN KYRGYZSTAN?

What is the conclusion from our work on social enterprise in Kyrgyzstan, and what are the chances of CSOs setting up a successful social enterprise?

Here a lot depends on the leader, the motivation of the organisation and the choice of theme and market segment. A self-assessment that we facilitated at the end of the project in 2016 indicated that social enterprise grantees have the following strengths: 1) a clear orientation towards social, economic and environmental issues; 2) support from the local authorities; and 3) support from the community. All of this reflected their previous experience and reputation as CSOs. Weaknesses of the social enterprises included: knowledge/skills and experience of doing business, including profitability, marketing mix, and sales of products.

Of the 10 social enterprises supported during the project:

- Two continuing enterprises had expanded and were operating in a regular way by mid-2016; two had bought equipment and were fitting new work into their schedules.
- The six new enterprises were in varying stages of preparing and piloting production.

INTRAC's conclusion from the above was that social enterprise projects require careful support, advice and monitoring throughout their first year. We identified three kinds of expert or peer support that will help:

- Find someone with small business advice experience since this is the weakness of most social enterprises based in CSOs. Locally based, on-site support is preferable wherever it is available.
- Peer networking between social enterprise managers can give huge support. We had developed thematic and geographical networks that the ten projects could use.
- Sharing experience on governance and management. This remained a serious challenge for several enterprises and their founding CSOs, and here local civil society support organisations could play a key role.

How can international development agencies best support social enterprise?

Some international agencies will likely support social enterprise as part of their CSO partner's new strategic plan focussing on organisational sustainability. The experiences and lessons outlined above can be useful, we think, especially if the partner CSO is working at local level.

Some agencies see social enterprise as an element in their own exit strategy, as a way of encouraging their CSO partners to become more financially independent as funding decreases. In this situation it is essential to ensure that the CSO brings together a team genuinely interested in business and ready to accept risks. The temptation to support the new enterprise with revenue funding should be resisted, while at the same time the new outfit may need an extended support period, for example through loans and access to expert advice.

Can support to social enterprise be a significant item in civil society support programmes?

Only if this is undertaken in a medium to long-term way with existing partners, associations and networks, and the new units are provided with appropriate support. One of the key issues for INTRAC towards the end of our project was how to set up sustainable local support systems. Monitoring and capacity support from the donor will be key to the survival and success of the new enterprises. This is a rather difficult mode of work that will demand a strong element of trust, commitment and respect from both sides.

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