

## A new approach to fight poverty and vulnerability: The redistributive enterprise

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### Abstract

Corporate social responsibility (CSR) has never focused on the implementation of cash transfers to vulnerable groups. The present paper intends to explore this particular option, which can be described through an analysis of 3 different phases: the production of income, the distribution of income, the choice of the vulnerable groups to be benefitted. Every phase involves new and specific features, which are linked to a new approach in the field of corporate social responsibility. An evaluation of advantages and disadvantages of this particular approach will be carried out, in each of the 3 single phases, in order to be able to evaluate the consequences of this new approach. The approach seems to be particularly promising since it can be applied to very different categories of vulnerable groups. Still, the approach is best suited if the underlying vulnerability is poverty, since the transfer of financial resources allows to fight poverty by definition.

**Keywords:** Corporate social responsibility, poverty, unconditional cash transfers, vulnerability, homeless.

### Introduction

This paper intends to identify and discuss a new model of corporate social responsibility, which can contribute to the reduction of the growing disparities in income distribution which can be found in almost any society today. The level of inequality is in fact rising both inside and across countries, according to data and information provided by qualified sources<sup>1</sup>. According to mainstream economic theory, inequality can represent a hindrance to economic growth, besides being a problem for social cohesion.

This new type of corporate social responsibility can be considered the feature that gives birth to a new kind of enterprise, which I named "redistributive enterprise". Its peculiar characteristic is that the enterprise transfers part of its profits directly to vulnerable groups. If the redistributive enterprise sell its goods and services to richer people, that is to say if the enterprise does not sell its products and services to vulnerable groups themselves, it will play a redistributive role in the society, by allocating financial resources from one group of the society to another, from richer people to vulnerable groups.

In a first instance, three aspects can be analyzed for the redistributive enterprise: the production of income, the effective way to transfer profits, the selection of vulnerable

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<sup>1</sup> For a good analysis of the evolution of income inequality in the last centuries, an excellent reference is "Capital in the 21st Century" by Thomas Piketty.

groups to be benefitted.

As far as the production of income is concerned, the redistributive enterprise works like any kind of enterprise, with two distinctions. Before describing these two distinctions, we have to highlight that the production of wealth is the main strength that allows fighting poverty and vulnerability in this model and that such creation of wealth is produced with exactly the particular aim of fighting poverty and vulnerability. So, it represents a new subject, with high potential, in dealing with vulnerability.

As for the distinctions with a normal enterprise, we have to discuss about the following two points.

First, the redistributive enterprise must be able to allocate part of its profits to vulnerable groups as cash donations. In order to do that, it must be able to get some additional profits by doing well by doing good and to choose to allocate part of its profits in that way, instead of reinvesting them in the company or in another way.

Second, this particular cash transfer approach, which benefits vulnerable groups, is a specific feature of the enterprise, a particular type of corporate social responsibility, which will influence the way the company is doing business and the choice of customers in purchasing goods and services from the enterprise itself. It is expected that customers can evaluate this particular type of corporate social responsibility, which consists in transferring part of the profits as cash donations to vulnerable groups, in three possible ways: either in a positive, negative or neutral way<sup>2</sup>.

If this particular feature of the enterprise consisting in direct cash support to vulnerable groups is evaluated positively by the potential customers of the enterprise, it means that people will buy goods and services provided by the company more than if this particular type of corporate social responsibility did not exist in the company.

If the customers are evaluating this particular type of corporate social responsibility in a negative way, for example since they don't believe that is correct to provide support to vulnerable groups, or they think that the vulnerable groups chosen by the redistributive enterprise are the wrong ones, or they think that is not correct to assist vulnerable groups through direct cash support, they will buy goods and services provided by the redistributive enterprise at a lower level than if this particular type of corporate social responsibility did not exist.

If the potential customers of the enterprise are evaluating this particular redistributive feature of the company in a neutral way, they will simply focus on the goods and services provided by the company, therefore without being influenced positively or negatively in their choice to buy goods and services from the redistributive enterprise.

We can expect that there will be people belonging to the three above-mentioned categories in the potential customers of the redistributive enterprise. At this particular research stage, it is very difficult to state in which percentage potential customers will fall in one of the three above-mentioned categories<sup>3</sup>.

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<sup>2</sup> This is an approach taken by game theory and applied to information, where people can react either in positive, neutral or negative way.

<sup>3</sup> In fact, it would be necessary that the redistributive enterprise exists and ask people in which particular of the three category they fall.

Still, as we said at the beginning, it is very important that the redistributive enterprise has a market for its goods and services and, in particular, makes profits; otherwise it will simply not be possible to transfer financial resources to vulnerable groups. Transfers to vulnerable groups will dry up.

Moreover, it is important that the market of the redistributive enterprise is not represented by vulnerable groups themselves; otherwise there will be no redistribution in the economy. Still, it is important to highlight that, apart from these two above-mentioned conditions, the redistributive enterprise can work in any sector of the economy, just like any kind of enterprise.

As for the transfer of profits to vulnerable groups, the redistributive enterprise is structured in a way which allows it to transfer money bearing very low administrative costs. In fact, it doesn't have a charitable arm, but transfers cash directly. Although some personnel should be involved in the choice of the vulnerable groups, in marketing this new corporate social responsibility approach and in managing the development assistance schemes, the redistributive enterprise can be considered as different from an NGO, which in order to develop activities in support to vulnerable groups, has normally high expenses in terms of human resources, administration and other general expenses. Instead of building organizational structures which provides assistance services to vulnerable group, the redistributive enterprise provide cash to vulnerable groups and they can buy the services on the market.

Another relevant issue concerning the cash distribution system regards the recognizability of the vulnerable groups involved in the assistance scheme.

Let's imagine that a redistributive enterprise decides to assist lone pensioners and another one decides to assist homeless people. In the first case, the lone pensioners will be able to show some documentation that testifies about their particular condition, for example a bank transfer statement that certifies that the receiver of a particular pension is actually a pensioner.

The same is not true if we are talking about a homeless people, who cannot be identified as a homeless basis on some documentation issued by a public or private organization. Therefore, we can conclude that some vulnerable groups are more difficult to be identified and recognized than others, due to the fact that certain categories have some documentation or visible characteristics than others.

Still, vulnerability is a much crucial value when implementing the model than recognizability, so that some informal solutions can be explored. For example, a homeless person can be used to distribute the cash support to all the homeless people he knows in a city, so that support is actually provided. Of course, this approach allows much higher possibilities of manipulation, since the person in charge of the cash distribution can take the money for himself or either be deceived by people who are pretending they are homeless and they are not. So, we can conclude that the distribution of money has its own difficulties due to the recognizability of the vulnerable groups involved and the decision to implement or not the assistance scheme due to the difficult identification and recognizability of the vulnerable group should be left to the redistributive enterprise itself.

As for the vulnerable groups, it is interesting to notice that there is not a widespread and accepted definition of vulnerability<sup>4</sup>.

They can be located in developing countries, in order to take advantage of the difference in living standards between the developed and the developing world if the redistributive enterprise is created and functions in a developed country, or in developed countries.

Which kind of vulnerable groups can be benefitted? It depends on your capacity of producing income (or convincing subjects which already produce income to follow this new innovative assistance scheme), the choice of the redistributive enterprise and the choice of the vulnerable group to accept to participate in this assistance scheme. For example, we can talk about homeless, poor people, pensioners.

Of course, these target groups, which are usually considered vulnerable by civil society organizations, are deeply different from each other. One can ask if this particular sort of assistance in unconditional cash transfers can be the best option for all of them or if it should be coupled with some additional support, if some variations on the theme should be implemented or if they should be assisted (if they should) with something completely different.

In my opinion, this particular kind of assistance is particularly suitable if the main underlying problem is poverty. In fact if enough financial resources are provided by the redistributive enterprise, poverty goes away by definition. If we are talking about other categories of people which are usually classified as vulnerable groups, such as for example handicapped people or people with other physical or mental problems, but they are affluent, it is questionable if this is the best kind of assistance which can be provided.

It should be highlighted that the potential to fight poverty and vulnerability is huge: if, for example, one person would manage either to create or convince a giant like Apple to give 10% of its profits to all the people living with less than 1.25 US\$ in Haiti, it could more than double the living standard of all the people living under the extreme poverty line in the island. Or it might double the level of living standards of all 500.000 pensioners in Albania<sup>5</sup>.

In fact, 51 of the first 100 economic organizations of the world are not states, but companies. It is not surprising that a single company can therefore, at least theoretically, reach aims that seems to be more of pertinence of states, such as for example doubling the standard of living of people living with less than 1.25US\$ in a country or all pensioners in another country<sup>6</sup>.

As for a variation on the scheme that can be introduced, that's to link the support to some kind of behavior. In other words, the option is to pass from a system based on unconditional cash transfer to conditional cash transfer. For example, support is provided to pensioners if they agree to offer education to children for one hour per

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<sup>4</sup> Only international and civil society organizations seems to use this terminology regularly, at least in the sense considered in this paper.

<sup>5</sup> If a single company is enough to reach such a complex and ambitious objective, what if the redistributive enterprise approach starts to get widespread? Huge results in fighting extreme poverty and vulnerability can be reached.

<sup>6</sup> Data and information taken from "Il capitalismo ha i secoli contati" by Giorgio Ruffolo.

day. In addition to the positive influence that consists of having additional financial resources available for pensioners, the society would benefit of an additional component that is linked to the condition introduced in the assistance scheme, in our example consisting in providing education to children.

If the main underlying cause of vulnerability is not poverty, but if for example poverty is coupled with mental health problems or dependencies such as in the case of many homeless people, the situation would vary. In addition you can offer other kinds of support (such as for example psychological support) or create some variations on the scheme by offering, for example, food stamps (which can be used in restaurants in order to have meals in exchange of the food stamps) or hotels stamps, special coupons that can be used in order to have the possibility for homeless people to sleep in a protected place. This approach would reduce the possibility that cash would go astray, used for example in a negative way such as to finance some dependencies, as those that sometimes affect (not always) some homeless people.

In addition, as recent studies have proved, cash transfers have high impact on the population and normally they don't produce inflation, which might be one of the main criticisms to this sort of development assistance scheme. It is basically impossible to produce inflation in case of small vulnerable groups or vulnerable groups dispersed on the territory.

From a philosophical point of view, this new potential channel of development assistance is based on freedom. It is based on the freedom of the entrepreneur to allocate part of its profits for vulnerable groups, in the framework of a free market economy, as well as the freedom of the vulnerable groups to accept them.

In addition to that, it should explore if this type of development assistant can be considered as fair. In my opinion, it is widely debatable, since many people adopt different concepts of fairness. Is the fact of providing free financial resources to people living with less than 1.25US\$ per day to be considered as fair? I guess that many people will consider it fair because of the condition of need that it is linked with living with less than 1.25US\$ per day. Other people can consider it fair because it is fair to share resources with people who have less. Other people will not consider it as fair, linking the provision of financial resources to work and accepting to offer financial resources only in exchange for work. For example, other people will support the position that money will not provide dignity, so that will not agree on that approach. Still, I think that is correct not to label this system as fair or unfair in general, but to leave the possibility to evaluate as fair or unfair by single people, according to individual views.

Finally, it should be highlighted that this approach is part of the new tendency which is gradually taking place<sup>7</sup>, which try to see if entrepreneurship can play a role in addressing big problems, such as inequality and environmental problems. In particular, so-called benefit corporations have started to be framed in the national laws as specific entities by several states in the United States. Their main characteristic is to provide part of the profits to implement activities that have a positive impact on

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<sup>7</sup> See "Hard-nosed compassion", *The Economist*, Sept 26th, 2015.

society or environment. This phenomenon, which started only around 5 years ago, is too recent in order to provide a full evaluation of that.

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