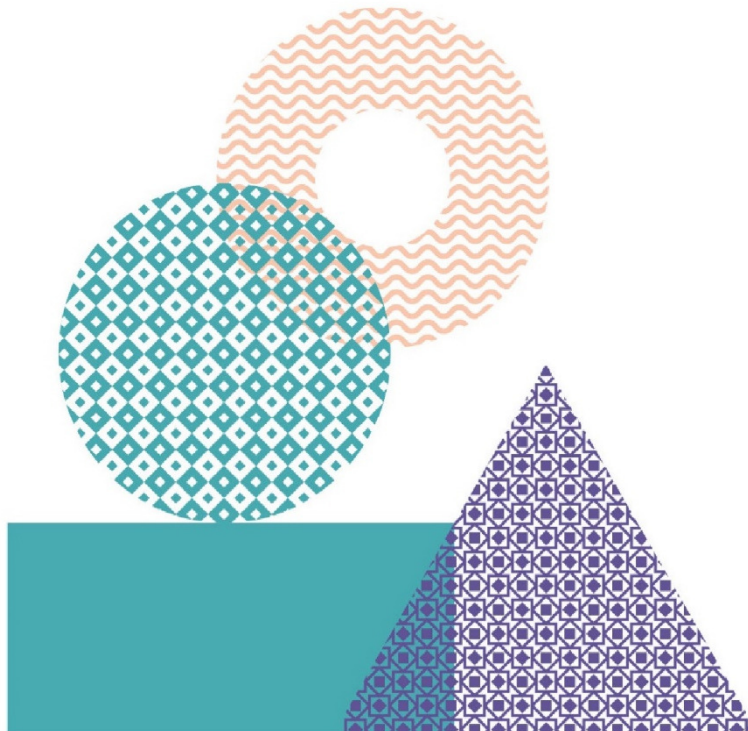




ISSUE PAPER

Social Enterprise Development in Pakistan: Way Forward

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Abbreviations

ESCAP	Economic and Social Commission for Asia and the Pacific
SDGs	Sustainable Development Goals
MoPDR	Ministry of Planning, Development and Reform
SDPI	Sustainable Development Policy Institute
FBR	Federal Board of Revenue
SECP	Securities and Exchange Commission of Pakistan
SBP	State Bank of Pakistan
SME	Small and Medium Enterprises
NGO	Non-government Organisation
CSE	Centre for Social Entrepreneurship
HEC	Higher Education Commission
AI	Artificial Intelligence
IoT	Internet of Things
SMEDA	Small and Medium Enterprise Development Authority
TDAP	Trade Development Authority of Pakistan
PSIC	Punjab Small Industries Corporation
CSR	corporate social responsibility
MFI	Microfinance Institutions
NPO	Non-profit Organization
MSME	Micro, small and medium enterprise
INGO	International non-government organization
PCP	Pakistan Centre for Philanthropy
RIA	Regulatory Investment Assessment

1. Background

1.1. Our Partnership

The British Council and the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) have agreed to jointly promote the growth of social enterprise and social impact investment across the Asia-Pacific region as a means of supporting progress on the Sustainable Development Goals (SDGs). The British Council and ESCAP are co-operating to conduct research, disseminate analysis, provide training, host policy dialogues and offer guidance to support policy makers and other stakeholders in formulating and implementing policies and strategies that foster social enterprise and create enabling environments for social impact investment.

Building on the research and analysis undertaken in Pakistan already and upon request from the Ministry of Planning, Development and Reform (MoPDR) of Pakistan, UN ESCAP and the British Council are providing technical assistance and advisory services to the Government of Pakistan in developing a social enterprise framework.

As part of this work, the Sustainable Development Policy Institute (SDPI) and Social Enterprise UK have been commissioned to consult a range of relevant experts and stakeholders and develop this paper including key recommendations for the implementation and development of a national-level social enterprise strategy.

1.2. Our Objective

This issue paper is being written with the overarching objective of informing the policy makers at the federal and provincial-level regarding the facilitation required by social enterprises in Pakistan.¹ The British Council, SDPI and partners have conducted past research on the policy environment under which social enterprises work across the country (SDPI 2016 and Richardson 2017). The findings which were based on primary-level data as well as the secondary information were shared with various quarters of the government including the Ministry of Finance, Federal Board of Revenue (FBR), Securities and Exchange Commission of Pakistan (SECP), and State Bank of Pakistan (SBP). A broad-based outreach and policy engagement was undertaken which has resulted in an increased understanding of the value which social enterprises can contribute towards job creation and achievement of SDGs.²

¹ Any comments on this paper may be emailed to ahad@sdpi.org.

² "Social enterprises can help achieve SDGs: Khusro Bakhtiar", Business Recorder. October 18, 2018. Accessed via web: <https://www.brecorder.com/2018/10/18/446716/social-creative-enterprises-can-help-achieve-sdgs-khusro-bakhtiar/>, January 6, 2019.

1.3. Social Enterprise in Pakistan

Social enterprises in Pakistan have evolved out of societal imperatives, based on the unmet demands of the local communities. The country's social enterprise ecosystem is in its nascent stages but has experienced rapid expansion and growth in recent years. This sector, among other roles, offers the potential to fill the gap between public services which do not currently reach the entire population and services provided by the private sector which are often unaffordable for vulnerable and marginalised communities. Social enterprises can offer viable models of service delivery, with the potential to assist Pakistan towards the achievement of the SDGs. These enterprises can also offer economic empowerment, innovation and access to new markets at the bottom of the pyramid.³

Pakistan has seen a growth in number of social enterprises working in diverse sectors and aiming to tackling some pressing issues faced by communities. Rapid urbanisation, the growth of public sector universities, an increased number of incubators and accelerator initiatives have all contributed to a new wave of young socially-oriented entrepreneurs across the country. It is encouraging to see entrepreneurs pitching ideas and implementing them in areas including energy, clean drinking water, education, health, construction, financial inclusion and retail, among others.⁴

Today social enterprises are found in varied sectors of community welfare including microfinance (e.g. Akhwat and Kashf Foundation), sustainable and low-cost housing (e.g. Ghonsla), health and environment (e.g. Hashoo Foundation, DoctHERs, Milestone Disability, Naya Jeevan), Renewable energy (e.g. Sun Volts), skills development (e.g. SEED⁵ Ventures, Youth Engagement Services Network, Rabtt, Aman Foundation), income generation (e.g. Fori Mazdoori) food security (e.g. RIZQ), tourism (e.g. Desi Tour), peacebuilding and youth engagement (e.g. The Second Floor, SEPLAA⁶ and Peshawar 2.0), environmental protection (e.g. Saibaan).

Most social enterprises are led by relatively younger segment of entrepreneurs.⁷ Social enterprises hire nearly four times as many women as mainstream SMEs and most social enterprises are seeking to grow and develop new products and services. Education, health and social care are the most common sectors of operation for Pakistani social enterprises with nearly half of Pakistani social enterprises operating in the education sector.

³ British Council (2015).

⁴ Johnson, Biranna (2016).

⁵ Social Entrepreneurship & Equity Development.

⁶ Seeds of Education, Policy, Legal Awareness & Advocacy.

⁷ British Council (2016).

1.4. Barriers and Challenges

Recent literature has shown that social enterprises often face legal, regulatory, policy and procedural barriers.⁸ Sometimes these are shared with the wider business community but often times they are specific to social enterprises. Despite the increase in appreciation for social enterprise, there is increasing recognition that sustaining and scaling a social enterprise can be difficult.

The problems range from a large regulatory burden in several sectors, faced at the time of initiation of business; cumbersome start-up and scale-up funding regime; ban on crowd funding, difficulties in attracting foreign investment; regressive taxation; weak participation in international trade; and difficult access to public procurement opportunities. Perhaps the access to appropriate funding and finance is seen as the main barrier to social enterprise growth in Pakistan, including access to grant funding as well as lack of capital and cash flow issues.⁹ Lack of demand for products and services, recruitment and access to public services (electricity, water, and other utilities) seem of less concern, unlike for mainstream businesses where poor public services are seen as a major barrier.

Women-led social enterprises while facing the usual barriers with red tape or taxation, are also likely to see weak access to support and advisory services, shortage of technical skills, networking opportunities and recurrent cash flow problems.¹⁰

1.5. Social Enterprise Policy

Yet, despite these developments, there is no specific policy directed at social enterprises in Pakistan. However, there are policies from a number of government bodies that are relevant to these enterprises. Policies relating to non-government organisations (NGOs), SMEs and small scale industries for example, all potentially have an impact on social enterprises. Recent research undertaken by SDPI and the British Council has identified a consensus around the need to recognise and identify the vibrant and growing social enterprise sector, with effort required to put these enterprises on policymakers' radar and a targeted set of policies as part of the annual federal and provincial budgets, trade, industrial and investment policies.

A new generation of entrepreneurs is also pushing for a change towards more conducive ecosystem. Several supporting and intermediary organisations are lending help to the development of the overall ecosystem for social enterprises including the Technology Incubation Centre at the National University of

⁸ Ahmed (2016).

⁹ https://www.britishcouncil.org/sites/default/files/bc-report-ch5-pakistan-digital_0.pdf

¹⁰ See Yaseen and Ahmed (2016).

Science and Technology, Social Innovation Lab, Shell Tameer, Plan9/PlanX, British Council, IGNITE, SDPI, and Acumen.

So the British Council and ESCAP are not alone in promoting dialogue on legal, regulatory and policy change with issues such as equity and debt funding, licensing, technology development, intellectual property, philanthropy, public procurement and innovation platforms often raised at various public and private forums with both government and non-government institutions. Guided by the efforts of local policy think-tanks, the 2018-19 federal budget saw significant debate in Parliament around how social entrepreneurs can be supported to effectively contribute towards SDGs.¹¹

1.6. A Draft Strategy

This paper proposes a way forward. The intended audience includes policymakers, researchers and think-tanks, social enterprises, funders and supporters. The objective of this paper is to highlight some of the above mentioned issues, identify remedial strategies and also suggest a short and medium term policy support agenda for social enterprise development in Pakistan. More precisely, this issue paper will:

- Present the key challenges faced by social enterprises across the country, as identified in previous research
- Explore the specific legal, regulatory, policy and procedural barriers faced by social enterprises
- Identify institutions at federal and provincial-level responsible for the support mechanisms for social enterprises
- Identify and explain how amendments to policies and public programmes, such as the finance act, provincial budgets, trade policy, SME policy and investment policy, for instance could help development of social enterprises.

The next section sets out our methodology to achieve the above mentioned objectives. We then provide a brief on the state of the enabling business environment in Pakistan, in general and with reference to social enterprises. In section four we identify challenges to sustainability of social enterprises. This work is based on our past research and recent consultations. Before concluding with a summary of policy recommendations, we also provide some examples of how governments are supporting social enterprises in India, Sri Lanka, Thailand, Philippines, and South Korea.

2. Methodology

British Council and SDPI have been extensively involved in engaging with the MoPDR and provincial

¹¹ Richardson, Mark (2017) and Ahmed & Qadir (2018). See also, “Pakistan’s Quest for Inclusive Growth”, Project Syndicate, February 18, 2019. Accessed via web on March 4, 2019: <https://www.project-syndicate.org/commentary/pakistan-government-sustainable-inclusive-growth-plan-by-vaqar-ahmed-2019-02>.

Planning & Development Departments on different aspects of the social economy in recent years.¹² Learning from the lessons of previous such engagements, we undertook an exercise to identify key stakeholders in social enterprise development across Pakistan. Our mapping of stakeholders was then subject to validation from select representatives from public sector and social enterprises. During the inception phase, the officials of the MoPDR and provincial Planning & Development Departments (from Balochistan, Khyber Pakhtunkhwa, Punjab and Sindh provinces) were taken on-board and one-to-one meetings were organised. This was followed by a detailed presentation to the Federal Minister for MoPDR. This high-level meeting allowed both the Ministry and SDPI team to understand each other's perspectives and identify the way forward.

SDPI also conducted a detailed desk review to update the analysis around challenges faced by current and past social enterprises. We were interested in constraints faced by cases which may have recently failed. Similarly, a rapid evaluation was also conducted to find out key factors which may have helped the successful enterprises to grow and sustain.

To ensure an inclusive approach, a national conference on reforms for social enterprise development was organised in collaboration with MoPDR and British Council on October 22, 2018 which allowed a detailed public private dialogue around four key policy themes: regulation, taxation, procurement, and finance. On October 23, 2018 this discussion was extended into a world café style discussion conducted to triangulate perspectives from participants of both policy and practice background. This meeting was also intended to find how Centre for Social Entrepreneurship (CSE) at MoPDR can be supported by all stakeholders including the public sector and regulatory bodies.

The team was able to make use of one-on-one meetings on the sidelines of national conference with representatives from SBP, SECP, FBR and Higher Education Commission (HEC). The team also conducted separate interviews with leads from provincial governments.

While the above mentioned methodology remains flexible, one of our supplementary goals is also to look into how best SDPI and other like-minded local organisations can help in sustainability of CSE. This center can then take forward some of measures approved under a proposed national framework for social and creative enterprises – an ambition expressed by the Federal Minister, MoPDR during his meeting with SDPI and British Council on October 18, 2018. Going forward and once the findings have been communicated to the government, SDPI will aim to:

- Liaise with relevant standing committees in the parliament to attract support required by social enterprises in federal as well as provincial legislation
- Liaise with the MoPDR to ensure interventions and funding for social enterprise development through Public Sector Development Programme (PSDP)

¹² See Ahmed and Qadir (2018).

- Liaise with the provincial Planning and Development Departments to ensure interventions and funding for social enterprise development through provincial Annual Development Plan
- Seek sectoral and institution-specific support for social enterprise development from SBP, SECP, Public Procurement Regulatory Authority (PPRA)¹³, FBR and other organisations mentioned in the latter sections.

3. The Enabling Environment for Business

3.1. Some Achievements

Since the publication of SDPI (2016) there have been some encouraging steps by the government to ease the business environment faced by SMEs in general. It is expected that some of these measures will positively impact the long term sustainability of social enterprises as well. To start with, the SECP has now made it easier to reserve the name of proposed company and applying for its incorporation. The e-registration can be completed in four working hours. The incorporation fee has been slashed by almost 25 per cent.¹⁴

SECP also amended and eased the Single-Member Companies (SMC) Rules.¹⁵ According to SECP's Promoters' Guide "An SMC can be formed with just one-member compared with the requirement to have at least two members for a private limited company and a minimum of three members in case of a public limited company."

In 2017, the central bank announced "Policy for Promotion of SME Finance". The policy aims to improve regulatory framework, help upscaling of SMEs through microfinance, ensure simplified procedures for obtaining finance, allow for programme-based lending and value chain financing, provide non-financial advisory services to SMEs, simplifying tax regime for SMEs, and leveraging technology to promote SME financing.¹⁶

In 2018, the Central Bank also doubled the loan allocation for SMEs from 8 to 16 per cent. This enhanced credit facility was also targeted for women in underserved areas of the country. Women entrepreneurs can now get small loans up to PKR 1.5 million for a duration of five years, with no mark up. They may apply for these loans at scheduled commercial banks of Pakistan. In another scheme women entrepreneurs are

¹³ At federal and provincial-levels.

¹⁴ SECP launches single online procedure for swift company registration. Pakistan Observer, February 6, 2018. Accessed via web on January 6, 2019, <https://pakobserver.net/secp-launches-single-online-procedure-swift-company-registration/>.

¹⁵ See SECP (2017).

¹⁶ See SBP (2017).

allowed to obtain loans of up to PKR 50 million on 6 per cent mark-up.¹⁷

Central Bank's commitment to implementing National Financial Inclusion Strategy has resulted in growth of *Asan* Mobile Account and branchless banking which would facilitate the reach of diversified financial products to all segments of the population. The strategy aims to increase number of bank account holders to 50 per cent of the total adult population by 2020.¹⁸ In the same spirit, the Central Bank announced low-cost housing finance policy. This is envisaged to promote growth of several industries associated with the housing sector including social enterprises which help sustainable housing in slum dwellings.

In May 2018, the Finance Act 2018-19 also recognized the social services of several organizations and provided them income tax exemptions. This includes Aziz Tabba Foundation, Saylani Welfare International Trust and Al-Shifa Eye Hospital. The organisations were selected on the basis of recommendation by Ministry of Finance. This policy measure has set a good example and it is hoped that future governments will also value social work.

More recently, in January 2019, the government introduced amendments to the Finance Act and provided some additional facilitation measures for SMEs. Most importantly the government introduced reduced rate of tax for additional loans by banks to MSMEs. The amount of interest income offered for tax arising from additional advances to these enterprises for the tax years 2020 to 2023 will now be taxed at a reduced rate of 20 per cent.¹⁹

3.2. Macroeconomic Challenges

Seen from a macro level, Pakistan is host to sixth largest population in the world. A large domestic demand continues to attract investor interest. Production capacities have expanded in several industries attributed to investments under China Pakistan Economic Corridor and increased demand for consumer goods - fueled by, among other reasons, rising remittances from Pakistani workers abroad. A key priority of the government has been to make services sector more competitive in a bid to diversify exports base. There has been an increase in export of non-traditional sectors, for example the IT sector is now exporting over \$1 billion worth of services. This success is also validated through an increase in freelance activity. The rise in the number of youth registering their freelance services online is driven by the sector's lower barriers to entry. For example, setting up freelance service business requires lower levels of fixed investment and lower reliance on traditional business ingredients such as credit and utilities, which

¹⁷ SBP Increases Loan Allocation for SMEs. The Express Tribune. August 1, 2018. Accessed via web on January 6, 2019, <https://tribune.com.pk/story/1770505/2-sbp-increases-loan-allocation-smes/>.

¹⁸ SBP (2015).

¹⁹ Additional advances in this regard means advances in addition to average amount of such advances made in such sector by the bank for tax year 2019.

remain in constrained supply.

Despite these encouraging signs the recent growth spurt, driven by the domestic consumption, remains dependent on expensive imports and heavy support through the government budget. These have ballooned the current account deficit and fiscal deficit posing short term challenges to macroeconomic stability. At the time of writing this issue paper there is some indication from the government that it may resort to assistance from the International Monetary Fund, so that foreign exchange reserves can be stabilized.

These macroeconomic challenges have provided yet another reason to expedite structural reforms which in turn can allow greater private investment flows and overtime reduce pressures on the public sector to use own resources to support businesses and job creation. Pakistan saw some improvement in its 2019 Ease of Doing Business rank when it jumped by 11 points compared with the 2018 rank.²⁰ Nevertheless, businesses, domestic or foreign, see Pakistan's business environment as complex and riddled with opaque regulation. For example, out of a total of 190 countries, Pakistan's tax regime stands at 173, indicating a significant mistrust of tax payers on the tax administration (Table 1).²¹

Similarly, new and existing entrepreneurs, particularly in manufacturing industries have found getting connections of essential utilities such as electricity difficult. In the case of getting a new electricity connection, Pakistan ranks 167 out of 190 countries and it can take up to a year (even after having paid informal payments) to receive a connection. Registering individual or business property is also not hassle-free with over a dozen offices involved for validating the status of land. Finally, it remains difficult to trade regionally or globally. Lack of trade facilitation reforms and high trade costs have discouraged exporters.

²⁰ Ease of Doing Business index: Pakistan's ranking improves by 11 notches to 136th position. The Express Tribune, November 1, 2018. Accessed on March 1, 2019, via web: <https://tribune.com.pk/story/1838199/2-pakistans-ranking-improves-11-notches-136th-position/>

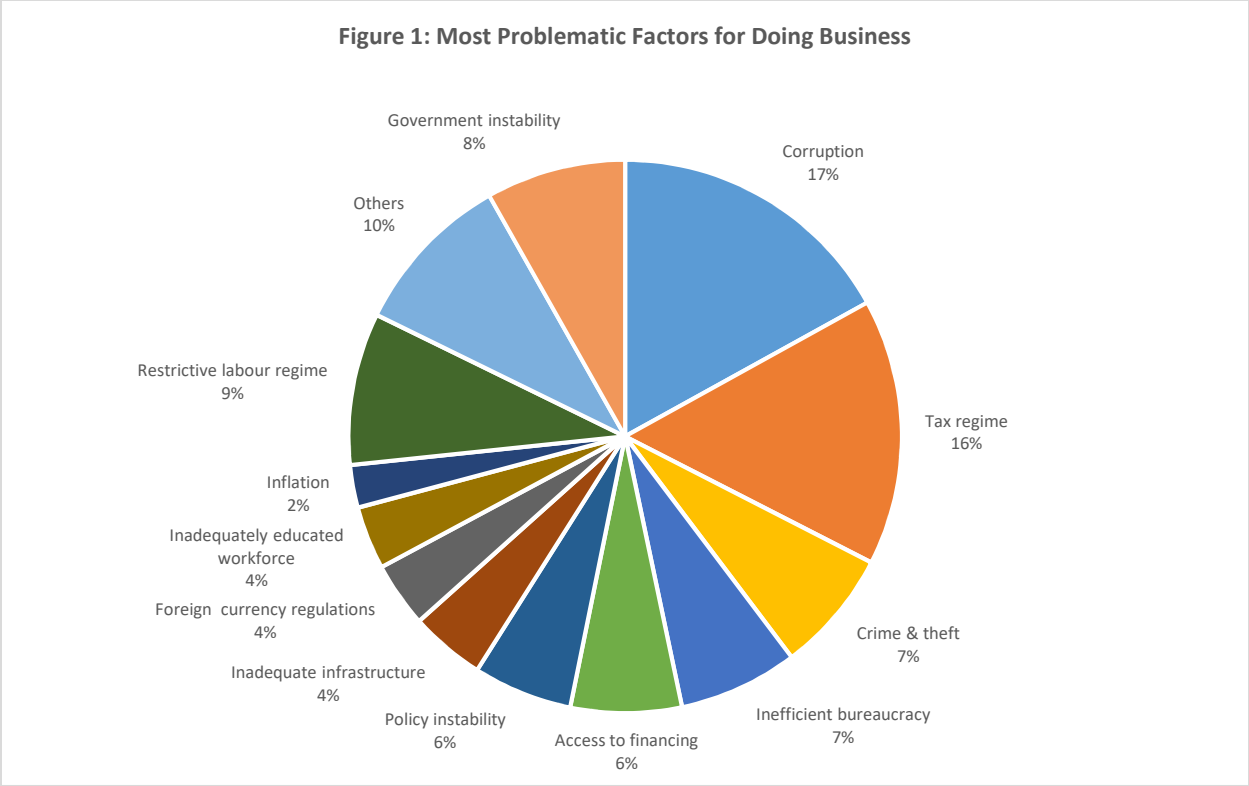
²¹ See Nazir and Ahmed (2017).

Table 1: Ease of Doing Business 2019

Indicators	Rank out of 190 countries
Ease of doing business	136
Starting a business	130
Dealing with construction permits	166
Getting electricity	167
Registering property	161
Getting credit	112
Paying taxes	173
Trading across borders	142
Enforcing contracts	156
Resolving insolvency	53

Source: <http://www.doingbusiness.org/content/dam/doingBusiness/country/p/pakistan/PAK.pdf>

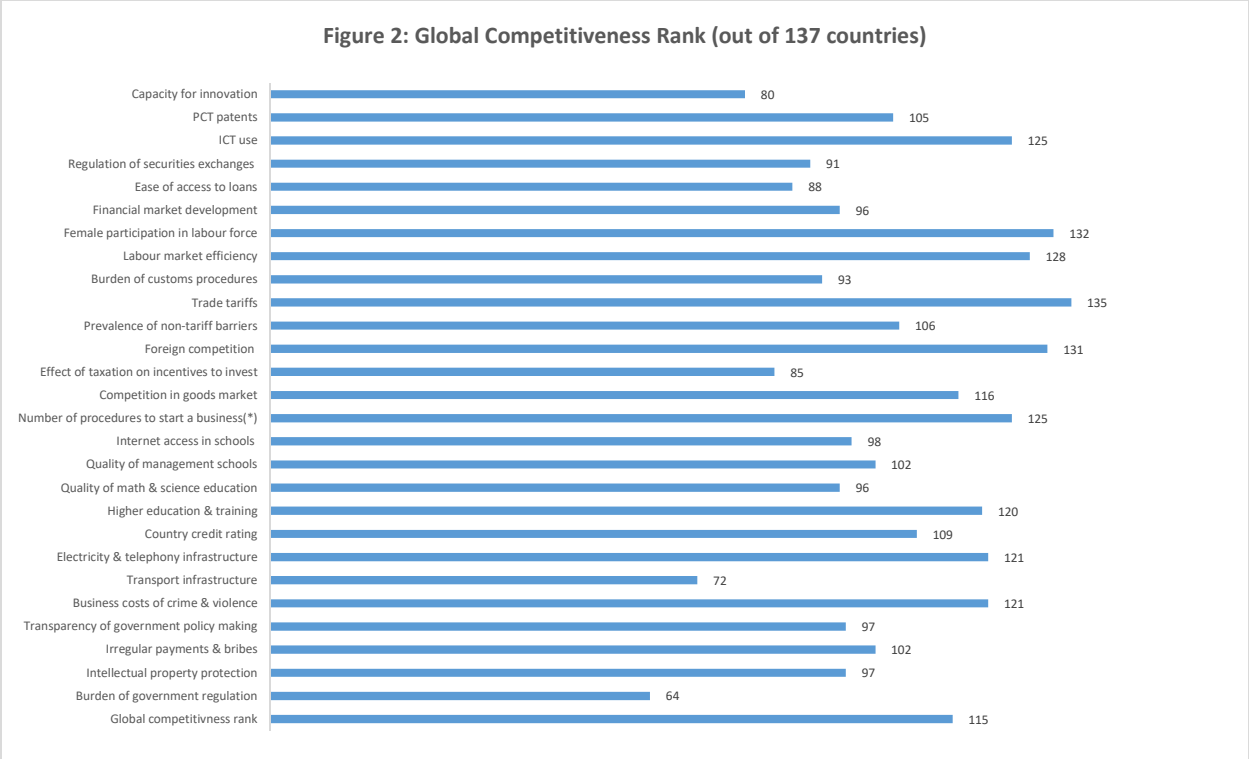
The World Competitiveness Report 2017-18 also highlights the most problematic factors for doing business in Pakistan. As much as 17% reported corruption as a key impediment to doing business. This was followed by a complex tax regime (16%), government and policy instability (14%), and restrictive labour regime and lack of skilled labour (13%). Difficulties in access to finance, inadequate infrastructure, inefficient bureaucracy, and difficult foreign currency regulations were highlighted as other key factors hindering business (Figure 1).



Source: World Competitiveness Report 2017-18

Some of the variables that are part of the global competitiveness ranking are also important for social enterprises. Most notably these include taxation, finance and quality of bureaucracy. Out of 137 countries in the global rank, Pakistan ranked 115 in 2017-18 and remains particularly weak in ICT use, trade tariffs, starting a new business, irregular payments and bribes, and intellectual property protection (Figure 2). Some enabling factors which could help the future of social enterprises in the country e.g. internet access in schools and quality of management schools was also ranked poorly. Civil society organisations also feel that fixing the public procurement regime can create greater competition and help inclusion of smaller businesses.²²

²² “Experts call for effective development process”. The Express Tribune, February 14, 2019. Accessed via web on March 4, 2019, <https://tribune.com.pk/story/1910019/1-experts-call-effective-development-process/>



*Note: 12 procedures to start a business in total. Source: World Competitiveness Report 2017-18.

Despite the above mentioned challenges, the National Incubation Centers (NICs) supported by the government’s IGNITE programme have played a significant role in mentoring the start-ups and helping them to navigate their way through a tough business environment.²³ Although IGNITE does not focus specifically on social enterprises, there are some examples of social enterprises that have been established through the programme as well as other enterprises which whilst operating on a for-profit basis are also working on ideas that can change the standard of living at the grassroots level. We provide below some examples of several innovative startups recently incubated at NICs.

²³ For more information see: <https://ignite.org.pk/>.

Aprus: Set up at NIC Peshawar. Artificial Intelligence (AI) enabled EM Surgery instrument for lesion and tumor removal. More precise, quicker recovery, fraction of cost versus imported German and American instruments it replaced. 82 clinics using this and 10,000 plus surgeries performed.

DigiSkills.pk: Uses online platform to teach digital literacy, freelancing (design, content production, data entry) and e-business (clothing, tailoring, and handicrafts). Uses AI and predictive analysis to match content with trainee profile, trigger manual interventions by online coaches and give content improvement suggestions. 100,000 registrations in 4 months, 10,000 graduates across country - many now earning in remote poverty stricken districts in Balochistan, South Punjab, Sindh, Azad Jammu & Kashmir. Allows quicker scaling and 1/50th cost per trainee compared to traditional training programs.

Fine Traders: Set up at NIC Lahore. They act as a microfinance concern and also sell essentials like blankets, monthly food rations, cooking utensils and clothing to bottom of pyramid daily wage earners and hawkers at Rs 30-50 per day. Last year sales were recorded at Rs 15 million. Last year profits stood at Rs 3.2 million. An expat fund is now making USD 890,000 investment in this venture.

PakVitae: Set up at NIC Lahore. Cheap nanotech to filter water. It is affordable by bottom of the pyramid. PKR 2000 to filter 45,000 gallons. Seven international patents filed. Raised \$22 million in private investment. 10 million Pakistanis to get clean drinking water on regular basis for the first time in their lives by 2020, helping curb maladies like malnutrition, stunting and infant mortality.

Mera Maweshi: Set up through IGNITE Seed Fund. Farmers use Urdu mobile app to enter cattle disease symptoms. Cloud based AI diagnoses, prescribes medication and measures -- increasing milk production and cattle life. Economical and timely for small farmers. In testing with 250 plus farmers in Mianwali district.

Electrocure: Uses AI and IoT to save 90% of electricity transmission line losses and theft. Validated in Peshawar and Rawalpindi. Much better return on investment than imported smart meters. A Chinese company recently offered USD 46 million in investment. About to be tested in two power distribution companies.

Mauqa.online: Set up at NIC Islamabad. A quick and easy solution to urgent domestic needs where customers are provided on-demand house cleaning, babysitting, cooking and elderly care services from trained and verified helpers. Test trials in Islamabad raised income of marginalized illiterate women from PKR 4000 to PKR 21,000 per month, by getting them better jobs, allowing them to put children in school, move to hygienic dwellings and put husbands in drug rehab.

Smart Helmet: Set up at NIC Quetta. Uses IoT to detect poisonous gas which can be hazardous for the labour working in the mining sector of Balochistan. The helmet can monitor environment, bio rhythms and location--guiding miners to safety. Balochistan government is currently testing the units.

Doch: Set up in NIC Quetta. Uses online platform to integrate supply chain of 150 plus women handicraft artisans across Balochistan and sell to national and international customers.

Aqua Agro: Set up in NIC Karachi. Uses AI and IoT to save 50% of irrigation water while increasing yield by up to 30%. Costs PKR 16,000 per acre vs drip irrigation which saves 70% water but costs an often unaffordable PKR 300,000 per acre. Tested on bitter melon and lime.

Source: IGNITE (<https://ignite.org.pk/>)

While cross-cutting policies which result in improved ecosystem for social enterprises remain important, equally significant are the sectoral policies which help improve public service delivery of, for example, education, health, housing, food, and clean drinking water. These sectoral policies can be beneficial for the growth and sustainability of social enterprises if: a) policy allows room for genuine idea generation, innovation and creativity by both public and private sector, b) removes regulatory impediments to businesses often seen in the social sectors, and c) allows crowdfunding in regions and communities where both state and market fails.

In the case of education, while all provinces have framed their own policies to cater to the demands of primary, secondary and tertiary level students, a national level education policy is currently under formulation. The policy will aim to offer minimum standards of learning and teaching which schools across the country would need to observe. It will also help to bring under-served regions of Pakistan at par with the national average educational attainment.

The four key pillars of the envisaged policy include: improving the quality of education, increase enrolment and retention of out-of-school children, introducing uniformity across the three education systems (madressah, public and private schools), and skill development of the youth in line with the market demand.²⁴ A uniform syllabus is also being discussed with the stakeholders which could help expedite the achievement towards education-related SDGs. On the demand-side, civil society organisations have stepped up efforts to increase advocacy towards reforms which could see full implementation of Article 25-A of the Constitution, that guarantees the right to free and compulsory education.²⁵

In the case of health sector as well, each of the provinces continue to have their own policy framework. However, at a federal level, National Health Vision 2016-25 provides guidance on improvements required for health financing, service delivery, resource management, health information management systems, technology transfer, and Pakistan's commitments to health related SDGs. The new government is now aiming to introduce a Public Health Act which will improve availability of data and information on health sector and also incentivize production of local medicine and vaccines.²⁶ The Act will also aim to better regulate the private practice of medical practitioners across the country. Like in the case of education, civil society organisations continue to identify gaps in implementation of health-related SDGs which may be preventing optimal service delivery.²⁷

²⁴ Government aims for a uniform education system under new policy framework. DAWN. Accessed via web, <https://www.dawn.com/news/1447992>, January 6, 2019.

²⁵ Abbas and Ahmed (2016) and Ahmed (2018b).

²⁶ Pakistan does not have credible data for health sector. DAWN. Accessed via web, <https://www.dawn.com/news/1453729>, January 6, 2019.

²⁷ See Manzoor et al. (2016), Khan et al. (2016), and Ishfaq (2017).

In other areas of social priorities, for example, clean drinking water, environment and clean energy, the Pakistan Tehreek-e-Insaf government is designing policy framework in line with its manifesto and priorities of the provinces where it has a parliamentary majority. This can enable government to enact the legislation or amendments to existing laws to address the identified social priorities. It will be important that the new sectoral policies allow space and clear role for social enterprises, particularly in regions where both market and state is less successful in public service delivery.²⁸

4. Challenges to Social Enterprise Development

Some of the variables that are part of the global competitiveness ranking (Figure 2) are also important for social entrepreneurs. However, recent evidence also suggests that social enterprises often face distinct challenges and barriers. As outlined in previous sections, access to appropriate funding and finance is seen as the main barrier to social enterprise growth in Pakistan. Other critical barriers include factors such as access to advisory services for women-led social enterprise or understanding and awareness of social enterprise among the general public. Apart from these, barriers also arise due to factors, including culture, lack of government facilitation, market imperfections, weak skills and educational endowments, and legislation and policies which stifle social enterprise growth. To address the above-mentioned issues there is an urgent need to:

- Recognise the vibrant and growing social enterprise sector in Pakistan
- Conduct research and develop the evidence base vis-à-vis the scale and scope of social enterprises in Pakistan
- Raise awareness regarding contribution of social enterprises amongst policymakers
- Develop and adopt a targeted set of facilitation measures as part of the fiscal, trade, industrial and investment policies
- Build capacity of social enterprises in terms of scalability, legal and statutory compliance, financial management, and human resource.

Additionally, we have reviewed policy approaches to social enterprise in various other countries in order to establish the full range of areas (discussed below) in which policy can hinder or support social enterprise development. We now explore some of the specific issues arising in greater detail. These issues relate to:

- Tax treatment of social enterprises
- Access to procurement opportunities
- Funding and Finance
- Culture, awareness and understanding
- Data and evidence
- Legal and regulatory issues
- Capacity building and skills, networks and market access

²⁸ For example, see Chapter 3 in Ahmed (2018).

4.1. Culture, Awareness and Understanding

4.1.1. Problems

To gain from any potential tax, regulatory and procurement benefits, government would need to recognise and define social enterprise. But more broadly, it is clear that social enterprise is far from well understood in Pakistan. The social economy includes social enterprises, co-operatives and community businesses. While all of these forms play a leading role in responding to the challenges faced by communities, there are often misleading perceptions about such organisations.²⁹

While awareness regarding such enterprise and ventures has increased due to the outreach role provided by the incubation centers and acceleration programmes and policy dialogues by think tanks such as SDPI and Pakistan Institute of Development Economics, however in the peri-urban and rural areas, facilities such as the NICs are missing.

The conventional public sector bodies to promote the competitiveness of SMEs for example, microfinance institutions, Small and Medium Enterprise Development Authority (SMEDA), Trade Development Authority of Pakistan (TDAP), and bodies for small industries promotion in the provinces, for example, Punjab Small Industries Corporation (PSIC), do not have dedicated units which can help promote greater understanding around concepts of social enterprise.

The business idea competitions which are now regularly held across public sector universities or otherwise often do not offer social enterprise as an application theme. Similarly, the curriculum of business schools often doesn't include specific module on social entrepreneurship. Changes to curriculum, however, will require approval from Higher Education Commission.

Social welfare departments in all provincial governments have long term policies and budgets to make interventions which could improve standard of living in some of the poorest of the poor areas of Pakistan. These departments however do not have a comprehensive orientation how social enterprises can become their partners in implementation.

Large businesses that maintain a corporate social responsibility (CSR) window are only gradually starting to see value in the work of social enterprises. The lack of data on social enterprises and information regarding their track record often prevents the large businesses in investing for social good (unless they are making interventions themselves through CSR). Fiscal policy also doesn't incentivize large businesses to invest part of their investments or profits in social enterprises. Industry leaders have also not been seen openly endorsing the work of social enterprises and there seems to be some reluctance to spending CSR proceeds to help social enterprises.

²⁹ According to British Council (2018) "The social sector accounts for more than five per cent of GDP and employs over ten per cent of the workforce in many countries".

4.1.2. Solution

There is a need to develop a definition of social enterprise that is agreed upon by both public and private sector stakeholders. It is therefore proposed that SECP may form a working group to brainstorm and come up with acceptable definition. The group may also have representation from CSE at MoPDR, SECP, SBP and SMEDA. A possible way out could also be to see if a definition of social enterprise can find its way in forthcoming policies, for example national-level SME policy.

For peri-urban and rural areas where facilities such as the NICs are missing, satellite social enterprise resource centers (acting as one-window for facilitation) could help. These resource centers can be established through allocating funds under Annual Development Programme (ADP) of provincial governments. Provincial CSEs could be established at Planning and Development Departments to help create understanding across MFIs, SMEDA, TDAP, and bodies for small industries promotion in the provinces.

SMEDA and PSIC have the mandate to promote business through advertisement, pamphlets, word of mouth and other promotional offers. Specific content on the potential of social enterprises could be developed and also translated into local languages. This material could be disseminated online and through the help of Chambers of Commerce and Industries in various districts of Pakistan.

There is a need to communicate how social enterprises can contribute to SDGs. MoPDR and Board of Investment – agency responsible for attracting foreign investment could present social enterprise as a form of responsible business which can attract funding from not only domestic and foreign investors but also diaspora and multilateral donors.

The HEC can help the existing business schools in coming up with innovative curricula on social enterprise sector. The focus should be on both, explaining students what this sector offers if they wish to land here as an entrepreneur, and also how this sector contributes to the SDGs.

Finally, the social welfare departments of provincial governments could join hands with the local level social entrepreneurs to publicise their work and also make a case regarding how public spending for procurement could benefit these enterprises. The social welfare departments could also regularly update the inventory of social enterprises in their province.

4.2. Tax Treatment of Social Enterprises

4.2.1. Problems

Most social entrepreneurs during our consultations didn't request any specific new tax incentive. However, they remain of the view that the burden of tax compliance could be reduced at least for start-ups. There are certain institutions in the country that already benefit from tax exemptions on account of

their contribution to the society. There is an existing process for certain NPOs to seek tax exemption, for instance. However, due to the complexity of the process and cumbersome documentation, not all NPOs have the understanding or ability to get such exemptions. This requires an enterprise to have a three-year operations record which will enable them to apply for certification from Pakistan Centre for Philanthropy (PCP). The PCP will charge a fee according to the size of operations, conduct due diligence and provide certification. This process could take up to six months. This certification is then submitted with FBR along with application for NPO status. FBR's due diligence and award of NPO status for tax purposes takes up to four months. Once this status is allowed it has to be renewed every three years – a process involving significant transactions cost.³⁰ Such selective tax benefits where most enterprises are unable to avail the legally allowed benefits to peers, distorts the level playing field and pose challenges for new social enterprises.³¹

Other social enterprises are today faced with double taxation and end up paying to both federal and provincial tax authorities in turn resulting in higher cost of doing business. Several business activities including e-commerce have found it difficult to take-off due to differences across federal and provincial authorities on the tax treatment of several activities under information technology and e-commerce. This suggests a need for simplification of tax code. The system of tax filing also differs across provinces in turn imposing additional time and cost required to understand frequently changing tax code across various regions in Pakistan. The Tax Reform Commission has recognized this point and called for tax harmonization across provinces.³²

Frequent changes to the tax code with in a single year (e.g. through Supplementary Finance Bill) have also tempered the interest of foreign investors including Pakistani diaspora abroad, many of whom wish to

³⁰ There are some organisations which have been allowed permanent exemption and they do not require renewal. This measure has been formalized through insertion of enterprise name in the Finance Act. These enterprises include: Pakistan Sweet Homes Angels and Fairies Place, Al-Shifa Trust Eye Hospital, Aziz Tabba Foundation, Sindh Institute of Urology and Transplantation, SIUT Trust and Society, Sharif Trust, The Kidney Centre Post Graduate Institute, Pakistan Disabled Foundation, and Sardar Trust Eye Hospital, Lahore.

³¹ For example, social enterprise A and B supplying to the same vendor, where A is able to claim a rebate under income tax, sales tax and customs duty whereas B is not eligible for such rebate. Currently there is no set criteria to provide rebate to social enterprises. Any specific name can be proposed by the Ministry of Finance and if the name is passed as part of the Finance Act and Annual Federal Budget, the organization is eligible for exemptions and rebates. Absence of criteria implies that only those social enterprises having access to Ministry of Finance and the Prime Minister's office can push for their enterprise name in the Finance Act. Those startups or existing social enterprises undertaking same or similar activities, but not having lobbying powers are deprived to such fiscal benefits (see also Nazir and Ahmed 2017).

³² Nazir et al. (2018) Streamlining Tax Harmonization in Pakistan. Chapter 5 in: "70 Years of Development: Way Forward". Sustainable Development Policy institute.

invest and support social enterprise development in Pakistan.

It will also likely remain difficult for social enterprises to scale through integration into regional and global value chains unless import restrictions, high customs and regulatory duties, and other trade costs are evaluated and reduced. While most SEs in Pakistan are too small for this to be of serious concern, this is a potential barrier to significantly scaling some social enterprises.

Tax benefits for social enterprises can go a long way in helping economically less developed regions. It has been difficult to convince entrepreneurs to move into regions which in the recent past have seen incidence of insurgency or militancy. With law and order restored in these places there is a realization that job creation could mitigate some of the prevalent social evils and strengthen peacebuilding efforts. However the current tax policy does not complement this ambition.³³ The public sector can make private sector a partner in this pursuit if tax credit is allowed to locate in such regions which require outside knowledge, skill and production activity.³⁴

4.2.2. Solution

The FBR could consider tax-based incentives through appropriate changes to the Finance Act in order to encouraging thematic investments in social enterprises, linked to improvements in service delivery or locating in economically less developed regions. For example, the Federal Budget 2018-19 allowed permanent income tax exemption to several organisations. An excerpt from budget speech reads, “In recognition of the meritorious services being performed by welfare institutions exemption is proposed for Aziz Tabba Foundation, Saylani welfare international trust and Al-Shifa Eye Hospital”. Given that it is difficult for most NPOs to understand and access or apply for permanent exemption, therefore, it is important to put in place transparent criteria to allow tax facilitation or reduction in tax liability. These criteria may be developed in consultation with social enterprise sector and relevant public bodies and forwarded to the Ministry of Finance for inclusion in Finance Act.

Conventional charity and investments in life insurance are eligible for tax deduction in Pakistan. It will become easier for social enterprises to attract investment if similar tax deductions are allowed to investors wishing to take a risk on social businesses.

There are examples of social entrepreneurs coming from less privileged background, often without formal education. For such enterprising young men and women, tax-related information and forms should be in local and simple language. Both IT-enabled and manual applications may be allowed to ease the entry of such entrepreneurs in the formal segment of the economy.

³³ See Ali (2018).

³⁴ Khan and Ahmed (2014).

FBR may also look into incentivising shareholders of social enterprises. Individual investors wishing to take a risk for social cause may be allowed the same benefits when for example they invest in buying life insurance and claim reduction in tax liability.

Provincial revenue authorities could consider reducing exposure of social enterprises to indirect tax burden. As a starting point, the number of withholding taxes faced by social enterprises may be rationalized. The coordination across federal, provincial and local revenue authorities may be improved to resolve issues related to definition of services rendered by social enterprises and multiplicity of taxes levied on same income tax bases.³⁵

4.3. Access to procurement opportunities

4.3.1. Problems

In India, the Public Procurement Bill 2012 mandates a national requirement of 20 per cent of procurement from micro, small and medium enterprises (MSMEs) and 4% for MSMEs owned by scheduled castes and scheduled tribes. In Pakistan the Public Procurement Rules 2004 and Public Procurement Regulations 2011 do not provide any similar rules. However, several public sector enterprises, Pakistan International Airlines for instance, benefits from public sector procurement preference in Pakistan.

Public sector organisations currently have no requirement by law which binds them to procure a certain percentage of goods or services from social enterprises. The lack of a locally specific definition of social enterprises also makes it harder for a public authority to favour social enterprise.³⁶

Unlike some other developing countries, Pakistan has not subjected foreign investors to source some part of their orders from local SMEs and social enterprises. The lack of a database of social enterprises by sector also doesn't help foreign investors to identify credible enterprises.

4.3.2. Solution

The Public Procurement Regulatory Authority's rules³⁷ may be amended to allow a quota for social

³⁵ See Nazir et al. (2018).

³⁶ It is likely that for this to happen, the government would need to have definition of what is a social enterprise. Until the time this goal is achieved whereby a clear definition is in place, another way to approach this is to introduce social value in procurement, so that rather than prioritizing a particular type of organization, one could encourage government to procure for social value instead regardless of how the enterprise is defined. Other possibility could be to adopt a definition from a peer economy or country with similar per capita income levels.

³⁷ At federal and provincial level.

enterprises in public competitions. Procurement processes could be simplified for social enterprises to reduce costs related to submission of bid documentation. Transparent guidelines in non-technical language could be provided for tender participation and where appropriate, contracts may be reserved for social enterprises. The requirements of minimum number of years of operation to participate in the competition and deposit of earnest money may also be rationalised. Officials at federal and provincial-level procurement authorities will require orientation regarding the contribution of social enterprises. In the short term CSE and relevant local think tanks could be supported to provide these services.

At provincial level, in particular, public sector could experiment to a greater extent with challenge funds and innovation funds which would open up public budgets to greater innovation and enable social enterprises to develop solutions to pressing problems facing public agencies.

Alternatively, the introduction of the idea of *social value* or social clauses in procurement mean that government would not explicitly favour social enterprises but would simply seek to maximise the additional value they can extract from their suppliers, regardless of their status. This would however, benefit social enterprises as well as creating incentives for other businesses to take their social and environmental contributions more seriously.

4.4. Funding and Finance

4.4.1. Problems

Pakistan's social enterprises, irrespective of their organisational model or the sector in which they operate, may seek external finance. Access to start-up finance can be difficult while social enterprises may be perceived to be higher risk lending propositions. Crowd funding is yet to be legalized by relevant institutions including regulatory bodies such as SBP and SECP.

Very few social enterprises in Pakistan have received loans of any type.³⁸ In a recent survey, no female-led social enterprises had received commercial loans – all such loans were received by male-led ventures. The only area that reported access to commercial loans was Punjab province. The majority of equity funding went to social enterprises with leaders aged 25-34. Over a third of social enterprises reported that limited supply of capital is their main financing constraint, followed by access to investors.

It seems that conventional lending institutions including commercial banks have weak information regarding the business models of social enterprises and therefore remain reluctant to lend, particularly at the startup phase. Even if such loan is made available the financial institutions have been reported to demand prohibitively high rates of interest and service charges. On occasions it was revealed that the

³⁸ British Council (2016).

surety, collateral, guarantee and guarantor requirements were very stringent.

There is also an issue with guarantors required for non-profit entities. There are reports where they needed multiple guarantors for a single loan, each providing personal guarantees. Yet different levels of investment require different degrees of collateral; women-led businesses and smaller businesses and different cities have different conditions, so variations to the rules are possible.

The Central Bank has a new financing policy for SMEs, however such a policy for social enterprises does not exist. For example, the burden of documentation required from start-up social enterprises has been reported to be very large. It is likely that barriers may be more about culture, access, transport and education than products. This is an area which would benefit from further research. For example, lack of gender sensitive banking practices in turn results in a cultural barrier in several regions. Banks report that their staff need training to help them work better with female borrowers, for instance.

4.4.2. Solution

SECP may put together a public-private working group to discuss ways to allow crowdfunding. This group could look at the examples and models from other countries. It is proposed that the group may also have representation from social enterprises. The SBP could also help foster a stronger financial marketplace through appropriate prudential regulations that not only allow traditional microfinance institutions (MFIs) to offer tailored financing solutions for social enterprises but also encourage participation of innovative financing models and impact investing from business angels, venture capital, crowdfunding and public private partnerships, for example. The SBP should work together with different stakeholders in the social enterprise sector (including NGOs, INGOs, incubators etc.) to develop financing options.

At the provincial level, for example, the Investment Climate Reform Unit at Punjab could aim to investigate how social enterprises supporting vulnerable communities can be assisted in their funding and finance issues. Similar initiatives could be undertaken by Planning and Development Departments in other provinces.

Targets have also been given to commercial banks for lending to women-led enterprises. Similar targets could be developed for social enterprises. However, at the same time SBP needs to see why commercial banks are unable to meet their women-specific lending targets. For example, one of the ideas could be to expand women-specific lending in more cities. Similarly, if SBP can provide guarantees for women-led enterprises and social enterprises so they don't need to meet the collateral or guarantor conditions.

In any case, banks should monitor and release data on their lending to NPOs, co-operatives and other social enterprises. Further research should be undertaken to understand specific barriers faced by potential borrowers. The government may also like to evaluate why the uptake of Prime Minister's Youth Loan Scheme remained weak. Similarly, other initiatives like National Incubation Centers (NICs) need to be enabled so that they can attract social enterprises other than the conventional MSMEs. Opening up

NICs in second-tier cities should also be a priority for the government.

The central bank's SME financing policy may be amended to benefit social enterprises. For example, the burden of documentation required from startup social enterprises was found enormous in terms of its monetary cost. In several cases even opening of a bank account involved stringent conditions. Commercial banks also reported lack of knowledge regarding business model of social enterprises. Past governments have hinted towards social impact funds, even contemplating on the design of social impact bonds (SIBs), however such intent has not resulted in policy action.³⁹ Officials at commercial banks and MFIs will require orientation regarding the contribution of social enterprises. In the short term CSE and relevant local think tanks could be supported to provide these services. CSE could also work with BoI to see how access to potential investors can be improved.

Any barriers to entry and scale-up of social enterprises in existing laws needs to be removed through amendments to existing laws. As a starting point, prudential regulations at the central bank could ensure that banking sector takes a risk towards social enterprise ventures. This could be achieved by relaxing risk-weighted calculation for lending to social enterprises. Crowd funding platforms can be encouraged by amending Banking Companies Ordinance 1962, Section 27-A, which prohibits from inviting deposits of money from the public for investment in their venture or for borrowing. Similarly, Public Offering Regulations 2017, permits companies to issue shares to the public only where they have been in operation for at least three years and have had a profitable track record for two years. This provision again acts as a barrier to scale up.

4.5. Data and Evidence

4.5.1. Problems

Currently there is no mechanism for coordinating the collection, analysis and dissemination of information on social enterprises in Pakistan and only fragmented information exists within limited resources. The information available is often general in nature and does not always stand up to scrutiny. Without a more evidence-based understanding of this sector, it is difficult for policy makers to formulate appropriate policies and create a responsive legal and regulatory framework.

³⁹ According to Galitopoulou and Noya (2016) "A SIB is an innovative financing mechanism in which governments enter into agreements with social service providers, such as social enterprises or non-profit organisations, and investors to pay for the delivery of pre-defined social outcomes. More precisely, a bond-issuing organisation raises funds from private-sector investors, charities or foundations. These funds are distributed to service providers to cover their operating costs. If the measurable outcomes agreed upfront are achieved, the government or the commissioner proceeds with payments to the bond-issuing organisation or the investors. In financial terms, SIBs arefuture contracts on social outcomes. They are also known as Payment-for-Success bonds (USA) or Pay-for-Benefits bonds (Australia)".

Currently, even the number of NPOs across Pakistan is not known as they are covered by different laws in different provinces. Similarly, there is weak information regarding the community-based entities that continue to function as informal entities.

4.5.2. Solution

There is an underlying need to develop research capacity amongst academic institutions, policy think tanks and relevant public sector bodies to document contribution of social enterprise to the economy, society and national policies. The knowledge regarding the presence and work of these enterprises needs to be regularly updated. The CSE should undertake comprehensive research annually, into the state of the sector: identifying key growth patterns, the changing operating environment, accompanying challenges and barriers. The State of Social Enterprise Survey in the UK can serve as a benchmark for this exercise. Such an exercise will also serve as a mechanism to help understand what is working for social enterprises and what isn't.

4.6. Legal and regulatory issues

4.6.1. Problems

Currently social enterprises, co-operatives, trusts, societies and community businesses are registered under different laws and authorities which in turn may be under varied levels of government, such as federal, provincial or districts. For example, the international NGOs are looked after by the Ministry of Interior. The local NGOs may be registered in different regions but need to report to Economic Affairs Division of the federal government regarding any receipt of funds from abroad. Different forms of social activity have different types of incorporation requirements and renewal conditions. This has not only increased the lack of clarity around social activities in the country but also led to increased transactions costs at the time of incorporation and renewal. These increased transaction costs can be partially attributed to regulatory burden and lack of one-window for such organisations.

4.6.2. Solution

SECP is currently in process of introducing a unified business registry which in turn will bring the record of all business activity across Pakistan under one roof. It is therefore recommended that all organisations providing social services should also be part of this registry database.

The Competition Commission of Pakistan may carry out a detailed regulatory impact assessment (RIA) for social enterprises working in sectors with high social impact. This will allow an assessment of origins of regulatory burden and how much this costs the social enterprises in monetary terms. Such an exercise will go a long way in reducing the cost of doing business for social enterprises.

To help social enterprises meet their needs of imported intermediate inputs, particularly those not

manufactured in Pakistan, FBR may look into statutory regulatory orders (SROs) which keep tariffs and duties high on inputs used in service delivery of health, education and various other socially desired goods. In view of the revenue constraints of the government, the duties may initially be reduced for social enterprises working in marginalized regions.

The RIA should indicate how transactions costs towards incorporation, registration and renewal of social enterprises can be reduced. Similarly costs associated with credit verification and guarantees required by banking and non-banking financial institutions may be reduced. The same assessment will also indicate how social enterprises unable to scale-up due to limiting urban zoning and rental laws can be helped.

4.7. Capacity building and skills, networks and market access

4.7.1. Problems

In the past some business resource centers to help MSMEs were not successful due to lack of sustained funding by the public sector and weak ownership of local community.⁴⁰ Some success stories found in the agriculture sector involved extensive focus group discussions with the communities several times during pre and post-harvest season to understand and address problems at the grassroots level.

Some business associations including several Chambers of Commerce and Industry run toll-free help line to help MSMEs in the country, however no such guidance is available for social entrepreneurs. Physical access to mentors is also not always available and even to make an online or in-person introduction with a potential mentor could require time.

There is no association of social entrepreneurs which can maintain an operational record of social enterprises, develop stories of impact and publicize the hard work being done for welfare of the people of Pakistan. The benefit of such an association would be its ability to communicate on regular basis with the government regarding the challenges to social enterprise development in the country. The challenges need not be necessarily procedural but can also be social and cultural. Similarly, such an association could assist the government in developing a conducive policy for social enterprises, for example, on the lines of SME Financing Policy Provided by the central bank.

4.7.2. Solution

A starting point could be for the government, intermediaries or development partners to support and train those running the toll-free helplines for facilitating SMEs, so that they are more aware of how to extend information to social entrepreneurs and start up or scale social enterprises.

⁴⁰ For example, in the past, some initiatives established by SMEDA could not sustain due to financial constraints.

Second, there is a need to formally create and register an association body of social entrepreneurs. A process to do so is available with the Ministry of Commerce. However, this is an action which social enterprises will have to initiate and apply for. Until this happens, government may take the initiative of positioning CSE at the MoPDR as a membership body of social enterprises.

Third, one may also have to look at the current state of incubator activity which is still concentrated within universities. The social enterprise incubators are very few in number. There is less emphasis currently on the commercialization and sustainability of social businesses. There are very few accelerators and they remain small in size. The complementarity between support organisations is also limited. It is therefore suggested that initiatives such as IGNITE should also focus on establishing incubators and accelerators specific to social enterprises.

5. How are Other Governments Helping Social Enterprises?

There are various ways through which governments around the world are working to support the development of social enterprise. In 2013, India enacted Section 135 of the Indian Companies Act prescribing a mandatory “CSR spend of 2% of average net profits ... during the three immediately preceding financial years” for all companies meeting specified financial thresholds. In other words, companies “having net worth of rupees five billion or more, or turnover of rupees ten billion or more or a net profit of rupees fifty million or more during any financial year” have to spend 2% of average net profits made during the three preceding years on CSR activities.⁴¹ This measure is of course in a broader context of encouraging more resources to be deployed to the social sector but will have positive spillover effects on the work of social enterprises. There are ongoing consultations for having a similar law in Sri Lanka, where a cross government working group on social enterprise development has also been established.⁴²

In Vietnam, article 10 of the Law on Enterprise has three characteristics which distinguish a social enterprise from the conventional company types. These include being established under the Law on Enterprise, with objective to resolve social or environmental issues, and where at least 51 per cent of its profits are re-invested to social and environmental cause.⁴³

In Thailand, the cabinet approved a bill for social enterprise promotion, aiming to help businesses

⁴¹ Ace (2018). Currently however CSR spending in India can only be used to fund incubators at universities. So funding as of now cannot be used to directly support social enterprises. It is however expected that such spending has indirect impact which helps formal and informal social innovations.

⁴² Holmström (2018).

⁴³ New laws promote social enterprises in Viet Nam. Viet Nam News. Accessed on web: <http://vietnamnews.vn/economy/279915/new-laws-promote-social-enterprises-in-viet-nam.html#GUf6MUXrSK50QJl.99>, accessed on December 21, 2018.

which focus on social responsibility. The bill aims to allow social enterprises to enjoy corporate income tax exemption, access to financial aid by the public sector, interest rate subsidy and support with research and development. As a requirement, social enterprises will have to allocate 70 per cent of their profits to the social mission, with the rest 30% of profit distributed as dividend among shareholders. With these incentives Thai government hopes that around 25,000 non-governmental organisations and 80,000 cooperatives could be encouraged to upgrade their business model and transform into a social enterprise.⁴⁴

In Philippines, the Poverty Reduction through Social Entrepreneurship Bill, defines social enterprise as social mission-driven organization that conducts economic activities providing output directly related to their primary mission of improving the well-being of the poor, basic and marginalized sectors and their living environment. The proposed legislative measure mandates the establishment of the National Poverty Reduction through Social Entrepreneurship (PRESENT) Program and makes it a flagship program of the government. This proposed law seeks to provide accessible non-collateralized loans guaranteed by a pool of funds set up for such purpose; insurance system to reduce their vulnerability; capacity development of social entrepreneurs; preferential treatment in government procurement including coverage of their performance bonds; and cash incentives equivalent to at least 25% of the minimum wage for social enterprises employing persons with disability.⁴⁵

In South Korea the Law on the Promotion of Social Entrepreneurship (2007) introduced a legal status for social enterprises. The state run Korea Social Enterprise Promotion Agency (KoSEA) defines social enterprise as “A company or organization which performs business activities while putting priority on the pursuit of social purposes.” The ‘social purpose’ in the definition is explained as: job creation or social services to vulnerable segments of population; development of local community and public interest; and reinvest profits for the realization of social purposes. Similarly the term ‘business activities’ in the definition implies: various types of organization such as non-profit organization, cooperative and companies as stipulated by commercial law; employs paid workers; and profits made by business activities should be more than 30% of the labor cost.⁴⁶

⁴⁴ Draft Bill on Social Firms Approved. Bangkok Post, July 11, 2018. Accessed on web: <https://www.bangkokpost.com/business/news/1501114/draft-bill-on-social-firms-approved>, on December 21, 2018.

⁴⁵ For details see: http://philsocialenterprisenetwork.com/poverty_reduction.html, accessed on December 21, 2018.

⁴⁶ For details see: http://www.socialenterprise.or.kr/eng/info/What_is.do

As a result of the above mentioned clarity provided in the law there are now over 1600 certified social enterprises and in a study by Global Social Enterprise Network and Thomson Reuters Foundation, Korea was ranked the 7th best country in the world to be a social entrepreneur in 2016.⁴⁷

6. Summary of Policy Recommendations

A brief summary of policy recommendations is provided below along with suggestion as to which department could implement this recommendation:

Ministry of Planning, Development & Reform: The Centre for Social Entrepreneurship (CSE) under the Ministry could draft a national strategy for promotion of social enterprise in the country. The primary focus of this strategy should be to offer a road map on ease of doing business and reduction in cost of doing business for social enterprises. The strategy may also spell out what sort of one-window operation can be put in place to reduce the red tape faced at various stages of running the social enterprise. The Ministry may also look in to dedicating separate budget line for providing seed funding to social enterprises, perhaps through challenge fund competitions. The CSE may be capacitated to develop a sector-wise inventory of social enterprises providing details regarding their date of incorporation, region of work, social sector under focus etc. This information may then be made available over an online dashboard and may be regularly updated through internal or external research and survey teams. Until the time there is a formal association body of social enterprises allowed by the Ministry of Commerce, CSE can be positioned as a membership body of social enterprises in Pakistan. This will eventually also contribute towards sustainability of CSE. The CSE may also undertake comprehensive research annually, into the state of the sector: identifying key growth patterns, the changing operating environment, accompanying challenges and barriers. The State of Social Enterprise Survey in the UK can serve as a benchmark for this exercise. CSE may also look into providing orientation regarding contributions of social enterprises to officials of public procurement authorities.

Small and Medium Enterprise Development Authority (SMEDA) may look into how social enterprises can become part of the overall SME development strategy and SME policy. SMEDA in collaboration with the Competition Commission of Pakistan and other relevant institutions may also conduct a regulatory impact assessment and evaluate the (regulatory) burden faced by social enterprises. A directive to relevant departments may then be issued to reduce regulatory burden including fees and permit costs seen in case of incorporation, renewal of licences, taxation, procurement and intellectual property rights regime.

SMEDA may also support and train those running the toll-free helplines for facilitating SMEs, so that they

⁴⁷ For details see: <http://poll2016.trust.org/>

are more aware of how to extend information to social entrepreneurs and start up social enterprises.

Securities & Exchange Commission of Pakistan may constitute a public-private working group , which could work on developing an agreed upon definition of social enterprises in Pakistan.⁴⁸ Examples from other countries (discussed above) may be seen for guidance of the working group. This definition may then be communicated to the relevant institutions including the central bank and FBR so that social enterprises can access facilitation under the central bank SME Financing Policy and other related tax credit or deductions provided by FBR to value social work. A legally spelled out definition can also give social enterprises a separate identity at the time of registration. SECP in collaboration with PCP can also look into putting in place a certification system for social enterprises. Such a certificate can help build credibility in front of potential donors and funders.

SECP also formulates guidelines for CSR. In line with the practice seen in some countries SECP may like to amend these guidelines and incorporate a requirement of a specific percentage of CSR that should go to social enterprises. The company rules may also be amended to include a certain percentage requirement for raw material and intermediate goods demanded by large businesses which could be procured from social enterprises. Some recommendations provided in Board of Investment (BOI's) letter to SECP vide letter no. 1(1)MOS/Chairman/BOI/2018-ECP, dated May 14, 2018 with the subject "Facilitation for Startups" may also be implemented at the earliest. SECP and Pakistan Stock Exchange may also start planning for stock exchanges for social enterprises where people have the choice to buy shares in businesses with social mission.⁴⁹

SECP is currently in process of introducing a unified business registry which in turn will bring the record of all business activity across Pakistan under one roof. It is therefore recommended that all organisations providing social services should also be part of this registry database.

The Company Act 2017 does not fully support for-profit social enterprises. SECP Policy Board may provide necessary guidance to provide facilitation and amendment to the law. Crowd funding platforms can be encouraged by amending Public Offering Regulations 2017, permits companies to issue shares to the public only where they have been in operation for at least three years and have had a profitable track record for two years. This provision again acts as a barrier to scale up.

⁴⁸ The definition issue will continue to come up as and when the government decides to support social enterprises. There is a need to either adopt a definition from other countries or to have a local version. Several countries, for example, continue to follow the UK definition i.e. "social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximize profit for shareholders and owners."

⁴⁹ See Motter (2014).

State Bank of Pakistan may constitute a working group based on experts from financial sector as well as those who are current social entrepreneurs to look into the credit issues faced by social enterprises. The funding issues at both start-up and scale-up stages may be evaluated. Possible inclusion of clause to facilitate social enterprises may be inserted in the SME Finance Policy and prudential regulations. SBP also incentivises lending by commercial banks to SMEs. Similar incentives may be provided to scheduled banks if they take a risk on the ventures of social enterprises. The central bank in collaboration with CSE may also conduct capacity building session for providing greater knowledge to commercial and investment banking institutions on the possible business models of social enterprises. This will overtime improve ability of banks and MFIs to lend to social enterprises.

The procedure for registration of equity with SBP may also be eased for social businesses. Some possible recommendations have already been provided in BOI's letter to SBP vide letter no. 1(1) MOS/Chairman/BOI/2018-SBP, dated May 14, 2018 with the subject "Facilitation of New Companies for Registration of Equity with the SBP". The success of Akhuwat shows confidence in interest-free microfinance. SBP may therefore work with Islamic banks in the country and develop products which could allow these banks to take risk in social ventures.⁵⁰

Prudential regulations at the central bank could ensure that banking sector takes a risk towards social enterprise ventures. This could be achieved by relaxing risk-weighted calculation for lending to social enterprises. Crowd funding platforms can be encouraged by amending Banking Companies Ordinance 1962, Section 27-A, which prohibits from inviting deposits of money from the public for investment in their venture or for borrowing.

Ministry of Commerce support establishment of Chamber of Social Enterprises to act as the apex association of social enterprises in Pakistan. Expediting e-commerce policy can also help bring down the transactions costs faced by several social enterprises in the services sector, particularly those dealing with ICT and related services. The Ministry also needs to evaluate how trade policy can help social enterprises and how more (social) entrepreneurs can become exporters of goods and services. Orientation on social business is required in the offices of TDAP and SMEDA. The Ministry in collaboration with CSE can support these orientation sessions through the Export Development Fund. Both these organisations can then help bring greater visibility to the output of social enterprises.

Federal Board of Revenue and Provincial Tax Departments could consider tax-based incentives linked to improvements in service delivery or locating in economically less developed regions. For example, the Federal Budget 2018-19 allowed permanent income tax exemption to several organisations. An excerpt from budget speech reads "In recognition of the meritorious services being performed by welfare institutions exemption is proposed for Aziz Tabba Foundation, Saylani welfare international trust and Al-

⁵⁰ Ali and Darko (2015).

Shifa Eye Hospital”. Given that it is difficult for most NPOs to understand and access or apply for permanent exemption, a transparent criteria to allow tax facilitation or reduction in liability may be devised in consultation with social enterprise sector and latter forwarded to the Ministry of Finance for inclusion in Finance Act.

Conventional charity and investments in life insurance are eligible for tax deduction in Pakistan. It will become easier for social enterprises to attract investment if similar tax deductions are allowed to investors wishing to take a risk on social businesses.

There are examples of social entrepreneurs coming from less than privileged background, often without formal education. For such enterprising young men and women tax-related information and forms need to be in local and simple language. Both IT-enabled and manual applications may be allowed to ease the entry of such entrepreneurs in the formal segment of the economy.

FBR may also look into incentivising shareholders of social enterprises. Individual investors wishing to take a risk for social cause may be allowed the same benefits when for example they invest in buying life insurance and claim reduction in tax liability.

Provincial revenue authorities could consider reducing exposure of social enterprises to indirect tax burden. As a starting point, the number of withholding taxes faced by social enterprises may be rationalized. The coordination across federal, provincial and local revenue authorities may be improved to resolve issues related to definition of services rendered by social enterprises and multiplicity of taxes levied on same income tax bases.

Higher Education Commission may like to recommend necessary additions to the curriculum so that business and management science faculties include social entrepreneurship as a dedicated three credit hours requirement. Furthermore, audits of Offices of Research, Innovation and Commercialization (ORIC) centres established in universities for entrepreneurship promotion may be conducted with the lens to look into the impact on social enterprise development. HEC may also set up a fund to promote research and outreach aimed at helping social enterprise development in the country.

Ministry of Industries & Production: Pakistan ranks low in the ‘Ease of Doing Business Index’ particularly in the case of manufacturing industries. Some social enterprises who have ventured in manufacturing industries have found unable to sustain. The binding constraints faced by these enterprises may be studied by the Ministry. The upcoming Industrial Policy could address some of these constraints. The policy can also introduce incentives to promote entry of social entrepreneurs in small-scale manufacturing initiatives.

Provincial Planning & Development Departments could establish provincial centres for social enterprise development on the lines of federal government. These centres can then allocate and disburse funding

through Annual Development Programme to promote start-up social enterprises and conduct challenge fund competitions. The provincial planning departments can also liaise with other bodies responsible for SME development in the province to include provisions for social enterprises. These departments should also consider incorporating the role of social enterprises in provincial growth strategies and how these enterprises can help in the pursuit of SDGs.

Board of Investment has the mandate to encourage inflow of foreign direct and portfolio investment in Pakistan. Very little foreign investment has been observed to be directed towards social enterprises. However past surveys have indicated the willingness of Pakistani diaspora abroad to invest in social causes. Currently, no incentive for investing in social enterprises is provided under the investment promotion regime. This may be revisited and appropriate changes to investment policy may be made with a view to encourage investment by Pakistani diaspora in social cause. For example, diaspora investing locally may be allowed tax holiday for a certain time period if a specific percentage of their raw material and intermediate inputs are procured through local social enterprises.

Competition Commission of Pakistan: The Commission may carry out a detailed regulatory impact assessment (RIA) for social enterprises working in sectors with high social impact. This will allow an assessment of origins of regulatory burden and how much this costs the social enterprises in monetary terms. Such an exercise will go a long way in reducing the cost of doing business for social enterprises.

Ministry of Information Technology and Telecommunication supports the National Incubation Centres across Pakistan. The number of start-ups using the facilities of NICs has grown in the recent months. It is therefore proposed that the Ministry through perhaps IGNITE facility could help in establishing dedicated incubator and accelerator programmes for social enterprises. Also, NICs need to be opened in second-tier cities or HEC could provide support to public sector universities for replication of NICs in these cities.

Provincial Government Social Welfare Departments: These offices in all provinces have long term policies and budgets to make interventions which could improve standard of living in some of the poorest of the poor areas of Pakistan. These departments however require an orientation regarding how social enterprises can become their partners in service delivery. They may seek support from CSE to help improve their understanding regarding the value social enterprises could contribute towards provincial social welfare priorities. Overtime these departments could also work with PPRA in devising how some procurement under their jurisdiction could be channelled through social enterprises. The new social welfare policy draft being discussed in Punjab and Sindh can accommodate some of the above mentioned proposals. The foreign funds of non-profit bodies vetted through multiple departments in the federal and provincial governments can be handled through a one-window operation. The requirement of acquiring district specific NOCs can also be revisited. Registered organizations should only require a single NOC to work across the country, as was the practice prior to 2016.

Federal and Provincial Procurement Regulatory Authorities: The procurement rules may be amended to

allow a quota for social enterprises in public competitions. Procurement processes could be simplified for social enterprises to reduce costs related to submission of bid documentation. Transparent guidelines in non-technical language could be provided for tender participation and where appropriate, contracts may be reserved for social enterprises. The requirements of minimum number of years of operation to participate in the competition and deposit of earnest money may also be rationalised. Officials at federal and provincial-level procurement authorities will require orientation regarding the contribution of social enterprises. In the short term CSE and relevant local think tanks could be supported to provide these services. At provincial level, in particular, public sector could experiment to a greater extent with challenge funds and innovation funds which would open up public budgets to greater innovation and enable social enterprises to develop solutions to pressing problems facing public agencies. Alternatively, the introduction of the idea of social value or social clauses in procurement mean that government would not explicitly favour social enterprises but would simply seek to maximise the additional value they can extract from their suppliers, regardless of their status. This would however, benefit social enterprises as well as creating incentives for other businesses to take their social and environmental contributions more seriously.

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