

SOCIAL ENTERPRISE LANDSCAPE IN PAKISTAN



EXECUTIVE SUMMARY

This study attempts to provide a broad understanding of the emerging SE sector in Pakistan, alongside the policy and regulatory environment. It has been informed by interviews, focus group discussions and an extensive literature review of international and national research studies. It reviews the context in which SEs have evolved in Pakistan, their ways of addressing different economic, social and environmental needs, the key barriers and enablers to SE development, and explores opportunities on how various stakeholders might effectively engage and develop the regulatory and policy framework for SEs in Pakistan.

SUSTAINABLE DEVELOPMENT POLICY INSTITUTE



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- Competition Commission of Pakistan
- Pakistan Federal Board of Revenue
- Pakistan Institute of Business Administration
- Pakistan Poverty Alleviation Fund
- Pakistan Small and Medium Enterprise Development Authority

The research team included Agha Yasir, Vaqar Ahmed, Shehryar Khan, Muhammad Adnan, Syed Shujaat Ahmed, Asif Javed, Muhammad Awais Omer, Wasim Saleem, Irfan Qureshi, Fazal Hussain Bukhari, Azizullah Khan Kakar, and Danish Hassan. For further detail or feedback, please contact vaqar@sdpi.org.

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ACRONYMS

A

AIM	Agensi Inovasi Malaysia
AKRSP	Aga Khan Rural Support

B

BC	British Council
BIC	Business Incubation Centre

C

CBO	Community Based Organisation
CCI	Council of Common Interests
CCP	Competition Commission of Pakistan
CED	Centre for Entrepreneurial Development
CFI	Conventional Financial Institutions
CGAP	Consultative Group to Assist the Poor
CSO	Community Service Organisation
CSE	Centre for Social Entrepreneurship
CSR	Corporate Social Responsibility

E

ECC	Economic Coordination Committee
EELY	Enhanced Employability and Leadership for Youth
EIU	Economic Intelligence Unit

F

FATA	Federally Administered Tribal Areas
FBR	Federal Board of Revenue
FIND	Foundation for Innovative New Diagnostics
FMCG	Fast moving consumer goods
FIT	Fund for Innovative Training

G

GAIN	Global Alliance for Improved Nutrition
GAVI	Global Alliance for Vaccines and Immunisation
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GoP	Government of Pakistan
GVEP	Global Village Energy Partnership

H

HEC	Higher Education Commission
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I

IBA	Institute of Business Administration
ICT	Information and Communications Technology
INGO	International Non Governmental Organisation
IP	Intellectual Property
IPO	Intellectual Property Organisation

K

KP	Khyber Pakhtunkhwa
KPIs	Key Performance Indicators

L

LFN	Locally Funded NGOs
LUMS	Lahore University of Management Sciences

M

MDGs	Millennium Development Goals
MFB	Micro Finance Banks
MFI	Microfinance Institution
MIT	Massachusetts Institute of Technology
MMV	Medicines for Malaria Venture
MSE	Micro and Small Enterprises
MSME	Micro, Small and Medium Enterprises

ACRONYMS

N

NCHD	National Commission for Human Development
NGO	Non-Governmental Organisation
NOC	No Objection Certificate
NPO	Non-Profit Organisation

O

ORIC	Office of Research, Innovation & Commercialization
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P

P&D	Planning and Development
PC	Planning Commission
PEP	Promotion of Education in Pakistan Foundation
PKR	Pakistani Rupee
PMN	Pakistan Microfinance Network
PPAF	Pakistan Poverty Alleviation Fund
PPP	Public Private Partnership
PPRA	Public Procurement Regulatory Authority
PRSP	Poverty Reduction Strategy Papers
PSPP	Public Social Private Partnership

R

R&D	Research & Development
RSP	Rural Support Programme

S

SBIR	Small Business Innovation Research Programme
SDGs	Social Development Goals
SDPI	Sustainable Development Policy Institute
SE	Social Enterprise
SECP	Securities and Exchange Commission of Pakistan
SEED	Sustainable Energy and Economic Development
SEZ	Special Economic Zone

SIL	Social Innovation Lab
SIP	Social Investment Package
SITR	Social Investment Tax Relief
SME	Small and Medium Enterprise
SMEDA	Small and Medium Enterprise Development Authority
SPO	Social Purpose Organisation
SYC	Show Your Creativity

T

TMR	Trade Marks Registry
TRIPs	Trade-Related Aspects of Intellectual Property Rights
TVET	Technical Vocational Education and Training

U

UBL	United Bank Limited
UK	United Kingdom
UKAS	Unit Kerjasama Awam Swasta
UNCTAD	United Nations Conference on Trade and Development
USAID	United States Agency for International Development
USD	United States Dollar

V

VC	Venture Capital
VSWA	Voluntary Social Welfare Agencies

W

WBIC	Women Business Incubation Centre
WTO	World Trade Organisation
WB	World Bank

Y

YES	Youth Engagement Services Network Pakistan
YSEA	Youth Social Enterprise Award

EXECUTIVE SUMMARY

Social enterprises (SEs) in Pakistan have evolved out of societal imperatives, based on the unmet demands of the local communities. The country's SE ecosystem is in its nascent stages but with 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. SEs can offer viable models of service delivery, with the potential to assist Pakistan towards the achievement of the sustainable development goals (SDGs). SEs can also offer economic empowerment, innovation and access to new markets at the bottom of the pyramid.¹

This study attempts to provide a broad understanding of the emerging SE sector in Pakistan, alongside the policy and regulatory environment. It has been informed by interviews, focus group discussions and an extensive literature review of international and national research studies. It reviews the context in which SEs have evolved in Pakistan, their ways of addressing different economic, social and environmental needs, the key barriers and enablers to SE development, and explores opportunities on how various stakeholders might effectively engage and develop the regulatory and policy framework for SEs in Pakistan.

There is no specific policy directed at SEs in Pakistan. However, there are policies from a number of government bodies that are relevant to SEs. Policies relating to NGOs, SMEs and small scale industries for example, all potentially have an impact on SEs.



Neither is there a bespoke legal form specifically for SEs in Pakistan. Today, SEs in Pakistan take on a variety of legal forms, which in turn influence their character and ability to achieve impact.

A consensus around our proposed recommendations has emerged from consultative sessions hosted by SDPI and the British Council. Our set of recommendations includes

- the need to recognise and identify the vibrant and growing SE sector.
- effort required to put SEs on policymakers' radar and a targeted set of policies as part of the annual federal and provincial budgets, trade, industrial and investment policies.
- building the research and evidence base vis-à-vis the scale and scope of social enterprises in Pakistan
- capacity building for social enterprises in terms of scalability, legal and statutory compliance, financial management, and human resource, for example
- ensuring a fair taxation playing field for social enterprises
- measures to ensure improved access to finance and access to public procurement

WE HAVE ALSO HIGHLIGHTED OTHER GAPS TO BE FURTHER EXPLORED BY RELEVANT HIGHER EDUCATION, PLANNING, TRADE AND BUSINESS INSTITUTIONS TO ESTABLISH A SUPPORTIVE ECOSYSTEM FOR SEs ACROSS PAKISTAN.

SUMMARY OF RECOMMENDATIONS

RECOMMENDATIONS²

IDENTITY AND RECOGNITION

- The Centre for Social Entrepreneurship (CSE) established by the Planning Commission needs to formulate, through consensus, a broad definition of SE that is easy to interpret within the Pakistan context. This definition may be communicated to SECP so that SE-specific company rules can be framed.

SOCIAL ENTERPRISE POLICY

- The CSE should develop a comprehensive and cohesive SE policy strategy
- The CSE should work with SECP to develop an improved legal framework for SEs, giving them a (legal) identity,
- The CSE should work with various policymakers at e.g. trade policy at Ministry of Commerce, sectoral policies at Ministry of Industries and Production, investment framework at Board of Investment etc. and on the country's development agenda (Pakistan Vision 2025).
- CSE should work with provincial Planning & Development Departments to embed the inclusion of SEs in province-specific growth strategies.

THE EVIDENCE BASE

- The CSE should develop its research capacity to regularly monitor, evaluate and provide feedback on the performance of SEs, and to improve data and the evidence base on SEs.³

TAXATION

- CSE should collaborate with the FBR to devise an effective and fair tax regime for SEs. We recommend a joint Planning Commission – FBR working group in which representatives of SEs may be co-opted. As part of this proposed working group, provincial revenue authorities may be invited in order to resolve any double taxation issues faced by SEs.

ACCESS TO PUBLIC PROCUREMENT

- SECP's legal framework should include SEs in procurement competitions by the public sector. PPRA should be approached by CSE to amend the rules and introduce a minimum quota for SEs, at least for projects with social impact.
- Community-benefit or social value clauses should be included as performance conditions.

CAPACITY BUILDING

- PPAF and SMEDA should lead the capacity building for SEs in areas such as R&D, business planning, sustainability, scalability, legal and statutory compliance, financial management and human resource development
- The Trade Development Authority of Pakistan in collaboration with provincial industries departments should support SEs to participate in regional and global value chains
- The Ministry of National Food Security & Research should support capacity building in the case of agricultural SEs in collaboration with provincial business development arms of the government e.g. Punjab Agriculture & Meat Company and Sindh Agriculture Growth Project.

ACCESS TO FINANCE

- CSE should work with SBP to develop a financial framework and prudential regulations that are geared towards meeting the specific funding needs of SEs. SBP should help to develop a financial marketplace that allows MFIs to offer tailored financing solutions to SEs.
- CSE should make recommendations to SBP to encourage the participation of innovative financing models and impact investment from business angels, venture capital, crowdfunding and public private partnerships (PPPs).



² In all our recommendations there is an overarching advice to engage with civil society, private sector, local communities etc. in the consultation processes.

³ In the UK, questions around the SE sector have been added to the annual survey of SMEs.

We also make further recommendations with regard to the following stakeholders to promote the development of SEs.

STAKE HOLDERS	RECOMMENDATIONS
Planning Commission's CSE	<ul style="list-style-type: none"> In line with Vision 2025, establish a competitive R&D fund for innovative products and services, particularly in start-up and early-stage SEs Convene a working group between government, financial institutions and the private sector that seek blended social and financial returns on investments. The group's recommendations should feed into the SBP prudential regulations proposed for SEs suggested above. Convene an inter-provincial co-ordination group for subsidised infrastructure support (e.g. land, building and ICT services) The inclusion of SEs in public sector procurement competitions and customised training programmes through organizations such as SMEDA and PPAF.
SECP	<ul style="list-style-type: none"> Work with the Planning Commission's CSE and the SE community to provide a set of company rules that group together various organisation models and business structures under which SEs operate. Directives to the FBR and provincial revenue authorities regarding the tax registration of SEs. Measures to rationalise costs and minimise time of registration for SEs.
FBR and provincial revenue authorities	<ul style="list-style-type: none"> Work with the Planning Commission's CSE to introduce SE-specific tax laws and incentives to help build and grow SEs. SEs contributing to capacity building or export receipts should be allowed sales tax rebates similar to the terms awarded to other mainstream export-oriented sectors. CSE should form a tax working group comprising representatives from the FBR and provincial authorities to reduce the tax related transaction and compliance costs and remove any double taxation. A one-time customs duty exemption on any plant and machinery import by SEs. The provincial revenue authorities should consider a reduction in general sales tax on services provided by SEs.
SBP	<ul style="list-style-type: none"> Develop a financial framework including prudential regulations geared towards meeting specific needs of SEs. Work with the Planning Commission's CSE to improve access to finance by making microfinance laws more conducive for SEs. Ensure a financial marketplace that allows MFIs to offer tailored financing solutions to SEs. A minimum lending quota for SEs may be established. Through appropriate amendment in banking regulations, encourage mainstream financial institutions to participate in innovative financing models and impact investing, including business angels, venture capital, crowdfunding and PPPs

STAKE HOLDERS	RECOMMENDATIONS
Competition Commission of Pakistan	<ul style="list-style-type: none"> Conduct a detailed regulatory impact assessment focusing on key barriers that hinder the expansion of SEs, prevent them from exporting and stifle product sophistication and diversification. Regulation to remove unhealthy and anticompetitive behaviour that harms producer and consumer welfare. Give directions to relevant government institutions regarding harmonisation of policy and regulatory regimes faced by SEs across the provinces.
Trade Development Authority of Pakistan	<ul style="list-style-type: none"> Conduct a detailed study on how the export competitiveness of SEs can be enhanced and on how SEs in other countries were enabled to grow and become part of regional and global value chains Develop and enhance market access for SEs, including their inclusion in various trade-related facilitation measures and support services, such as through the Strategic Trade Policy Framework, formulated by the Ministry of Commerce. Host foreign exhibitions showcasing products and services of SEs. The Ministry of Commerce may access Export Development Fund to allow subsidized rates to the interested SEs (for logistics and stall costs).
Benazir Income Support Programme	<ul style="list-style-type: none"> Create linkages between national and provincial youth programmes with SEs to enhance employment potential of young people, particularly women. Increase the size and number of grants for scalable SE initiatives that have the potential to provide long term jobs. Make detailed data of BISP beneficiaries open and available to SEs and a pool for identifying innovative projects that can be funded to grow into SEs themselves. Identify areas where SEs can partner with BISP to offer solutions, such as when introducing the Benazir Smart Card and Mobile Phone Banking.
Benazir Income Support Programme British Council and International Partners	<ul style="list-style-type: none"> Provide support to the Planning Commission and provincial planning and development departments to develop SE support systems Provide support to social entrepreneurs and SEs to develop, grow and scale through training, mentoring, consultancy and access to investment, through PPAF and SMEDA. British Council and public sector TVET institutions can also help in the design and implementation training, and training of trainers. Support social entrepreneurship to become embedded in the curricula and ethos of higher education institutions—promote strategic research and collaboration opportunities as well in schools. Embed SE approaches in local civil society organisations, such as through trainings to CSOs. Persuade other multilateral and bilateral donors to streamline medium to longer term support for SEs.

STAKE HOLDERS**RECOMMENDATIONS**

Higher Education Commissions (Federal & Provincial)

- Make resources available to faculty members in public sector universities for developing SE initiatives at local level.
- Support the diffusion and scale up of formal and informal innovations in universities, such as through funding in rural areas.
- Business schools should be host an annual conference of SEs to share experience and showcase their work.
- Support, through financial and technical assistance, public sector universities to formally initiate an undergraduate major in SEs

Public Sector Universities

- Integrate university-level volunteering, internship and work placement programmes with local SEs.
- Host orientation and job fairs to give students greater awareness of SEs.
- Broaden the existing ORIC and business incubation programmes to include SE start up initiatives.
- Conduct research and evaluation on the work of local SEs, for example, documenting success determinants.

Chambers of Commerce and other Private Sector Associations

- The Federation of Chambers of Commerce and Industries should develop a private sector manifesto for the promotion of SEs.
- Offer creative forms of support and sponsorship for SEs within their own business mandate (i.e. exhibitions, marketing and advertising campaigns)
- Share executive talent and provide mentoring to social enterprises
- Encourage executive leadership to provide expert advice and stewardship to SEs.
- Purchase products and services of SEs in their business operations and value chain

Civil Society Organisations

- Partner with SEs to deliver innovative solutions to meet societal needs; allowing SEs to use existing networks to provide market access and enhance outreach and help SEs identify gaps in public sector service delivery.
- Bring in knowledge and experience to shape the plans of SEs and partner with SEs when rolling out new plans and programmes at the grass root level.
- Provide education, training, and networking opportunities to SEs.
- Amplify the voice of SEs especially on forums which are usually inaccessible to SEs
- Hold the government, private sector and SEs accountable for actions to support SEs.
- Raise awareness of solutions offered by SEs within the community; provide credibility and overcome public scepticism.

STAKE HOLDERS**RECOMMENDATIONS**

Social Enterprises

- Organize through a national association that can be a voice for the sector, for example in with the government.
- Work with electronic, print and social media leaders to seek ways in which SEs can secure greater public awareness.
- Work with business schools to embed SE in the curriculum and an undergraduate major in SEs.



1. INTRODUCTION



PAKISTAN STANDS AT A CRITICAL JUNCTURE ALONG ITS JOURNEY TOWARD SOCIO-ECONOMIC AND POLITICAL TRANSFORMATION.

The Government remains committed to continuing reforms and the public sector continues to play a critical role in creating an enabling environment for strong and sustained economic growth and poverty reduction. Pakistan Vision 2025 envisages the private sector becoming the engine of economic growth innovation over the coming years.

Although recent economic advances have been significant, 53 million Pakistanis are still classified as living in poverty.⁴ Unemployment continues to blight the country's labour force of 61.4 million⁵ and is a particular issue for young people between the ages of 20-34.⁶ Additional demographic challenges, such as high population growth and rising rural-urban migration, as well as gender inequality and human-made and natural disasters are putting increasing pressure on the country's labour market. Compounding these challenges is the fluid security situation as well as environmental challenges.

The growth of civil society organizations (CSOs), including SEs, in Pakistan has helped support the limited capacity of the public sector.⁷ These organisations are often providing market-based solutions to social problems and can bring lower transactions costs than the public sector.⁸

Focusing on social impact rather than the need to maximise profits, SEs in Pakistan base their

businesses on principles of mutualism and participation, targeting the well-being and needs of their users, local communities and the environment in which they operate.⁹ SEs in Pakistan operate across a range of economic sectors, engaging in activities as diverse as health, education, energy, housing, retail, trade, and light manufacturing.

SEs can help realise the 'demographic dividend' and support local economic and social development. SEs have the potential to be a key part of the solution to the challenges which Pakistan faces, by offering sustainable opportunities for the economic engagement of Pakistan's youth, connecting them with society in meaningful and innovative ways. SEs can help create assets in deprived and marginalised communities, whilst building the skills and confidence of young people and empowering them to lead independent lives.

We believe that the potential of SEs calls for further bespoke support for this sector through policy and legislation, through greater understanding and by removing barriers to the development of SEs. Engaging the government and other institutional stakeholders can help increase the recognition, and the positive contribution of SEs to the socio-economic landscape of the country.

⁴ Ahmed, A. (2016) Govt's new poverty line to classify up to 59m as poor: Planning Commission report. Daily DAWN. May 31, 2016. <http://www.dawn.com/news/1261693> accessed on August 20, 2016.

⁵ Pakistan Bureau of Statistics, Government of Pakistan, "Labour Force Survey 2014-15 (Annual Report)" (2015) <<http://www.pbs.gov.pk/content/labour-force-survey-2014-15-annual-report>> accessed 22 February 2016. Abbasi, A. (2016) states: 'As such, by the end of 2014-15, the number of unemployed workers was 3.6 million. However, if the number of discouraged workers is included and the normal increase in labour force allowed for, the total number of unemployed rises to 5.3 million'.

⁶ Pakistan Bureau of Statistics, Government of Pakistan (2015)

⁷ See Ahmed (2015b)

⁸ Ahmed, V. (2016)

⁹ Jon Woolfson, "HM Government Consultation On The Regional Growth Fund" (Social Enterprise UK 2010)

<http://www.socialenterprise.org.uk/uploads/editor/files/Policy/Consultations/regional_growth_fund_consultation_sec_response_sept_2010.pdf> accessed 22 February 2016

2. METHODOLOGY

This research sets out to map the SE policy landscape in Pakistan and assist the Government in developing a SE legislative, regulatory and policy framework.

In our initial round, almost a dozen key informant interviews were conducted. Respondents were Chief Executive Officers or the Managing Directors of social enterprises who provided insight from various perspectives to identify common themes and patterns within Pakistan's SE landscape.

WE DEVELOPED A MULTI-METHOD RESEARCH STRATEGY. THE FIRST STEP WAS AN EXTENSIVE LITERATURE REVIEW OF INTERNATIONAL AND NATIONAL PUBLICATIONS ON SEs, THEORETICAL FRAMEWORKS AND MODELS IN PRACTICE. THIS PROVIDED SUPPORT FOR EXPANDING THE TEAM'S CONCEPTUAL UNDERSTANDING OF SEs AND THEIR WORK IN PAKISTAN.

In our second round, 235 semi-structured interviews were conducted with senior management at SEs. A hundred of these SEs were from the informal sector. The cities in which these interviews were conducted included Faisalabad, Lahore, Karachi, Peshawar, Quetta and Rawalpindi. A long list was initially generated from records of SEs held by NRSP, PPAF, SECP and SMEDA. We then focused on respondents which met our criteria, largely relying on the management's own characterisation of their work and if they strongly felt that their work could be classified as a social enterprise. This information was usually available from the description of their work in registration documents, prospectus, brochures and websites.¹⁰

In the final phase of this study, a two-day national policy symposium was organised by SDPI, the Planning Commission and the British Council to discuss our initial findings and to hear from a wider spectrum of stakeholders. The responses from the symposium were helpful in validating our qualitative results. The symposium was attended by the senior political leaders, members of parliament, relevant civil servants, sector experts, academia and media representatives. The findings of our survey were corroborated with various experts and stakeholders. This final report has benefited from the valuable comments and deliberations from the symposium.

This was followed by interviews with experts and analysts in the SE sector. These in-depth interviews confirmed the need for greater data and evidence and identified research questions for further exploration, key challenges and policy gaps at federal, provincial and local level.

¹⁰ In the identification of informal SEs, we relied on the UK government's definition i.e. SE may be '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 maximise profit for shareholders and owners'.

3. SE LANDSCAPE IN PAKISTAN

COUNTRY OVERVIEW

Located at the crossroads of South Asia, Central Asia, China and Middle East, Pakistan enjoys strategic potential for becoming a regional hub of commercial and transit trade. It offers untapped growth potential from its large and diverse resources, and a growing working-age population (Table 1).

However, to realise the demographic dividend, and accelerate growth and poverty reduction, it must act today to institutionalise the right set of policies to create a conducive environment for sustainable development - the enhancement of peace, social justice and well-being within and across generations.

PAKISTAN: KEY SOCIAL AND ECONOMIC FACTS

Table 1: Overview of Pakistan's Economic and Social Structure

Area	770,880 sq. km ¹¹
Population	191.72 Million ¹² (Urban 75.19 Million, Rural 116.52 Million)
Labour Force	61.04 Million ¹³ (Male 46.38 Million, Female 14.66 Million)
Main Economic Sectors (% of GDP)	Agriculture (20.88%), Industry (20.30%), Services (58.82%) ¹⁴
Population Aged under 24	54.29% (Economically active populated aged 15 to 59 years is 60.21%)
Population below poverty line	60.19% ¹⁵ (below USD 2 per day)
Major cities	Islamabad (Federal Capital), Karachi, Lahore, Rawalpindi, Faisalabad, Multan, Hyderabad, Gujranwala, Peshawar, Quetta
GDP, annual real growth rates, %	4.2% ¹⁶
Government budget	PKR 4,451.3 billion ¹⁷
MSMEs as proportion of GDP etc	30% of GDP, 25% of Export Earnings, 80% of Non Agri Labour Force ¹⁸
Religions	Islam, Christianity, Hinduism
Literacy rate	58% ¹⁹

Source: Pakistan Economic Survey. Some other specific publications mentioned in footnotes.

¹¹ World Development Indicators.

¹² Pakistan Bureau of Statistics, Government of Pakistan, "Labour Force Survey 2014-15 (Annual Report)" (2015) <<http://www.pbs.gov.pk/content/labour-force-survey-2014-15-annual-report>> accessed 22 February 2016.

¹³ Pakistan Bureau of Statistics, Government of Pakistan (2015)

¹⁴ Ministry of Finance, Government of Pakistan, "Pakistan Economic Survey 2014-15" (2015) <http://www.finance.gov.pk/survey_1415.html> accessed 22 February 2016.

¹⁵ Ministry of Finance, Government of Pakistan, "Pakistan Economic Survey 2013-14" (2014) <http://finance.gov.pk/survey_1314.html> accessed 22 February 2016; also see (Ahmed 2016).

¹⁶ Ministry of Finance, Government of Pakistan (2015)

¹⁷ Ministry of Finance, Government of Pakistan, "Federal Budget 2015-16: Budget In Brief" (2015).

¹⁸ Ali Akbar Ghangro and Nafey Khan, "Estimating Potential Market For Microcredit In Pakistan" (Pakistan Microfinance Network 2015) <<http://www.pmn.org.pk/assets/articles/67bf9abc0a78d8557806bd0cbad2b5c6.pdf>> accessed 22 February 2016.

¹⁹ Ministry of Finance, Government of Pakistan, "Pakistan Economic Survey 2014-15" (2015) <http://www.finance.gov.pk/survey_1415.html> accessed 22 February 2016.

DEFINING SOCIAL ENTERPRISES

This study avoided being prescriptive in its definition of SEs. The sector is emerging and for many, it is important that in its nascent stages an inclusive and open approach is taken. The research team focused on observing how SE in Pakistan is understood by various stakeholders. Figure 1 suggests the role that social enterprises play in society.

Where we found respondents or stakeholders to be less clear regarding their understanding of SEs, the team used the UK Government's definition as a starting point for our discussion. The UK Government states that a 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 maximise profit for shareholders and owners'.

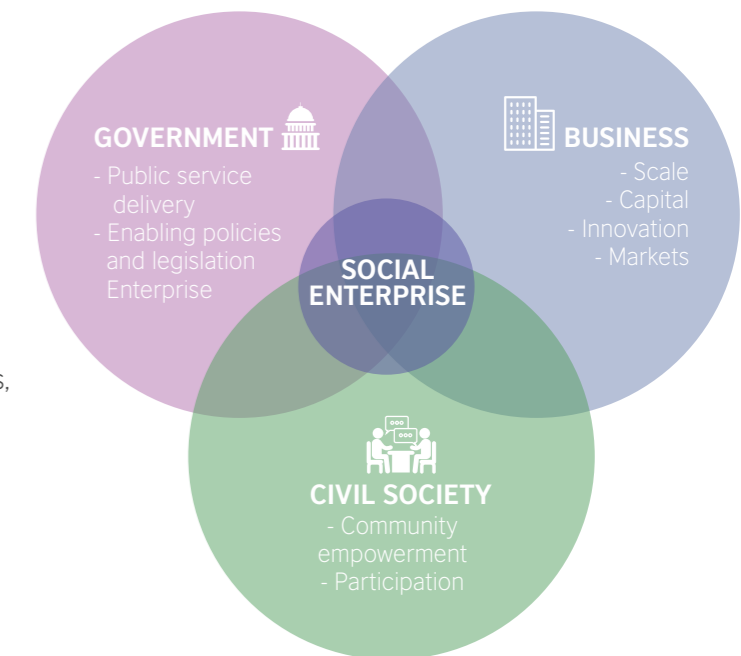


FIGURE 1: ROLE OF SOCIAL ENTERPRISE IN SOCIETY

For more on social enterprise, the British Council provide a useful starting point here - <https://www.britishcouncil.org/society/social-enterprise>

UNDERSTANDING THE SOCIAL ENTERPRISE ECOSYSTEM

'Social Enterprise' as an identifiable sector in Pakistan is in nascent stages. However, individual organisations that work primarily for the public interest through commercial activities have existed for a long time across the country, often serving underserved markets. There is a diverse spectrum of SEs in Pakistan with different legal forms, differing degrees of market orientation and working towards various social – or environmental – missions. They range from dairy farms to educational hubs to micro drip irrigation. Some have potential to achieve sustainable growth and social impact, with a few already attracting impact investors and business angels.²⁰ The SE ecosystem in Pakistan consists of various actors including social entrepreneurs, NGOs, government bodies, academic institutions, financial institutions,

capacity building organisations, think tanks and others.

The SE ecosystem in Pakistan comprises a number of domains, each explored below:

- Government bodies, namely the CSE and the Small and Medium Enterprise Development Authority
- Microfinance institutions
- Civil society organisations
- Local and international support organisations
- The private sector
- Investors, such as angels and venture capitalists
- Business incubators and accelerators

²⁰ Priya Shah and Shailabh Shubhisham, "Social Entrepreneurship In Pakistan: Unlocking Innovation Through Enterprise Incubation" (EPG Economic and Strategy Consulting 2013) <<http://www.economicpolicygroup.com/wp-content/uploads/downloads/2013/02/EPG-Social-Entrepreneurship-in-Pakistan-Unlocking-Innovation-February-20131.pdf>> accessed 22 February 2016.

GOVERNMENT

CENTRE FOR SOCIAL ENTREPRENEURSHIP:

The Centre for Social Entrepreneurship (CSE) was established in 2015 by the Planning Commission to promote innovation and enterprise development for addressing social issues. The Centre aims to serve as a specialist agency for the promotion of social entrepreneurship in Pakistan. It is important to note that the promotion of social entrepreneurship is different from the promotion of social enterprise, nevertheless, the promotion of social entrepreneurship will strongly support the development of social enterprise. The Centre has four main objectives

1.

Promoting and selecting social entrepreneurs – by holding nationwide competitions across universities in Pakistan. Every year, the top 25 innovative ideas will be selected and provided a seed grant of PKR 500,000 each. Additional support, in the form of skills training and advice, is given to the aspiring social entrepreneurs to make their ideas a success.

2.

Establishing an Accelerator/Incubator/Special Purpose Vehicle – with two four-month cycles every year, with 4 to 5 incubations in each cycle. Winners of the incubator awards will benefit from strong networks with the private, social and development sectors, and receive guidance, support and resources.

3.

Making the Accelerator/Incubator/Special Purpose Vehicle an autonomous entity – by developing a financial model that ensures its long-term sustainability.

4.

Conducting research – to generate research to be utilised by the Planning Commission to develop ideas and formulate strategies to benefit the growth of social entrepreneurship and make policy recommendations to the Government of Pakistan.

MICROFINANCE INSTITUTIONS:

Over a period of three decades, the microfinance industry in Pakistan has grown considerably to help combat financial exclusion and poverty by increasing the access to and the availability of, finance to vulnerable groups. As of September 2015, there are approximately 3.63 million active borrowers in Pakistan accessing loans worth PKR84.9 billion with an average loan size of PKR 33,374.²¹

Initially concentrated with NGO-MFIs and RSPs, the space has evolved to include regulated MFBs, CFIs and NGOs (including co-operatives).

However, by international benchmarks, a low penetration rate of 13.3%²² shows MFIs still have the potential to target not only the marginally poor but also the very poor.²³

The Microfinance industry currently has around 50 corporate entities²⁴ regulated by the State Bank of Pakistan (SBP). The Pakistan Microfinance Network (PMN) is an association of MFIs, MFBs, NGOs and RSPs, which functions as a key player in creating an enabling environment for microfinance, undertaking capacity building, information sharing and stakeholder engagement.

While MFIs can serve as an important tool for nurturing and fostering SEs, their own sustainability issues can limit their risk appetite and they may tend to lend to less poor segments of society. If microfinance is to support SE, mechanisms may be required to focus more on the promotion of innovation and competitiveness and less on debt repayment.

Branchless banking in Pakistan is one of the fastest developing markets contributing significantly to the achievement of universal financial inclusion.²⁵ With the launch of the Branchless Banking Regulation in April 2008, the State Bank of Pakistan has been trying to bring innovative banking solutions to the otherwise 'unbanked' lower income groups and rural population.²⁶

Operating outside the conventional banks, branchless banking relies on information and communication technology for transactions that are carried out via mobile or through nearby retail agents. These services cover deposits, withdrawals, inward and outward remittances, utility bill payments and payments for products/services to vendors. The market, dominated primarily by Easypaisa (by Tameer Microfinance Bank and Telenor) and Omni (by UBL), has made it easier to undertake economic activity in otherwise untapped segments of society. Despite security concerns, including money laundering and terrorism financing, the market has potential for SEs to capitalise on, as is suggested by the early user adoption and use rates.²⁷



²⁵ State Bank of Pakistan, Government of Pakistan, "Quarterly Branchless Banking Newsletter" (Agricultural Credit & Microfinance Department 2015).

²⁶ Muhammad Adil Mulki and Syed Adnan Rizvi, "Branchless Banking: Branching Out" DAWN (2014).

²⁷ Chris Bold, "Branchless Banking In Pakistan: A Laboratory For Innovation" (CGAP 2011)

<<http://www.cgap.org/sites/default/files/CGAP-Brief-Branchless-Banking-in-Pakistan-A-Laboratory-for-Innovation-Oct-2011.pdf>> accessed 22 February 2016

²¹ Pakistan Microfinance Network, "Microwatch" (2015) <<http://www.microfinanceconnect.info/assets/articles/3af7ddbce3065d4e229e47172818d79a.pdf>> accessed 22 February 2016.

²² Pakistan Microfinance Network, "Microwatch" (2015)

²³ International Labour Organisation, "Towards Achieving Social And Financial Sustainability: A Study On The Performance Of Microfinance In Pakistan" (International Labour Organisation 2009) <http://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/---ilo-islamabad/documents/publication/wcms_143165.pdf> accessed 22 February 2016.

²⁴ Mixmarket.org, "MFIs In Pakistan | Microfinance Pakistan" (2016) <<http://www.mixmarket.org/mfi/country/Pakistan>> accessed 22 February 2016.

SMALL AND MEDIUM ENTERPRISE DEVELOPMENT AUTHORITY:

Established in 1998 by the Government of Pakistan, SMEDA has played a pivotal role in identifying, mobilising and capacity building of SMEs across the country. The primary role of SMEDA is to create an enabling environment for the growth of the SME sector in Pakistan through informed policy making, business development services, facilitation in acquiring finance, knowledge sharing, training, industry support programmes and technical services. It is also involved in helping SMEs obtain various certifications for their products and processes to enhance the competitiveness of the sector. The wide range of services offered by SMEDA could play an important part in building the capacity of SEs, provided that these can be aligned with SE's unique need to blend commercial and social missions.

THE WOMEN BUSINESS INCUBATION CENTRE (WBIC), ESTABLISHED BY SMEDA SPECIFICALLY TARGETS WOMEN ENTREPRENEURS BY PROVIDING TRAINING PROGRAMMES TO EXISTING AND NEW BUSINESSES OWNED AND MANAGED BY WOMEN.



CIVIL SOCIETY ORGANISATIONS:

Pakistan's CSOs comprise of NGOs, CBOs, Trade Unions, Cultural Groups, bar associations and informal platforms that total between 10,000 to 12,000 as active and registered, while this could rise to as high as 60,000 if unregistered groups are counted.²⁸ The largest concentration of CSOs is in the education sector, with official estimates showing that the overall sector employs a total work force of around 264,000 and an additional 212,000 volunteers.²⁹

With 87% of the funding coming from indigenous sources, the Locally Funded NGOs (LFNs) form the largest segment of NGOs in Pakistan.³⁰ Almost half of LFNs generate some revenue through fee and user charges. However, there are no statistics on how many identify themselves as SEs. It may be that some are actually working as SEs yet are unaware of the concept itself.³¹ These CSOs could be an integral part of the SE landscape as they are well situated to respond to the needs of the local communities in which they operate.

LOCAL AND INTERNATIONAL SUPPORT ORGANISATIONS:

Other local and international organisations are making a proactive contribution to the SE sector by supporting, sponsoring, collaborating and partnering with SEs. Ashoka, for example, has been playing a leading role in the individual and organisational development of SEs in Pakistan. Since its inception in 1997, 47 Ashoka fellows have been supported in the field of education, health, environment, human rights, civic engagement and finance.³²

The Acumen Fund has also been serving low-income groups including social enterprises since 2002. With an investment of USD 14.6 million in affordable housing, microfinance, safe drinking water, energy, livestock and micro drip, it has impacted 4 million lives and created 3,500 jobs.³⁴

The Youth Engagement Services (YES) Network Pakistan, which focuses on youth, engages them through practical entrepreneurial experiences. Created in 2002 by an Ashoka fellow, YES has successfully trained 200,000 young people across various vocations and has engaged 1,500 teams of youth in designing and implementing innovative business ideas every year. Their Youth SE Generator project focuses on unlocking the entrepreneurial talent within Pakistan's youth by supporting 18,000 students from low-income families.³³

The German development agency (GIZ) has been supporting (Technical and Vocational Education and Training) TVET reforms in Pakistan. It targets vocational training of 100,000 young people, pedagogical training of 10,000 TVET teachers and accreditation of 1,000 TVET programmes.³⁵ Through its Fund for Innovative Training (FIT), GIZ has been stimulating projects in the field of green skills (sustainable energy, natural resources efficiency, renewable energy etc.), providing access to marginalised groups such as women and young people from under-privileged communities and disaster- and conflict-affected areas; getting SEs on board by enhancing their relationship with training providers, and promoting self-employment and entrepreneurship skills to develop social enterprise.³⁶

²⁸ Council on Foreign Relations, "Pakistan's Institutions And Civil Society" (2008)

<<http://www.cfr.org/pakistan/pakistans-institutions-civil-society/p14731>> accessed 22 February 2016.

²⁹ Web Desk, "The Overlooked NGO Sector Of Pakistan At A Glance" (Brandsynario, 2014)

<<http://www.brandsynario.com/the-overlooked-ngo-sector-of-pakistan-at-a-glance/>> accessed 22 February 2016.

³⁰ Nadia Naviwala, "Harnessing Local Capacity: U.S. Assistance And NGOs In Pakistan" (USAID 2010) <http://pdf.usaid.gov/pdf_docs/pnaea519.pdf> accessed 22 February 2016.

³¹ Nadia Naviwala (2010)

³² Ashoka.org, "Ashoka Pakistan | Ashoka - Innovators For The Public" (2016)

<<https://ashoka.org/country/pakistan>> accessed 22 February 2016.

³³ YouthEngagementServices, "Snapshot Of YES" (2016)

<<http://yesnetworkpakistan.org/snapshot-of-YES/>> accessed 22 February 2016.

³⁴ Acumen, "Acumen In Pakistan: Addressing Basic Needs On A Large Scale" (2016)

<<http://acumen.org/regions/pakistan/>> accessed 22 February 2016.

³⁵ Deutsche GmbH, "Supporting Technical And Vocational Education And Training (TVET) Reform" (Giz.de, 2016) <<https://www.giz.de/en/world-wide/26783.html>> accessed 22 February 2016.

³⁶ Tvet Reform Pakistan, "Fund For Innovative Training (FIT)" (2016) <<http://www.tvetreform.org.pk/fund-for-innovative-training/what-is-fit>> accessed 22 February 2016.

The Enhancing Employability and Leadership for Youth (EELY) programme launched by the Aga Khan Rural Support Programme (AKRSP), also focuses on the economic empowerment of young people by increasing their employability and facilitating their engagement with state and civil institutions. With a geographic focus towards the northern areas of Pakistan (Gilgit Baltistan and Chirtral), the programme aims to provide employment for 24,600 young people by March 2017. It offers young people TVET and entrepreneurship training, followed by placement in government and private institutions. As of September 2015, 300 young people have received a start-up Micro-Challenge Award to implement social and business ideas.³⁷

The Prime Minister's Youth Programme (PMYP), launched by the Prime Minister's Office, focuses on the socio-economic development of young people. The programme aims to enhance the employability skills of disadvantaged youth and the poor, provide access to business loans with a particular focus on female-led businesses, and impart advisory services through its implementation partners like PPAF, SMEDA etc.³⁸

PRIVATE SECTOR

There has been an increase in the number of large corporate entities that have partnered with SEs over time. Such partnerships not only allow harnessing of significant resources and networks for creating social impact, they also transcend economic boundaries to create mutual trust between two sectors through a shared commitment to the same goal.

Shell Tameer is one such example of a corporate sector-led trust that aims to develop and build innovative business ideas in young people. Working with a wide array of operational, development and delivery partners, the programme provides entrepreneurial training, networking opportunities with expert organisations, start-up finance and follow-up services to youth enterprises to support business sustainability.³⁹

LOCAL AND INTERNATIONAL ORGANISATIONS HAVE PLAYED AN IMPORTANT ROLE IN THE SE ECOSYSTEM IN PAKISTAN, AND THEIR CONTRIBUTION CAN BE SEEN THROUGH THE INTEGRATION OF YOUTH IN VARIOUS ECONOMIC DEVELOPMENT PROGRAMMES.



The emerging space of cross-sectoral impact investing and SE at the intersection of private sector and non-government organisations, allows the evolution of new organisational forms that blend businesses with a social purpose.

Drawing on research and development capacity within large corporate entities could help develop new products and services for hard to reach markets which can in turn provide new customers for corporate entities whilst also solving social problems.

ANGELS AND VENTURE CAPITALISTS:

For many SEs, funding start-up or scaling of their current operations presents many hurdles, with a dearth of experienced investors. Angel investors and venture capitalists can step in to fund organisations that have limited access to other conventional means of financing. Angel investors are individuals that usually invest in last stages of technical development or first phase of market entry, and also contribute their advice and business experience.

Venture capital investment can support a company through rapid growth and into new markets. In Pakistan, many venture capital firms have sprung up over the past few years with sector specialisations. TMT ventures, for example, is a venture capital firm that funds start-ups in technology, media and telecoms. ImPakt Capital is another venture capital firm that funds innovation in food and agriculture, FMCG, retail, education, and digital businesses.

ANGELS AND VC INVESTMENTS MAY SUPPORT SEs IN PAKISTAN IF THE BUSINESS MODEL IS POTENTIALLY LUCRATIVE AND IF INVESTORS HAVE A ROUTE TO EXIT WHILE ALLOWING SEs TO MAINTAIN THEIR FOCUS ON THEIR SOCIAL MISSION.

BUSINESS INCUBATORS AND ACCELERATORS:

Business incubators or accelerators can offer support and business networks, while also enhancing the credibility of small enterprises. Lacking sufficient skills and resources, many social entrepreneurs or start-ups may look to business incubators for a collective one-stop solution to their growth needs. The incubation space can lower overheads and operational costs by providing shared infrastructure facilities, while also offering mentoring, consulting and guidance to attract impact investors. It is estimated that there are approximately 28 different start-up incubators in Pakistan⁴⁰ from the government funded Plan9 focusing on technology start-ups to the socially focused 'civic-minded' invest2innovate (i2i).⁴¹

The educational sector also plays a role in providing support to the development of SEs in Pakistan. IBA's Centre of Entrepreneurial Development, LUMS Centre of Entrepreneurship, MIT Enterprise Forum Pakistan and Microsoft and technology-oriented enterprises. They also act as platforms for discussing exit strategies and the policy environment, as well as linkages with private investors and angels.⁴²

The Social Innovation Lab (SIL) was launched by LUMS and provides a testing ground for social innovators to evaluate the sustainability of their business practices. Founded in October 2013, SIL aims to differentiate itself from other incubators with its indigenised programme that puts the socially conscious entrepreneurs at the heart of the business development cycle. Known as 'The Hatchery', SIL's flagship incubator helps participants through a four-stage process from idea generation to setting up business, prototyping and market research, and finally fund sourcing and implementation.⁴³

SDPI's Centre for Capacity Building (CCB) has been providing support to SEs since 1998. CCB has trained more than 11,000 individuals, including over 5,000 women. More than 600 organisations have benefited from training and workshops. The centre also provides on-demand customised sessions for SEs staff on management development, crowdfunding, writing programme proposals, project planning and more.

³⁷ Aga Khan Rural Support Programme, "Enhancing Employability & Leadership For Youth" (2011) <<http://www.akrsp.org.pk/img/pdf/enhanced-employability-and-leadership-for-youth.pdf>> accessed 22 February 2016.

³⁸ Youth.pmo.gov.pk, "Prime Minister Youth Program | Government Of Pakistan" (2016) <<http://youth.pmo.gov.pk/>> accessed 22 February 2016.

³⁹ Shell.com.pk, "Shell Tameer - Building On Young Business Ideas" (2016) <<http://www.shell.com.pk/environment-society/society-tpkg/local-initiatives/tameer.html>> accessed 22 February 2016.

⁴⁰ Zain Peracha, "The Role Of Startup Incubators In Pakistan" (TechJuice, 2014) <<http://www.techjuice.pk/the-role-of-startup-incubators-in-pakistan/>> accessed 22 February 2016.

⁴¹ Shehryar Hydri, "Pakistan's Startups Are Struggling To Break Out, But Here Are 27 Incubators That Could Help" (Techinasia.com, 2016) <<https://www.techinasia.com/27-startup-incubator-programs-funds-in-pakistan-2014/>> accessed 22 February 2016.

⁴² Priya Shah and Shailabh Shubhisham, "Social Entrepreneurship In Pakistan: Unlocking Innovation Through Enterprise Incubation" (EPG Economic and Strategy Consulting 2013) <<http://www.economicpolicygroup.com/wp-content/uploads/downloads/2013/02/EPG-Social-Entrepreneurship-in-Pakistan-Unlocking-Innovation-February-20131.pdf>> accessed 22 February 2016.

⁴³ Other universities now promoting the work on SEs include National University of Science and Technology, and University of Gujrat.

CHALLENGES AND BARRIERS TO THE DEVELOPMENT OF SOCIAL ENTERPRISE SECTOR

Our extensive interviews provided us with a series of challenges and barriers faced by social enterprises. These include a range of policy, finance, capacity and market related challenges. We have set these out in the table below:

Table 2: Gap analysis of social enterprise ecosystem in Pakistan

DOMAIN	IDENTIFIED GAPS ⁴⁴
Culture	<ul style="list-style-type: none"> Lack of a formal association representing SEs Limited social impact measurement
Finance	<ul style="list-style-type: none"> Difficulty in accessing finance, particularly loans from the formal sector, accompanied by cumbersome documentation requirements Personal credentials of entrepreneurs not considered creditworthy Impact investors have limited investment capacity and risk appetite
Support	<ul style="list-style-type: none"> Limited incubator activity, concentrated within universities Focus on creating and nurturing SEs, less emphasis on the commercialisation and sustainability of business Very few accelerators and small in size Limited complementarity between support organisations
Market	<ul style="list-style-type: none"> Limited SE networks and no co-ordinated effort to build networks. Absence of an established platforms for regular conferences or online communities Low public awareness of SEs For export of services of SEs there are no marketing channels at the government level
Education	<ul style="list-style-type: none"> Weak formal training and qualifications around SE and almost no SE/social entrepreneurship courses, university modules or vocational training No mechanisms or initiatives to translate skills into employment Lack of student-led SEs outside of few elite universities and institutes Negligible research on SEs within the context of Pakistan
Legislation and Policy	<ul style="list-style-type: none"> SE is not an identified sector of legislation and policy priority. No Standing Committee in the parliament Laws that promote competition not covering SEs, particularly in case of intellectual property No current thinking on providing legislative and regulatory cover to SEs No assessment of business rules and regulations faced by SEs Lack of understanding of SE within public sector Issues of trust regarding work conducted by SEs particularly those registered as NGOs



4. POLICY ENVIRONMENT FOR SEs



THERE IS CURRENTLY NO SE-SPECIFIC LEGISLATION IN PAKISTAN. HOWEVER, VARIOUS NATIONAL POLICIES AND PROGRAMMES DIRECTLY AND INDIRECTLY IMPACT SEs. THESE INCLUDE:

- 1.** Any legislation, policy or programme that targets SMEs or MSEs directly or indirectly and is likely to include SEs
- 2.** Any statutory law, regulatory requirement and procedure that has an influence on the nature or structure of the SEs
- 3.** Any policy or programme that is targeted at the socio-economic wellbeing of the low income and marginalised population and focuses on employment generation or livelihood
- 4.** Any policy, strategy or framework that supports economic growth and development, with a particular focus on small scale industries that have the potential to influence SEs
- 5.** Any initiatives taken by the private sector, NGOs, civil society, government bodies and other stakeholders that may have relevance to SEs in Pakistan



SOCIAL ENTERPRISE AND INDUSTRIAL POLICY

SEs operate in a wide range of industries in Pakistan. Historically, the federal and provincial industrial development policies have focused on large scale industries with little or no mention of small scale enterprises.⁴⁵ The 1990s witnessed a slight shift in government's priorities toward SMEs, with the growing realisation of the sector's contribution to the national economy.

Subsequently, SMEs were made an integral part of various economic policies such as the Poverty Reduction Strategy Paper (PRSP), the Micro Finance Sector Development Programme, the SME Sector Development Programme, the Education Sector Reforms 2001-05, the Reform of the Financial

Sector and the Reforms in Tax Administration.⁴⁶ This inclusion however has not been sufficient to create an ideal enabling environment for SMEs, which would in turn impact on social enterprises.⁴⁷

The National Industrial Policy 2011 was drafted to achieve rapid growth in industrial competitiveness and value addition. Its execution has been somewhat limited.⁴⁸ The policy⁴⁹ makes a passing mention of SMEs, the formation of Industrial Clusters and Science Parks, subsidies and tax incentives but falls short of focusing on entrepreneurial activities and social innovation.



STATUTORY AND REGULATORY LAWS

Table 4 and Table 5 provide the key statutory laws relevant to SEs in Pakistan. These laws are mostly focusing on formalising business operations, the provision of a competitive environment and enabling markets to provide finance and the regulation of microfinance.

Table 4: Statutory Laws and Regulatory Frameworks relevant to Social Enterprises

POLICY/Framework	CONTENT
Microfinance Institutions Ordinance 2001	Issued by State Bank of Pakistan to regulate the establishment, business and operations of MFIs.
Prudential Regulations for Microfinance Banks, 2014	Issued by State Bank of Pakistan focusing on maximum loan size, eligibility requirements for borrowers, and limitations to exposure.
Private Equity & Venture Capital Fund Rules, 2006	Rules drafted by SECP for establishing and operating private equity and venture capital funds.
Income Tax Ordinance 2001 and Income Tax Rules 2002	The Ordinance and Rules that govern the application of taxation to various organisations and the exemptions thereof.
Competition Act 2010	Issued by the Competition Commission of Pakistan with the purpose of engendering free competition including the prohibition of abuse of dominant position, prohibited agreements, deceptive marketing etc.



⁴⁵ Nadeem Ul Haque, "Entrepreneurship In Pakistan" (2007) Pakistan Institute of Development Economics: Working Papers: 29

⁴⁶ Matthieu Chemin, "Entrepreneurship In Pakistan: Government Policy On Smes, Environment For Entrepreneurship, Internationalisation Of Entrepreneurs And Smes" (2008) 5 International Journal of Business and Globalisation.

⁴⁷ Government of Pakistan: SME Issues Paper for Deliberation, "Developing SME Policy In Pakistan" (SMEDA 2007).

⁴⁸ DAWN, "Industrial Policy" (2012) <<http://www.dawn.com/news/705502/industrial-policy>> accessed 22 February 2016.

⁴⁹ Hussain and Ahmed (2012).

⁵⁰ Ministry of Industries and Production, "National Industrial Policy 2011: Implementation Framework" (Government of Pakistan).

Table 5: Laws/Guidelines for Social Enterprise Registration

LAWS/GUIDELINES	CONTENT
Companies Ordinance 1984	A broad piece of legislation encompassing all legal rules and regulations for registration and operations of business, enforced by SECP. Section 42, allows a company to be incorporated for objectives such as Charity, Commerce, Sport, Religion, Education, Culture, Arts and any other socially useful
Guide on Single Member Company (SMC)00	Relevant laws and procedure for establishing SMCs; subject to lower tax rates, and are autonomous in making business decisions.
The Voluntary Social Welfare Agencies (VSWA) Ordinance, 1961	Registration and control of social welfare agencies, and their associated matters with the respective Department of Social Welfare
The Trusts Act, 1882	Public Charitable Trusts may be set up under this Act by executing a trust deed
The Societies Registration Act of 1860	Act for the registration of Societies, Associations, Clubs etc. Fine Arts, Science, Museums, Libraries, educational endeavours, think tanks etc
Cooperative Societies Act 1925	Act for the registration and establishment of a cooperative.



The lack of trust in the judicial system in Pakistan coupled with a relatively weak legal framework can stifle business innovation alongside the weak enforcement of intellectual property rights. Pakistan, a signatory to the TRIPs under WTO, has legislation (Table 6) around the integrated and efficient management of IP in Pakistan, administered by IPO Pakistan. However, Pakistan's rank of 151 out of 189 in enforcing contracts⁵¹ still draws a gloomy picture.

A more knowledge-based economy requires that intellectual property laws are properly enforced.

Table 6: Intellectual Property Laws Relevant to Social Enterprises

LAWS	CONTENT
Intellectual Property Organisation of Pakistan Act, 2012	All subject matters of Intellectual Property i.e Patents, Copyrights, Trademarks, Designs, etc., and the registries related to these functions
Patents Ordinance 2000, Patents Rules 2003	Grant of exclusive rights for an inventor to make, use and sell the invention for a limited period of 20 years. Excludes others from making, using, or selling the invention.
Copyright Ordinance 1962, Copyright Rules 1967	Provides the creator of a work of art or literature, or a work that conveys information or ideas, the right to control how the work is used.
Trademarks Rules 2004, Trademarks Ordinance 2001	Registration of Trades and Services Marks with the Trade Marks Registry (TMR)
Design Ordinance 2000, Registered Layout-Designs of Integrated Circuits Ordinance, 2000	The ornamental or aesthetic aspect of an article. The design may consist of three-dimensional features, such as the shape or surface of an article, or of two dimensional features, such as patterns, lines or colour.

In Pakistan, the federal and the provincial governments have the authority to enact legislation in their respective jurisdictions. As a result, businesses are sometimes unsure of the frameworks in which they are operating. It is estimated that there are around 56 laws that govern labour in Pakistan, with some being industry specific⁵².

The procedure for registration also differs across various laws depending on the nature, capital threshold, annual turnover, size and geographic location of the business. At the same time, many businesses who work outside the formal sector have dim prospects of growth, low productivity and poor working conditions.

MSMES ALONG WITH MEDIUM ENTERPRISES CONTRIBUTE TO 30% OF GDP AND EMPLOY 80% OF THE NON-AGRICULTURAL LABOUR FORCE⁵³ IN PAKISTAN. SO A MORE CONDUCTIVE REGULATORY AND POLICY ENVIRONMENT SHOULD AIM TO STRIKE A BALANCE BETWEEN MINIMISING THE REGULATORY BURDEN, THUS ENHANCING GROWTH AND COMPETITIVENESS, WITH THE PROTECTION OF THOSE WHO WORK.

⁵¹ The World Bank, "Doing Business 2016: Measuring Regulatory Quality And Efficiency, Economy: Profile Pakistan" (2016).
⁵² Shahab Khawaja, "Unleashing The Growth Potential Of Smes In Pakistan Through Productivity Enhancement", Pakistan Development Forum (SMEDA 2006).
⁵³ Amal Aslam, "Moving Towards Micro And Small Enterprise Lending: Opportunities & Challenges" (Pakistan Microfinance Network 2013) <<http://www.pmn.org.pk/assets/articles/Moving%20Towards%20MSEL%20Opportunities%20and%20Challenges.pdf>> accessed 22 February 2016.

PUBLIC PRIVATE PARTNERSHIPS (PPP)

While there has been a growing recognition of PPPs in Pakistan, the arrangements have primarily been restricted to large scale public projects⁵⁴ such as transport, logistics, mass urban public transport, energy and industrial projects. Pakistan's Policy on PPPs⁵⁵ identifies local government services (including water supply and sanitation, solid waste management, low cost housing, and healthcare/education and skills development facilities) and social infrastructure (including education, health, culture etc.)

The National Commission for Human Development (NCHD) is one example of PPP in Pakistan that aims to fill in implementation gaps and improve the delivery of public services within the broader objective of achieving *education for all*⁵⁶. Despite criticism on the Commission's performance⁵⁷, there has been some contribution in the areas of health,

Commission has also been entrusted to devise an action plan for achieving 90% literacy by 2025 in line with first pillar of Vision 2025—human resource development⁵⁸.

Extending the PPP-model to include greater involvement of the SE sector may require supporting legislation. Legislative reforms may also be accompanied by a dedicated government unit that supports new public service delivery models. This task could be performed, in part, by the CSE which would develop resources and guidelines for ministries and communicate the government's intentions to the public and potential investors.



⁵⁴ Planning Commission (2011)

⁵⁵ Infrastructure Project Development Facility, "Pakistan Policy On Public Private Partnerships" (Government of Pakistan 2010).

⁵⁶ National Commission on Human Development, "How NCHD Is Unique?"

<http://www.nchd.org.pk/ws/index.php?option=com_content&view=article&id=51&Itemid=55> accessed 23 February 2016.

⁵⁷ Irfan Bukhari, "Audit Report Says NCHD Mostly A Failed Programme" Pakistan Today (2011)

<<http://www.pakistantoday.com.pk/2011/06/21/national/audit-report-says-nchd-mostly-a-failed-programme/>> accessed 23 February 2016.

⁵⁸ Daily Times, "Ahsan Advises NCHD To Achieve 90% Adult Literacy By 2025" (2015)

<<http://www.dailytimes.com.pk/national/20-Aug-2015/ahsan-advises-nchd-to-achieve-90-adult-literacy-by-2025>> accessed 23 February 2016.

5. FINDINGS AND POLICY RECOMMENDATIONS



THE EVIDENCE, INTERVIEWS AND ANALYSIS UNDERTAKEN THROUGH THIS RESEARCH LEAD US TO A NUMBER OF FINDINGS AND POLICY RECOMMENDATIONS WHICH WE HAVE DIVIDED INTO A NUMBER OF AREAS. THESE INCLUDE:

1.

the need to recognise and identify the vibrant and growing SE sector.

5.

ensuring a fair taxation playing field for social enterprises

2.

effort required to put SEs on policymakers' radar and a targeted set of policies as part of the annual federal and provincial budgets, trade, industrial and investment policies.

6.

measures to ensure improved access to finance and access to public procurement

3.

building the research and evidence base vis-à-vis the scale and scope of social enterprises in Pakistan

4.

capacity building for social enterprises in terms of scalability, legal and statutory compliance, financial management, and human resource, for example

WE ALSO HIGHLIGHT OTHER GAPS TO BE FURTHER EXPLORED BY RELEVANT HIGHER EDUCATION, PLANNING, TRADE AND BUSINESS INSTITUTIONS TO ESTABLISH A SUPPORTIVE ECOSYSTEM FOR SEs ACROSS PAKISTAN.



BUILDING THE DATA AND EVIDENCE BASE

Currently there is no mechanism for co-ordinating the collection, analysis and dissemination of information on SEs 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 the SE sector, it is likely too difficult for policy makers to formulate appropriate policies and create an appropriate and responsive legal and regulatory framework.

There is an underlying need to develop research capacity on SE's contribution to the economy, society and national policies. The CSE at the Planning Commission 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.



SOCIAL ENTERPRISE POLICY

Mainstreaming SE in the development landscape of Pakistan requires the creation of a comprehensive SE policy strategy that subsequently enables legal and fiscal frameworks. The CSE at the Planning Commission could formulate such a strategic policy approach with inputs from an expert working group with representation from all provinces and key institutions (e.g. SECP, FBR, CCP etc.).

The policy's goal and objectives should be based on a vision, prepared and documented in consultation with representatives of SEs. Social enterprise could also be given greater consideration in existing policies, such as the Finance Act, Competition Act and trade policy, for example. Provincial development strategies (e.g. Punjab Growth Strategy) could also be revisited for their consideration of social enterprise.

CSE could also convene a special inter-departmental and inter-governmental committee comprising of officials from SECP, CCP and FBR to support this work, also with support of provincial Planning & Development Departments and revenue authorities.

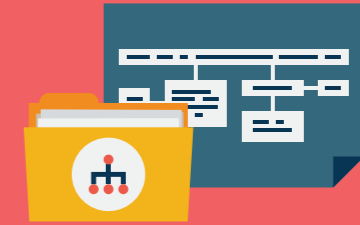


CAPACITY BUILDING

Many of those consulted during our research identified a growing need for SEs to not only make the most from their existing skills but to develop new expertise and capacity. Key areas of support that have been identified include: business planning, organisational development, internal mentoring, legal and statutory compliance, financial and human resource management.

Appropriate support services would depend upon a comprehensive organisational needs assessment of SEs, reinforcing the recommendation above with regard to evidence. While self-assessment tools are readily available for individual organisations, a wider sectoral assessment could be carried out by an external autonomous organisation or institution. This process can be facilitated for the Planning Commission by PPAF and SMEDA.

Academia and the corporate sector can act as a way of facilitating collective responses to the needs and opportunities of SEs. The Higher Education Commission could take a lead in hosting such a platform to foster productive alliances, promote human resources development, leadership and knowledge sharing. The Social Enterprise Programme by British Council can help by drawing in experience from the UK to create opportunities for social entrepreneurs, intermediary organisations and investors in Pakistan.



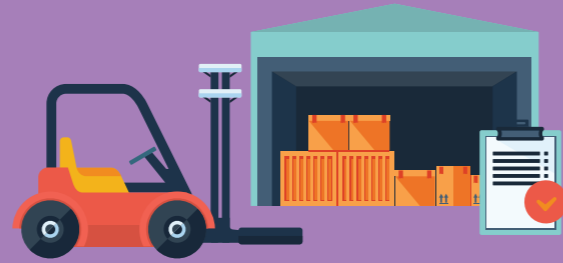
ACCESS TO FINANCE AND SUPPORT IN TAXATION ISSUES

Pakistan's SEs, 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 SEs may be perceived to be higher risk lending propositions.

The SBP could help foster a stronger financial marketplace through appropriate prudential regulations that not only allow traditional MFIs to offer tailored financing solutions for SEs 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 SE sector (NGOs, INGOs, SEs, incubators etc.) to develop financing options.

The FBR could consider tax-based incentives to encourage thematic investments in SEs, linked with improvements in service delivery and time bound, for example. This can be done through appropriate changes in the Finance Act.

ACCESS TO PUBLIC PROCUREMENT



Unlike India, where the Public Procurement Bill 2012 clearly demarcates the national requirement of 20% of procurement from MSMEs, 4% for MSMEs owned by scheduled castes and scheduled tribes, Pakistan's Public Procurement Rules 2004 and Public Procurement Regulations 2011 do not provide any similar rules.

The Public Procurement Regulatory Authority's rules may be amended to allow a quota for SEs in public competitions. SEs could also compete with conventional organisations where relevant

and appropriate thereby developing their tendering skills and building productive capacity. Community benefit – or social value - clauses can be added as part of the performance conditions.

Procurement processes could be simplified for social enterprises to reduce administrative burdens, guidelines provided for tender participation and where appropriate, contracts reserved for SEs.



INTER-PROVINCIAL CO-ORDINATION

A key aspect of a future policy framework for SEs should be the coordination of measures at various tiers of government. In line with the mandate provided by the 18th Amendment, Planning Commission's CSE can play the role of policy coordination and reform planning for SEs. This could include:

- The above mentioned SE policy should provide a governance mechanism involving regulators and all tiers of the government. In developing such a mechanism, inputs from the Ministry of Inter-provincial Coordination may be sought. The approval of this arrangement should be sought from Council of Common Interests.
- Work with SECP, CCP and the SE community to provide a set of company rules that group together various organisation models and business structures under which SEs operate in Pakistan. This will facilitate complete legal recognition of SEs.
- Fund research and development for innovative products and services, particularly in start-up companies and early stage technological enterprises. Funding may take the form of tax credits, grants, and technology collaborative programmes with academia (including through HEC) and industry. The government can launch a programme on the lines of US Small Business Innovation Research Programme (SBIR)⁶⁰, which is a carefully structured competitive programme for funding and encouraging R&D projects.
- Develop and enhance market access for SEs, including their inclusion in various support services, training programmes, educational curricula and exhibitions by the Trade Development Authority of Pakistan. This could be supported by a nation-wide outreach campaign.
- Work with FBR to develop time bound and outcome specific, tax-based solutions to help build and grow SEs. Here, the UK's Social Investment Tax Relief (SITR)⁵⁹ can serve as a starting point to encourage investment in SEs and improving access to finance.
- Provide inputs to SBP for revision to the microfinance laws to create a combination of government incentives and private capital injection that can fuel the growth of SEs. It could also include the development of a revolving fund or specialised loan facility for SEs.
- Link and integrate national and provincial youth programmes with SEs.
- Provide infrastructural support (such as land, building, ICT services etc.) at discounted rates including the formation of SE zones with state-of-the-art facilities and support services.

The success of the above initiatives would depend on how well the provincial Planning & Development (P&D) departments are engaged by the CSE. The policies developed by the centre can only serve the desired purpose if the provincial and local governments are taken fully on board, as they are the key actors for implementing the policy framework.⁶¹

⁵⁹ Government of UK, "Social Investment Tax Relief" (2015) <<https://www.gov.uk/government/publications/social-investment-tax-relief-factsheet/social-investment-tax-relief>> accessed 22 February 2016.

⁶⁰ United States Government, "Small Business Innovation Research" <<https://www.sbir.gov/>> accessed 22 February 2016.

⁶¹ For details on the capacity to implement reforms at the local level see Ahmed et al. (2014).



THE ROLE OF THE COMPETITION COMMISSION OF PAKISTAN

The Competition Act 2010 recognises the importance of competitive markets and ensures that no entity has a monopoly on innovation, allowing all forms of enterprises to freely harness technology and human resources. Innovation can be suppressed by well-established market powers either through collusion, cartelisation, and abuse of size or dominant position with the aim of crowding out small players.⁶² Unhealthy and anti-competitive behaviour can harm consumer welfare. The CSE should seek views on the draft SE policy from CCP as well as on potential revisions to company rules.

THE ROLE OF ACADEMIA AND HEC

Academia supports the development of the SE sector in Pakistan through teaching, research and evidence-based advocacy. The recently established Business Incubation Centre (BIC) at the University of Gujrat is a successful example of promoting entrepreneurial culture within universities. Realising the country's entrepreneurship potential, the HEC has signed an agreement with Promotion of Education in Pakistan (PEP) Foundation to set up business incubation centres in nine different universities across the country. Likewise, other universities have followed suit and established business incubators to foster entrepreneurial dynamism within their students. This presents an opportunity for the HEC and CSE to collaborate.

HEC could introduce a metrics system that evaluates and ranks various universities in terms of their contribution to society, including the development of SEs. The SE curricula may be also introduced in the TVET programmes and public sector universities may supported by the Higher Education Commission or the provincial Higher Education Commissions to open their campuses for TVET activity led by SEs.

The HEC could channel research grants to support a wide range of research activities on SE themes. Grants could be provided to tenured faculty members who have research interests relevant to SEs.

Partnerships with industry, particularly the corporate sector, can help catalyse the creative processes and the transfer of expertise to transform innovative ideas into sustainable products and services. Many good ideas fail to reach commercial success simply because of lack of knowledge about marketplace realities. The HEC and CSE should ensure a strong participation of the private sector in pitch events held at various universities.

As the SE sector grows in Pakistan, it offers academia an opportunity to strengthen community ties, support mission-driven businesses, develop skills and foster innovation. As identified by the survey respondents, talent issues have hindered SE growth and capability. Here Pakistan's universities can play an important role by integrating SEs within their volunteering, internship and work placement programmes, providing access to highly skilled talent. At the same time, enabling students and graduates to develop their entrepreneurial skills and work closely with the community on social issues—opening up exciting career opportunities for young people.

Pakistani universities can also play a key role in creating the next generation of social entrepreneurs by integrating entrepreneurship education in their curricula and providing tailored modules and electives to students who wish to pursue social enterprise. In the UK, many universities encourage students to start up and manage a SE during college years, allowing them to develop their understanding of business and equipping them with real-life experiences.⁶³ Technology and business incubators do exist in Pakistan, but their capacity to facilitate social innovation and diffuse creative solutions to tangible 'social' problems could be enhanced.



THE ROLE OF PRIVATE SECTOR

The private sector is well placed to support SEs, through CSR budgets, value chains and investing in mission-driven sustainable businesses. The private sector can support SEs to enhance their impact by ⁶⁴ :

- Collaborating directly or indirectly (via CSE, HEC, universities, and CSOs)
- Offering creative forms of support and sponsorship for SEs within their own business mandate (i.e. marketing and advertising campaigns)
- Sharing executive talent and providing mentoring
- Encouraging executive leadership to provide advice to SEs
- Using the products and services of SEs in their business operations and value chain

THE ROLE OF SOCIAL ENTERPRISES

Given the recommendations for various stakeholders, SEs may themselves want to think carefully before advocating for greater government involvement. Some organisations do not feel the need to engage with the government for legislative, regulatory or policy support; they felt that the lack of government support in the early stages of the development of a social enterprise culture may be beneficial, allowing them to operate in a more flexible environment.

THE ROLE OF CIVIL SOCIETY

Several CSOs in Pakistan have started promoting SEs, drawing on their local experience. CSOs can play an essential role in supporting and promoting SEs in Pakistan, for example:

- partnering with SEs to deliver innovative solutions to meet the SDGs and allowing SEs to use existing networks to provide market access bringing in experience to shape the plans of SEs
- partnering with SEs when rolling out new plans and programmes
- providing education, training, and networking opportunities to build the capacity of SEs
- giving power to the voice of SEs
- holding the government, private sector and even SEs to account raising awareness of solutions offered by SEs, providing credibility to SEs raising public awareness.

Others advocated a greater role for government, that recognition through appropriate regulatory and legislative interventions which would eventually lead to greater support (e.g. from financial institutions) and preferential treatment of SEs (e.g. by revenue authorities). Social enterprises could establish a national association of SEs, registered with the Ministry of Commerce that may be regarded as an official body to negotiate with the government on the needs of social enterprises in Pakistan.



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ANNEXURE A

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- Sheharyar Tahir, Head, External Relations, Small and Medium Enterprises Development Authority
- Sadaf Mahmood, Enterprise Development Strategist, Seed Ventures
- Dan Gregory, Head of Policy, Social Enterprise UK, United Kingdom
- Mohini Bhatia, Development Finance Specialist, World Bank, India
- Ehon Chan, Executive Director, Social Entrepreneurship, Malaysian Global Innovation & Creativity Centre
- Maryam Mohiuddin Ahmed, Director, Social Innovation Lab
- Kamran Shams, Member Board of Directors, Akhuwat Foundation
- Umar Farooq, Founder, Tech Valley
- Mansoor Malik, Chairman, Kamyab Pakistan
- Maria Umer, Chief Executive Officer, Women's Digital League
- Meenah Tariq, Acceleator Lead, Invest2Innovate
- Azhar Qureshi, Chief Executive Officer, Eco-Conservation Initiatives
- Babar Zahoor, Founder, Open Source Foundation of Pakistan
- Wasim Hashmi Syed, GM Monitoring, National ICT, R&D Funds
- Mavra Bari, Manager, WECREATE
- Musstanser Tinauli, CEO of Fori Mazdoori (Skill Bazaar)
- Faisal Khan, Founder, Peshawar2.0

KEY INFORMANT INTERVIEW LIST

NAME	DESIGNATION	ORGANIZATION
Eng. Mansoor Malik	Founding Chairman	Kamyab Pakistan, Islamabad
Ms. Puruesh Chaudhary	Founder and President	Aghai Pakistan, Islamabad
Ms. Maryam Mohiuddin Ahmed	Director	Social Innovation Lab, Lahore
Dr. Faisal Khan	Co-Founder and Leader	Peshawar 2.0, Peshawar
Ms. Maria Umer	Founder & CEO	Women Digital League, Peshawar
Dr. Fahad Saeed	Research Fellow	Sustainable Development Policy Institute
Dr. Asif Ali	Vice Chancellor	Muhammad Nawaz Sharif University of Agriculture
Mr. Huzaifa Shabbir Hussain	Assistant Programme Manager	CIPE Pakistan
Mr. Umar Farooq	Founder	Tech Valley
Mr. Mian Waqas Masud	Director	Fazal Industries
Ms. Meenah Tariq	Acceleator Lead	Invest2Innovate
Mr. Azhar Qureshi	Chief Executive Officer	Eco-Conservation Initiatives
Mr. Babar Zahoor	Founder	Open Source Foundation of Pakistan
Mr. Atif Raees Khan	Chairman and CEO	LMKT
Mr. Wasim Hashmi Syed	GM Monitoring	National ICT, R&D Funds
Ms. Mavra Bari	Manager	WECREATE
Mr. Hamid Mehmood	Economic Advisor	Ministry of Planning, Development and Reforms
Mr. Nisar Ahmed	Deputy Chief (Incharge)	Ministry of Planning, Development and Reforms
Mr. Waseem Salim	Doctoral Candidate	Pakistan Institute of Development Economics
Dr. Musstanser Tinauli	Chief Executive Officer	Fori Mazdoori
Mr. Ahsan Abbas	Asst. Professor	GIFT University, Gujranwala
Dr. Sajid Amin	Associate Professor	PIDE and Comsats University
Mr. Ahmed Qadir	Director General	Competition Commission of Pakistan
Dr. Saira Ahmed	Assistant Professor	Capital University of Science and Technology
Dr. Abid Q. Suleri	Executive Director	Sustainable Development Policy Institute

ANNEXURE B