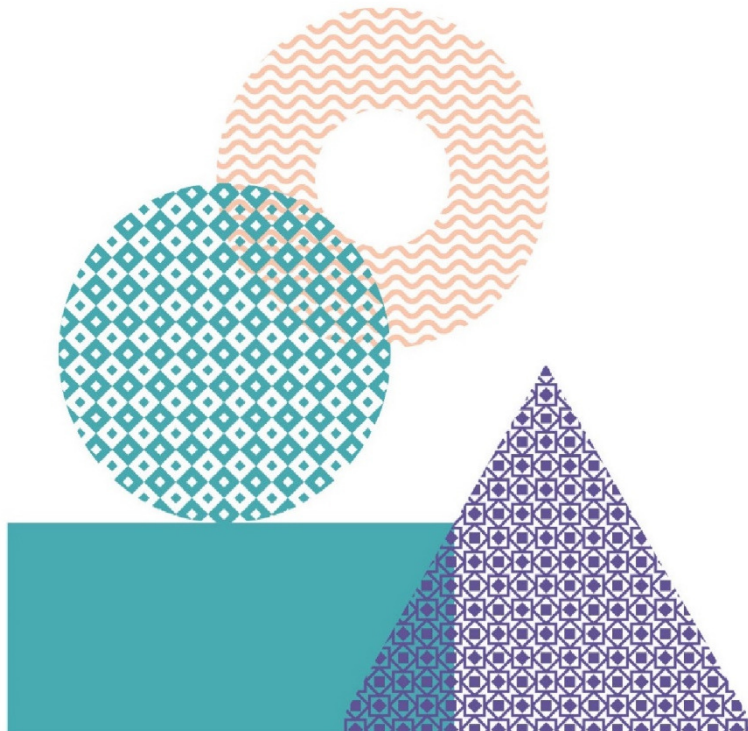




ISSUE PAPER

# 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.<sup>1</sup> 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.<sup>2</sup>

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<sup>1</sup> Any comments on this paper may be emailed to [ahad@sdpi.org](mailto:ahad@sdpi.org).

<sup>2</sup> "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.<sup>3</sup>

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.<sup>4</sup>

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. SEED<sup>5</sup> 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, SEPLAA<sup>6</sup> and Peshawar 2.0), environmental protection (e.g. Saibaan).

Most social enterprises are led by relatively younger segment of entrepreneurs.<sup>7</sup> 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.

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<sup>3</sup> British Council (2015).

<sup>4</sup> Johnson, Biranna (2016).

<sup>5</sup> Social Entrepreneurship & Equity Development.

<sup>6</sup> Seeds of Education, Policy, Legal Awareness & Advocacy.

<sup>7</sup> British Council (2016).

## 1.4. Barriers and Challenges

Recent literature has shown that social enterprises often face legal, regulatory, policy and procedural barriers.<sup>8</sup> 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.<sup>9</sup> 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.<sup>10</sup>

## 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

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<sup>8</sup> Ahmed (2016).

<sup>9</sup> [https://www.britishcouncil.org/sites/default/files/bc-report-ch5-pakistan-digital\\_0.pdf](https://www.britishcouncil.org/sites/default/files/bc-report-ch5-pakistan-digital_0.pdf)

<sup>10</sup> 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.<sup>11</sup>

## 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.

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