

Social Enterprise Policy Landscape in Pakistan

Launch Event of Research Studies on Social Enterprise in Pakistan
Islamabad
4 October, 2016



SDPI
Sustainable Development Policy Institute

Objectives of this study

To review and inform the policy interventions influencing Social Enterprises (SEs). This may include:

- Any legislation, policy or programme that targets SMEs or MSEs directly or indirectly and is likely to include SEs
- Any statutory law, regulatory requirement and procedure that has an influence on the nature or structure of the SEs
- Any policy or programme that is targeted at the socio-economic wellbeing of the low income and marginalised segments and focuses on employment generation or livelihood
- 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.

Methodology

- A multi-method research framework originating from a detailed literature review
- Key informant interviews with social entrepreneurs, policy makers, development partners, civil society organizations, and mainstream private sector and associations.
- Policy makers include parliamentarians, civil servants and representatives of regulatory bodies
- With in civil servants we approached officials from Federal Board of Revenue, State Bank of Pakistan, and relevant economic ministries and departments at federal and provincial level
- With in regulatory bodies we approached Competition Commission of Pakistan, Securities and Exchange Commission and Higher Education Commission.

Methodology - II

- Semi-structured enterprise-level survey conducted by SDPI Survey Unit. Total valid responses: 235
- The cities in which these interviews were conducted include Faisalabad, Lahore, Karachi, Peshawar, Quetta and Rawalpindi
- A wider list was initially generated making use of records available with NRSP, PPAF, and SMEDA. The list was validated through SECP records
- Another round of key informant interviews was completed focusing on academia, incubation centers, philanthropy bodies and NGOs supporting SEs. This allowed us to look at the various ancillary players and their roles in the SEs eco-system
- National symposium to validate our qualitative results was held in February 2016
- This methodology allowed us the opportunity to observe various synergies that can be developed with the government, private sector, universities, media organizations, and local civil society organizations for strengthening a support framework for SEs.

National Policy Frameworks & Policies Relevant to SEs

Federal

Pakistan Vision 2025

Pakistan Investment Policy 2013

Public Sector Development Programme 2015-16

SME Policy 2007

TVET Policy for Pakistan 2015

Certification Incentive Programme for SMEs 2014

Entrepreneurship Development Policy (Draft) 2012

Prime Minister's Youth Programme 2013

Provincial

Punjab Growth Strategy

Khyber Pakhtunkhwa Medium-term Strategy for Inclusive Growth

Integrated Development Strategy 2014-2018, Khyber Pakhtunkhwa

Balochistan Development Vision & Strategy 2015

Sindh Strategy for Sustainable Development

Khyber Pakhtunkhwa Youth Policy (Draft)

Balochistan Youth Policy 2015

Sindh Youth Policy 2012

Punjab Youth Policy 2012

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 that have a potential to invest in social enterprises.
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.

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 productive purpose
Guide on Single Member Company (SMC)	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.

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.

Major Constraints to Growth

The Need for
an Identity

Data and
Information
Gaps

Missing Social
Enterprise
Policy

Lack of
Capacity
Building of SEs

Regressive
Taxation
Regime

Lack of Access
to Finance

Weak Access
to Public
Procurement

Participation in
foreign trade
seems difficult

What needs to be done? Who will do it?

- Planning and Development Departments
- Securities and Exchange Commission of Pakistan
- Federal and provincial tax authorities
- State Bank of Pakistan
- Competition Commission of Pakistan
- Trade Development Authority of Pakistan

Planning & Development Departments

- In line with Vision 2025, develop SE Vision and consequently a policy framework for SE development
- The policy framework should ensure inclusion of SEs in public sector procurement competitions and customized training programmes through organizations such as SMEDA and PPAF grantees
- Establish a competitive R&D fund for innovative products and services, particularly in start-up and early-stage SEs
- Convene a working group on introducing innovative institutional arrangements between government, financial institutions and private sector that seek blended social and financial returns on investments. The group's recommendations may be inputs to the SBP prudential regulations proposed for SEs
- Convene an inter-provincial coordination group for providing hosting and infrastructure support (e.g. land, building and ICT services).

Securities and Exchange Commission of Pakistan

- Work with Planning Commission's Centre for Social Enterprise (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
- Upon approval of the company rules for SEs, issue directives to FBR and provincial revenue authorities regarding the tax registration of SEs
- Keeping in view the social benefits rendered by these firms, rationalize costs and time towards documentation through a comprehensive regulatory impact assessment.

Federal and Provincial Tax Authorities

- Work with Planning Commission's CSE to introduce SE-specific tax laws and incentivised tax-based solutions to help build and grow SEs. The SEs contributing to capacity building or export receipts of Pakistan should be allowed sales tax rebate similar to the terms awarded to other mainstream export-oriented sectors
- CSE should form a tax-specific working group comprising representatives from FBR and provincial authorities to reduce the tax related compliance costs. The case of double taxation (in case of services sector SEs) also needs to be resolved
- FBR may consider a one-time customs duty exemption on any plant and machinery import by SEs. The lowest slab of customs duty on raw material and inputs may be considered for SEs
- The provincial revenue authorities may consider a reduction in general sales tax on services provided by SEs.

State Bank of Pakistan

- Develop a financial framework including prudential regulations that is geared towards meeting specific needs of SEs
- Work with Planning Commission's CSE to improve access to finance by making microfinance laws more conducive for SEs
- Ensure a financial marketplace that allows 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.

Competition Commission of Pakistan

- Conduct a detailed regulatory impact assessment focusing on key barriers that; hurt expansion of SEs, prevent them from becoming part of the exporting sector, and stifle their product sophistication
- In the light of the above mentioned regulatory impact assessment, act immediately towards unhealthy and anticompetitive behaviour that harms producer and consumer welfare
- Give directions to relevant government institutions regarding harmonization of policy and regulatory regime faced by SEs across the provinces.

Trade Development Authority of Pakistan

- Conduct a detailed study on how the export competitiveness of SEs can be enhanced
- Another study based on secondary literature can inform 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. An appropriate tool for doing this may be 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).

Pledged Roles

- Benazir Income Support Programme
- British Council and Development Partners
- Federal and Provincial Higher Education Commissions
- Public Sector Universities
- Business Associations
- SE Outfits of Conventional Private Sector
- Civil Society Organisations

Benazir Income Support Programme

- Make the detailed data of BISP beneficiaries available to SEs. These beneficiaries can serve as clients for SEs
- The same data can act as a pool for identifying innovative projects that can be funded to grow into SEs themselves. With time, BISP beneficiaries can become part of social innovations at local level
- Create linkages between national and provincial youth programmes with SEs to enhance employment potential of the youth particularly women
- Increase the size and number of grants for scalable SE initiatives that have the potential to provide long term jobs
- Identify areas where SEs can partner with BISP to give solutions to the clients. For example, BISP's Benazir Smart Card and Mobile Phone Banking.

Federal and Provincial HECs

- Resources may be made available to faculty members in public sector universities for developing an inventory of existing and potential SE initiatives at local level
- Similarly resources for diffusion of formal innovations in universities, and exploration of informal innovations that can be scaled up, may be funded through universities in rural areas. This will support the transfer of knowledge and skills at the micro level
- A consortium of business schools may be encouraged to host an annual summit of SEs, where there is sharing of experiences, and showcasing of their work
- Supporting public sector universities, through financial and technical assistance, to formally initiate an undergraduate major in SEs.

Conclusion

- Greater public-private effort is required to form vertical and horizontal coalitions for a more conducive business environment for SEs.
- SEs and CSOs need to strengthen their linkages with local Chambers of Commerce and Industries.
- Need to explore the feasibility for Centre for Social Entrepreneurship at provincial government level
- Limitations of SDPI study (for future research work):
 - An (updated) economy-wide estimation of SEs contribution to formal and informal national income is required
 - A statistically significant, nationally representative sample covering both formal and informal SEs will provide greater insight.

Thank You



SDPI
Sustainable Development Policy Institute

www.sdpi.org, www.sdpi.tv

vaqar@sdpi.org