

Social Enterprise Development in South Africa - creating a virtuous circle

Compiled for

Tshikululu Social Investments

By

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Table of Contents

1. Executive summary.....	3
2. Introduction.....	4
3. What is meant by social enterprise in South Africa.....	5
3.1. Towards a workable definition.....	5
3.2. Players in the Social Enterprise space	6
3.2.1. International.....	6
3.2.2. African / South African initiatives.....	8
3.2.3. Business Schools	9
3.2.4. Support for entrepreneurs with a development focus	9
3.2.5. Support for entrepreneurs with a social enterprise focus.....	10
3.2.6. Business Development Service (BDS) providers.....	11
3.3. State initiatives	12
3.4. Enterprise Development.....	12
4. The policy environment	13
5. The opportunity to create a virtuous circle	15

1. Executive summary

Interest in social enterprise in South Africa is growing and we are seeing an increase in activity in the space. The impetus for this interest is in part driven by perceived advantages that social enterprise has: over government - in efficient delivery of services; over conventional business - on trust, accountability, and purpose; and over charities and NGOs - due to financial sustainability and access to capital. And it is in part driven by the BBBEE regulations which place an increased emphasis on supporting enterprise development.

There is a growing body of work which supports the role of social enterprise, but in South Africa the concept is still relatively new and as such is not well understood. Social enterprise and social entrepreneurship are often used interchangeably, despite some clear differences, and definitions of social enterprise can be contentious.

There is anecdotal evidence which suggests that the idea of “social economy” is gaining a higher profile at the most senior levels of the South African government, with issues tabled at Cabinet meetings on the role of the “social economy”. Social enterprise is seen as a part of the “social economy”. There are also moves being made by the likes of Small Enterprise Development Agency (SEDA), the National Youth Development Agency (NYDA) and other government bodies to better understand and support social enterprise development and social entrepreneurship more generally.

Corporates have to date largely focused on what they see as two separate and distinct areas – enterprise development and CSI - aspects of both of which are encompassed in the concept of social enterprise. In terms of enterprise development, the B-BBEE legislation allocates 15 scorecard points to companies which invest 3% of post-tax-profit for this purpose. This is three times the number of points which are allocated to CSI spend under the socio-economic development (SED) category.

Investing in social enterprise development therefore may present an opportunity to support both enterprise development while at the same time fulfil the criteria for SED. This has the potential to create a virtuous circle in which financially sustainable enterprises can be stimulated, which tackle key social issues and, assuming the B-BBEE frameworks can be tweaked to take this hybrid approach into account, provides an added incentive for the private sector to invest in social enterprise development with a potential full 20 point reward on the B-BBEE scorecard.

2. Introduction

During 2010, a scoping exercise was undertaken by Bridget Fury for Tshikululu Social Investments, to better understand the state of social enterprise development in South Africa.

The scoping project included the following key areas:

- What is meant by social enterprise in South Africa, and how is this different from enterprise development and from corporate social investment and where, if any, are there overlaps;
- What organisations – private and public, local, national and global are operating in social enterprise development in South Africa and what do they do;
- What is the policy environment in which social enterprises operate;
- What, if any, opportunities exist for corporate social investment spend to be used in support of social enterprise development.

In completing the work, a range of research methods were used which included extensive desk and web-based research, interviews with more than 30 individuals, representing a range of organisations, and participation in group workshops hosted by third party organisations.

3. What is meant by social enterprise in South Africa

There is no existing South African policy on social enterprise, nor is there a legal definition.

However, there are many existing policies, regulations and initiatives which have a direct bearing on social enterprise development, which include registration and obligation of companies and Non-profit organisations; tax law; B-BBEE, CSI, Enterprise development, and provision of business development services.

3.1. Towards a workable definition

“A social enterprise’s primary objective is to address social problems through a financially sustainable business model where surpluses (if any) are mainly reinvested for that purpose”

The above definition was adopted as a working definition for social enterprise in South Africa at a National Conference on the enabling environment for social enterprise development in South Africa, hosted by the ILO in October 2009.

It is however, by no means an agreed definition. While the first two elements of the definition – that it has a core social purpose and is financially sustainable are accepted, it is the point about whether to restrict the definition to include only those enterprises where “surpluses ... are mainly reinvested” that is unclear, as this potentially excludes a number of for-profit enterprises which have at their core a social mission.

Other issues which continue to be debated are a) how we understand intent with regard to the primary objective of a business and, b) how to measure social impact.

Without a definition, it is difficult to address legal and regulatory issues; however we risk being hamstrung by detailed conversations about wording and meaning and need to have something that is workable.

Adding to the confusion are differences between the concepts of social entrepreneurship and a social enterprise, which are often used interchangeably. They can be quite different – social entrepreneurship is involved with creating innovative solutions to social problems, but not necessarily business-like ones, (social entrepreneurs are often social change agents, not people running enterprises) and a social enterprise is usually taken to operate according to a sustainable business model.

Where there is some consensus, it is that there should be three elements which make up the working definition for social enterprise in South Africa and they are:

- Has a primary social purpose – has a clearly stated social purpose as its core objective;
- Uses a financially sustainable business model – has a realistic prospect of generating sufficient income to exceed costs, now, or at some point in the future; and
- Is accountable and transparent – has a mechanism for ensuring accountability to its beneficiaries.

In South Africa, using the above definition, social enterprises can and do currently exist as Section 21 non profit organisations, as trusts and voluntary associations, as CCs and as companies.

In defining what a social enterprise is, it is also important to know what it is not. A social enterprise is generally considered not to include the following:

- A corporate entity or a subsidiary thereof is not a social enterprise; and
- A business whose purpose is solely profit maximisation, even if it is creating social value, is not a social enterprise.

3.2. Players in the Social Enterprise space

The ILO research found that one of the problems relating to capacity building for social enterprises is that *no reliable database is available for the identification of role players in the social enterprise space.*

There is however work currently being undertaken to try to rectify this. Two such initiatives are the African Social Entrepreneurs Network (ASEN) and the South African Social Stock Exchange (SASIX) project being spearheaded by Greater Good SA.

Other informal initiatives are bringing together various parties interested in social enterprise, including those at various business schools, the ILO, World Bank and others. There is, as yet, no definitive resource which is available and this is partly due to the confusion around the concept and an absence of a clear delineation about what is considered in (and what is outside) the space, with a great deal of overlap with enterprise development, Corporate Social Investment, microfinance, commercial banking, and so on.

Below is a brief description of some of the key players in this space and the role / function they perform. This is not a definitive list, but seeks to cover the range of different constituencies which are currently represented:

3.2.1. International

Schwab Foundation

Represented in South Africa by Dr. Francois Bonnici, himself a social entrepreneur, the Schwab Foundation is concerned with creating links with and between social entrepreneurs and, through the World Economic Forum (WEF), facilitates high-level access to government, funders, and professional services.

The Schwab Foundation uses the regional and global WEF meetings to bring together leading social entrepreneurs, and supports the growth and development of social entrepreneurs by sponsoring scholarships to Universities in the US, UK and Europe, by sponsoring awards for social entrepreneurship (Ernst and Young World Entrepreneur Competition) and by encouraging peer-to-peer learning and building partnerships.

Aspen Network of Development Entrepreneurs (ANDE)

ANDE is a global network of organisations that invest money and expertise in order to encourage entrepreneurship in emerging markets. It is a membership-based organisation which is focused on

small and growing businesses that create economic, environmental, and social benefits for developing countries.

ANDE aims to be the key convener of small and growing businesses in developing markets with a focus on finding the so-called “missing-middle” – *that space representing the disparity between investments in small businesses as compared to other business in emerging markets.*

ANDE members with direct links into South African social enterprise include:

- TechnoServe;
- Endeavor; and
- Heart Social Investments.

Skoll Foundation/ Skoll Centre for Social Entrepreneurship

The Skoll Foundation seeks large-scale change by investing in, connecting and celebrating social entrepreneurs and other innovators dedicated to solving the world’s most pressing problems.

The Skoll Awards Programme is the Foundation’s flagship investment initiative through which it provides social entrepreneurs, whose models for sustainable change have already yielded significant impact, with unrestricted funding to scale their programmes and amplify their reach across regions, countries and continents.

The Skoll World Forum takes place annually in Oxford and has become one of the leading forums for bringing together key stakeholders from around the world to help support social entrepreneurship.

Ashoka

Ashoka is best known for its Fellows - individual social entrepreneurs who are recognised for their contribution as change makers in society. Through the Ashoka network, they are able to gain access to programmes which support their efforts, from a three year stipend which enables them to focus full-time on developing their ideas, through mentorship, BDS and other professional support, and through the Ashoka network to share ideas, leverage from one another and develop best practice.

Ashoka also focuses on capacity building and support for civil society through NGO peer learning and advocacy; and has a Youth Venture programme empowering young people (12-24) involved through teams.

World Bank Institute

The EVOKE project was developed by the World Bank Institute after a series of conversations with African stakeholders about how to develop the right skills which meet industry demands by engaging young people in real world problems in order to develop their capacities for creativity, innovation and entrepreneurial action.

EVOKE uses a social networking platform to enable the “game” to be played – online and on mobile phones – in which the “textbook” takes the form of an online graphic novel set in the year 2020. During each of the 10 weeks that that game runs, the players are guided through a process by which they learn to form their own innovative networks, brainstorm solutions to real-world development problems and discover how to be a successful social incubator.

EVOKE attracted more participants at its launch than it had anticipated and has therefore achieved one of its aim - of encouraging more young people to think about finding sustainable solutions to social problems. What it does point to, is the growing interest in social enterprise development within multi-lateral organisations such as the World Bank Institute.

3.2.2.African / South African initiatives

ILO – SETYSA (Social Entrepreneurship development targeting unemployed youth in South Africa)

As part of the ILO's work on job creation, SETYSA is supporting a programme of research and policy dialogue intended to strengthen the capacity of South African institutions to understand the concept of social enterprise development.

As part of the project, SETYSA has supported the following programmes of work:

- research by the University of Johannesburg on the enabling environment;
- International research into initiatives to create an enabling environment from experiences of other countries;
- Community-level research on the potential for social enterprise in two pilot geographical areas;
- Research by the South African Institute of Entrepreneurship on existing and potential market for social Business Development Services (BDS);
- A study visit for South African policy makers to learn from other countries;
- Various policy dialogues and e-conferences; and
- A National conference on the enabling environment for social enterprise

Following from this work, mostly carried out in 2009, a group has met to discuss financing for social enterprises and a research programme to better understand the gaps in knowledge. This work is ongoing.

ASEN and SASIX are also represented on this forum and the ASEN platform is being used to collate and share existing resources on what financing is available for social enterprise development.

African Social Entrepreneurs Network (ASEN)

Through the use of an online platform, ASEN aims to provide Social Entrepreneurs with an opportunity to collaborate and access resources through an online “marketplace” where players can provide information on themselves (social entrepreneurs, intermediaries, the private sector, other investors, etc.) and share ideas, challenges, and access resources.

The platform is membership based and driven and its initial focus has been on providing for the needs of the social entrepreneur, rather than a “marketplace”. There is some overlap with what SASIX is launching (see below), but there may well be a continued role for ASEN as a membership driven organisations which supports the social entrepreneur and in particular, if it can develop a comprehensive database of service providers into the social entrepreneurship / social enterprise space, as a one-stop shop.

South African Stock Exchange (SASIX)

Research is currently being undertaken by the South African Network for Impact Investing, the Business Trust and the Johannesburg Stock Exchange to assess the feasibility of launching the world's first fully independent social stock exchange in South Africa. This would provide a mechanism

for social purpose entities (social enterprises) looking to raise capital, to connect with socially conscious investors looking to invest, while providing the rigour of certain listings requirements and associated accountability.

As phase one of the project, SASIX is seeking to create a database of all interested parties, to include social purpose entities, intermediaries and asset owners or managers. This has been launched and is currently being populated.

Whether it is possible to create a functioning social stock exchange remains to be seen – there have been attempts made elsewhere in the world with little success as the demand has never been sufficient – but cataloguing the information will be a useful exercise in itself.

3.2.3. Business Schools

There is growing recognition in South Africa of the role that business schools must play in both research into the role of social enterprise and preparing more social entrepreneurs / social enterprises for the market. Most business schools now offer or are looking at offering specific courses on social enterprise development, and some of the main players include:

Centre for Social Entrepreneurship, University of Johannesburg (ULJ)

Headed by Susan Steinman who has recently been involved in conducting research around the enabling environment for social enterprises in South Africa as part of the ILO project, UJ will also be hosting the The Social Enterprise World Forum in April 2011.

This is the first dedicated Centre for Social Entrepreneurship and together with the central role played in the ILO research, has given Susan first mover advantage in the academic response to social entrepreneurship.

Gordon Institute of Business Science (GIBS)

GIBS run a Social Entrepreneurship Certificate Programme which is aimed at social entrepreneurs and leaders and managers of NGOs. Teaching on the course is delivered by both academics and practitioners.

GIBS also have an important Bottom of the Pyramid work stream into which some of the research themes relating to social enterprise development currently fit.

UCT Graduate School of Business (GSB)

The GSB is doing some work around social entrepreneurship through its existing centres: the Raymond Ackerman Academy of Entrepreneurial Development and the Centre for Innovation & Entrepreneurship. It is also in the process of launching a Centre for Social Entrepreneurship.

3.2.4. Support for entrepreneurs with a development focus

Enablis South Africa

Enablis South Africa was the first regional hub in the Enablis network, with offices across South Africa.

Enblis is a Canadian not-for-profit organisation which supports entrepreneurs in developing countries who share similar values and who believe in the importance of small-to-medium enterprises for poverty reduction and sustainable development.

Enblis has three key areas of focus:

- Entrepreneur development;
- Business Support and peer learning; and
- Funding opportunities.

In South Africa, Enblis has developed partnerships with Khula Enterprise Finance (an independent agency operating under the auspices of DTI to provide funding to small businesses) and FNB through the Enblis Khula Loan Fund and Khula Enblis SME Fund.

Endeavor

Endeavor is a global non-profit organisation that finds and supports innovative, high-growth entrepreneurs in emerging markets, including South Africa. Most entrepreneur candidates lead companies with at least R3m in revenues, but Endeavor seeks entrepreneurs at varying stages so long as they are at a “tipping point” at which Endeavor can help the entrepreneur reach new levels.

Endeavor South Africa partners with corporates, enterprise development funders, financial supporters and suppliers, including Deloitte, FNB, Discovery, Ernst and Young and Dell.

3.2.5. Support for entrepreneurs with a social enterprise focus

TechnoServe

TechnoServe is a US-based, donor-funded organisation which has traditionally focused on agribusiness opportunities and the supply-chain. They are currently undergoing a complete review of the current strategy for South Africa – looking to take advantage of their successful track record of providing business turnaround support, which includes developing market linkages, securing access to finance and transferring skills to rural entrepreneurs.

TechnoServe is actively looking at ways in which to engage with the corporate sector to help deliver social enterprise development, with a particular focus on those industries in and around rural communities and in support of entrepreneurship.

Heart Global

Heart was the first organisation in South Africa to set up an incubator that is explicitly focused on social enterprises. They aim to do two things:

1. To incubate start-up social enterprises through seed, venture and capital phases of development; and
2. Provide specialist fund management services to socially and environmentally conscious investors, and to use funds raised to provide BDS to social entrepreneurs.

UnLtd South Africa

A very recent entrant to the South African market, UnLtd South Africa aims to provide support to early-stage social entrepreneurs, by finding and supporting exceptional individuals with a 50%

financial reward and with 50% technical support, often provided through existing BDS suppliers such as Black Umbrellas and the Business Place.

UnLtd has identified the most important gaps in support for social enterprises and is focusing initially on level one in South Africa, with a view to moving up through the value chain to plug the gaps known as the “missing middle” – that which exists between a survivalist businesses and those that are investment ready.

UnLtd’s Heather Brandon and Kathy Watters are currently involved in developing a measurement and evaluation framework to be used to measure social impact and this is due to be rolled out and tested from late 2010.

3.2.6. Business Development Service (BDS) providers

BDS providers offer a combination of the following services, often through a drop-in centre. Some also act as an informal conduit to access financing:

- Marketing;
- Legal advice;
- Accounting services;
- Financial advice;
- Business advice;
- M & E of projects;
- Business plan support;
- Project management; and
- Links to business opportunities.

The Business Place

Started by Investec, the Business Place has a network of drop-in hubs across South Africa which provides BDS services to both entrepreneurs and social entrepreneurs, which include, at the most basic level, access to computer facilities, the internet and a business library and at a more advanced level help in developing skills and business plans.

The Business Place has a good infrastructure and reach, and has been involved in partnering with the ILO and UnLtd on running business plan competitions for social entrepreneurs.

Shanduka Black Umbrellas

Shanduka Black Umbrellas is a non-profit company involved in the support of emerging black business through enterprise development. Members are provided with a working environment and support services that will enable them to thrive. For a nominal monthly fee, depending on the size and maturity of the business, a range of BDS services are available over a three year period.

Shanduka Black Umbrellas has a range of financing options through which it supports itself which include money from enterprise development budgets to a loan guarantee fund which it has established with ABSA.

Raizcorp

Raizcorp is a for-profit business which supports entrepreneurs through its 3-year programme which includes rigorous selection, learning (through an accredited University programme), and mentoring (guiding).

Raizcorp uses a partnership model in which it takes an equity stake in all businesses that enter the programme through Raizcorp's selection process. However, currently some 75% of its business is enterprise development "bursary" funding from corporates, who outsource their enterprise development to Raizcorp.

3.3. State initiatives

There are a number of government initiatives in place to support SMMEs, either through the provision of BDS or access to finance through micro-loans or both. None of these has a specific social enterprise focus, but as part of the policy debate, there is interest being generated around creating social enterprise-specific funds.

Some of the agencies involved include **SEDA (Small Business Development Agency)**, **COMSEC (Community Self-Employment Centre)**, the **NYDA (National Youth Development Agency)** and **IDC**.

3.4. Enterprise Development

There are also a raft of for-profit consultants working in enterprise development – from BBEE specialists, to venture and private equity plays who are interested in taking advantage of the enterprise development budgets available.

4. The policy environment

The ILO, together with a range of partners, has initiated a policy dialogue on the enabling environment for social enterprise development in South Africa. This work, which was supported by research conducted by Susan Steinman's team at the University of Johannesburg, culminated in a National Conference in October 2009 at which various recommendations were made intending to promote access by social enterprises to affordable finance.

Some of these included:

- Encouraging the Government to stimulate the market for finance for social enterprises;
- Encouraging the development of intermediaries and products that can link investors with appropriate social enterprises; and
- Exploring the establishment of a Risk Guarantee Fund to stimulate access to commercial finance, and a Social Enterprise Fund (which might reside in the IDC, or a similar body), to provide capital specifically for social enterprises.

Minister of Economic Affairs, Ebrahim Patel, announced early in 2010 that a percentage of pension fund investments would be earmarked for investment in economic development, proving a potential R70 billion pot for businesses with a social mission.

However, the mechanisms for investing this money do not currently exist, nor is it clear whether there is full acceptance of this proposal within government. What it does signal is a desire, at least in some spheres of government, to look at ways of stimulating sustainable social enterprise development.

The concept of the role of the social economy in development also appears to be resonating more often within senior Government circles.

The ILO describes the "social economy" as follows:

Social Economy activities put people and their community, rather than profit, at the centre of their goal. Social economy entities do not primarily pursue the goal of profit, but aim at creating economic and social surplus. The Social Economy is defined by a thriving and growing array of enterprises and organisations that include in particular cooperatives, mutual benefit societies, associations and social enterprises. Social economy enterprises are run like businesses, producing goods and services pursuing economic, social and societal goals. Social economy enterprises and organisations serve and enable their members to take part in the market, and defending their economic, social and societal interests and aspirations.

Investment in Enterprise Development has formally been incentivized under the B-BBEE codes, which allocate 15 points to companies investing in 100 percent black owned SMMEs of their choice. This is the best option for companies with between R5 million and R35 million turnover. Additionally points may be earned for Corporate Social Responsibility (5 points) and contributions are deductible for tax purposes according to the prescribed limits under Section 18A.

Where clarity is needed is on how investment in social enterprises fits into the B-BBEE and tax codes and whether points awarded for Enterprise Development that through providing a solution to a social problem - i.e. a social enterprise – can be awarded points in the SED category as well.

While there are legal structures in countries outside South Africa, which are specifically designed to support social enterprises (a Community Interest Company in the UK and a Low-profit, Limited Liability Company in the US) these structures are not always 100% fit for purpose and many social enterprises exist within a range of traditional structures – both for profit and not-for profit.

Where we can and should look, in the short-term, to lobby for changes to the regulatory framework, is in getting recognition for social enterprises in the Income Tax Act – to enable PBOs more robust trading by lifting the current thresholds on trading and by allowing a capped share equity for social enterprises.

Equally important is to create clear guidance for corporates and other potential private sector investors wanting to take best advantage of B-BBEE scorecard points (particularly when investing through enterprise development budgets) by investing in social enterprises, so that there is no misunderstanding over whether investment in a social enterprise should be allocated points – as CSI rather than enterprise development - but rather as both.

5. The opportunity to create a virtuous circle

The opportunity for investing in social enterprise is a simple and compelling one. If sustainable businesses which meet social needs can be financed and supported, we have the ability to create lasting social impact. And, at the same time, working within the BBBEE frameworks, if social enterprise development is categorized as both enterprise development and as socio-economic development (SED) for which there is a strong argument being made, there are potentially 20 BBBEE scorecards points up for grabs - a win-win for business and for society.

That is not to suggest that all enterprise development spend, nor all CSI spend be diverted to social enterprises. In fact even if that were desirable, there is at present neither a sufficient pipeline of social enterprises, nor the capacity to provide the crucial non-financial support to incubate large numbers of social enterprises.

Rather, as part of a joined-up, strategic approach to creating maximum social impact, corporate decision-makers should look outside their narrow CSI or enterprise development focuses to consider alternatives for creating social change through social enterprise development.

And it is not just in providing important access to finance that corporates can contribute, but also in filling the gaps that exist in the provision of essential non-financial business development services such as education and technical assistance in order to bring these enterprises to a point of investment readiness.

Social enterprises do and will continue to exist through the efforts of those determined to make a sustainable difference to their communities. In order to encourage and accelerate the development of more social enterprises, corporate should be looking at ways in which they can support the process.