



# Waqf as a Financial Instrument for the Development of Social Enterprises in Pakistan

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**Abstract:** The aim of this research is to develop an understanding of waqf entrepreneurship and social enterprises. We look into different aspects of these entities their operation, fund management and challenges they face. This paper further applies the waqf model under Islamic financing for social enterprises. This research is fundamentally, descriptive, and Qualitative in nature. Sources of information are both primary and secondary. Primary source includes an interview from a youth-led organization operating in Pakistan. The secondary sources include research articles and archival record. The studied established that in Pakistan, social enterprises have no legal status with only few policies that indirectly apply. Some of the financial sources of social enterprises identified are donations, grants, concessional loans. Social enterprises face several issues in Pakistan. These include lack of funding, social recognition, government support and hardships in doing business. Islamic Financial Institutes also have the potential of playing a key role in financing social enterprise. Through the use of Islamic financial instruments like Zakat, Sadaqah, Waqf, Sukuk etc., Islamic financial institutes can alleviate this sector. We particularly look at waqf-based financing for social enterprises.

**Keywords:** Waqf Entrepreneurship; Waqf Model; Social Welfare; Social Enterprises, Islamic Finance, Pakistan.

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## 1. Introduction

Throughout the years scholars have proposed many definitions for social enterprises and entrepreneurship however these definitions are mostly similar regardless of some differences. We can establish that social enterprises are organizations who have dual nature and/or purpose to exist i.e., social, and economic. By definition social enterprises are cause-driven businesses and their primary bases for existing is to improve social objectives. In simpler terms, it is an organization that has qualities of both an NGO and a traditional business. Social enterprises are essentially unique due to the dual nature of their contribution. They are those ventures that contribute to the society as well as the economy of a nation by generating profit through a structure that allows them to bring social or environmental change (Social enterprise, 2021). However, in Pakistan it is still an emerging concept. Studies suggest that social enterprises are

progressing very moderately (Asif, Asghar, Younis, Mahmood, & Wang, 2018). From the existing data it is estimated that around 448,000 social enterprises exist in Pakistan (Ahmed, M. M., et al., 2016). Although due to lack of proper legal status/registration, it can be challenging to put forth an accurate figure. NGOs and Social enterprises can often be misunderstood since both works for a social cause. Hence, why many people may fail to distinguish between the two. This only emphasizes on the importance of having proper, clarified, and distinct legal definition for these organizations. Legally recognizing them both as different institutions allow policy makers to create policies and legal framework that is suitable for both separately. There is only a slight difference in both of these organizations and that is of financial sources. NGOs solely depend on donations and charity for their operation while on the other hand social enterprises are able to create revenue for their social objective, alongside donations and charity. Regardless of the fact that social enterprises aim to raise revenue, they can be either of the following types (1) For-profit social enterprises and (2) not-for-profit social enterprises. Social enterprises may operate in guise of various organizations and appear like a traditional business on the surface; however, their true nature of being a social enterprise is reflected in their mission (Social Entrepreneurship 2021).

*i. Sectors of Operation of Social Enterprises in Pakistan*

Social enterprises in Pakistan are mainly involved in two sectors: education (53%) and health & social care (30%). Other minor sectors include agriculture and fisheries (11%), energy and clean technology (9%), forestry (3%), transport (2%) (Ahmed, M. M., et al., 2016).

*ii. Objectives of Social Enterprises*

According to a survey the prioritized objectives of social enterprises in Pakistan are mainly as follows in table 01:

**Table 1: Objectives of Social Enterprises in Pakistan**

<b>OBJECTIVE</b>	<b>RESPONDENTS (%)</b>
Promoting education	48
Providing a service	46
Creating employment	37
Supporting vulnerable people	35
Improving a particular community	35
Improving health and wellbeing	33
Supporting children and young people	31
Protecting the environment	18
Addressing financial exclusion	18
Supporting other social enterprises	18
Addressing social exclusion	17
Selling a good	16
Providing affordable housing	2

Source: Ahmed M.M. et al., 2016

**2. Literature review**

Due to disparate research made over years in the field of social entrepreneurship, there is a variety of both somewhat similar and different definitions of social enterprises/ entrepreneurship and concepts likewise (Zahra et al., 2009, p. 521). One of a famous scholar in field of social entrepreneurship, Dees (1998, p.3) terms social entrepreneurs as one species in the genus entrepreneurs i.e., social entrepreneurs are only one of a kind of different entrepreneurs that there are. A social entrepreneur is defined as a person who starts or organizes a commercial enterprise, especially one involving financial risk according to the Canadian Oxford Dictionary (Barber, 1998, p.467). Whereas, United

States chamber of commerce defines social entrepreneur in relevance to social entrepreneurship as: "Social entrepreneurship is the process by which individuals, startups and entrepreneurs develop and fund solutions that directly address social issues. A social entrepreneur, therefore, is a person who explores business opportunities that have a positive impact on their community, in society or the world. (Peek,2020).

"A famously known concept of social entrepreneurship is that it involves an innovative and business-like approach to create social value. A social enterprise would generate revenue by using the principles of a not-for-profit organization without straying from its core objectives. Pomerantz, 2003 opposed to another concept according to which social entrepreneurship aims only at creating social value rather than shareholder wealth (Noruzi, Westover, & Rahimi, 2010; Thake & Zadek, 1997). Social entrepreneurship is also defined as "The activities and processes undertaken to discover, define, and exploit opportunities in order to enhance social wealth by creating new ventures or managing existing organizations in an innovative manner" (Zahra et al., 2009). Dees (1998, p.3) also further adds to his previous notion (social entrepreneur as a specie in entrepreneur genus) the element of value creation, innovation and change credited to Drucker (1985) and Stevenson (e.g. Stevenson, Roberts, & Grousbeck, 1989).. Another well-known conceptual model of social entrepreneurship was proposed by Mort, Weerawardena and Carnegie (2003). This describes social entrepreneurship as a "Multidimensional construct" based on many characteristics. A lesser-known social entrepreneurship concept is the 'complementary social entrepreneurship' where an enterprise is not necessarily a social enterprise itself or has social objectives but tends to support activities meant to bring about social benefit (Fowler, 2000). Hence, Pomerantz (2003) expands the boundaries of social entrepreneurship defining it as 'the development of innovative, mission-supporting, earned income, job creating or licensing, ventures undertaken by individual social entrepreneurs, nonprofit organizations, or nonprofits in association with for profits (p. 25).

A social enterprise may exist using different legal structures although the majority of them take the form of cooperatives or associations (Nyssens & Defourny, 2009). Dees (1998) explains social enterprise as an inventive solution to the financial issues faced by non-profit organizations as these groups are finding it more and more challenging to elicit private donations and government and foundation subsidies. The Northland Institute (2001) also provides a standpoint that social entrepreneurship is linked to social 'enterprise' elaborating it as income generation by the use of not-for-profit organizations' strategies. To further clarify social 'enterprise' becomes a revenue generating venture however with social gains at its core. This is what introduces us to a newer concept of social enterprises as hybrid organizations.

A hybrid is defined as an offspring of two different species (OED, 2010) which has been termed in management literature as institutes who have multiple different organizational characteristics (Jay, 2013). Hybrid organizations are also defined as "structures and practices that allow the coexistence of values and artifacts from two or more categories." (Doherty et al., 2014). Social enterprises are often understood as 'hybrid' organizations because they tend to possess characteristics of both a not-for-profit and a for-profit organization (Davis, 1997), (Peredo & McLean, 2006). They are also known as dual mission organizations (Dees & Anderson, 2006).

Social innovation can be defined as innovative activities and services that revolve around meeting a social need (Mulgan, 2006, p. 146). Ziegler (2010) defines social innovation as implementation of different and new combinations of capabilities. The concept of social entrepreneurship is mainly understood as an innovative approach (social innovation) that aims to tackle social problems. (Johnson, 2000). Although the relation between social innovation and social entrepreneurship is argued some link is found (Defourny & Nyssens, 2010). This link maybe increasingly made due to the lacking models of for-profit enterprises (Christensen, Baumann, Ruggles, & Sadtler, 2006; Dees, 1998). Social innovation and social entrepreneurship are both problem-solving

activities undertaken to address a social need (Phills et al., 2008). Social innovation is viewed as an interactive and collaborative action taken by institutes and actors involved in addressing social issues. This model which proposes social innovation as a collective and interactive action is known as the 'Systems of innovative approach' (Phillips et al., 2015). Research on this approach shows that collaborative work for social innovation much more effective (e.g., De Liso & Metcalfe, 1996) rather than the traditional view where social entrepreneurship and social innovation are seen as operating alone. With similar motives it is recommended that institutes collaborate to deliver greater social benefit.

### **2.1 Theoretical Framework**

The concept of social enterprise first gained popularity when Bangladeshi Economist Muhammad Yunus started a microfinance bank called Grameen Bank also known as the Bank for the poor. The Bank lends small loans to the underprivileged, supporting them to start their own business. This kind of operation showed incredible results. It brought people out of poverty, empowered women, enhanced the health of children belonging to lower class families, increased employment and overall had an impressive social and economic impact (Yunus, 1999). Due to this contribution, Muhammad Yunus was awarded a Nobel Peace Prize in 2006. Since then, Grameen bank has been a benchmark in social entrepreneurship with a net income more than \$10 million and serving 7.5 million people out of poverty (Yunus, Moingeon, Ortega, 2010).

This is a strategic management tool which has been identified as an effective design for non-for profit and likewise organizations. Because social enterprises cannot operate like a traditional business, this model has been suggested by Kaplan & Norton, 1996; Morrison et al, 2002. Balance Score Card suggests that the strategy and vision of organization should be translated into practice in four unique perspectives according to the business stage. These are financial, customer, internal processes, and learning & growth (Bull & Crompton, 2006).

The theory of impact investing for financing social enterprises has been only very recently proposed by Benjamin N. Roth. The theory explains how impact investors can better support social enterprises by investing in the organization rather than providing traditional grants. An impact investor is one who wishes to invest for social welfare, yielding both profit and social benefit out of their investment. This concept is supported by the model as it elaborates how impact investing can create financial sustainability by eradicating the reliance of social enterprises on charities and also increasing their beneficial impact (Roth., 2021).

### **3. Materials and Methods**

The Research methods are the systematic plan for conducting any kind of research. There are two types of research approaches i.e., qualitative, and quantitative. Qualitative research methods aim for an entire, detailed description of observations, including the context of events and circumstances (Erickson, 2011). This paper is based on qualitative approach. Both primary and secondary data has been used for this research. Secondary data is collected from articles, websites, research papers and other internet resources as well. Source of primary data is interviews with members of a youth-led initiative in Pakistan.

The interview was conducted of two lead members i.e., the founder (R1) and the finance leader (R2), of one of the Youth lead organization mainly operating in Karachi, Pakistan. Due to ethical concerns the names and information of organization and interviewees are not disclosed.

This paper aims to contribute to bridging the research gap in social enterprise sector. This research paper will provide the answers for following:

- a. How do social enterprises operate?
- b. What issues and drawbacks do they face?

- c. How can social entrepreneurship become better and efficient in Pakistan?
- d. How financial institution can help in the development of social enterprises?

➤ **1. How do Social Enterprises Operate?**

This portion includes an overview of different aspects of operation covering legal framework and policies, financial sources, and income utilization.

◆ **1.1. Legal Framework**

Social enterprises have no legal status in Pakistan, meaning an organization can simply not be registered as one. The options that are available however, are as follows:

For Profit

• *Sole proprietorship*

It can be defined as 'A form of unincorporated business organization where the owner not only has 100% equity but also manages the firm. [37]. Sole proprietorship is also known as individual entrepreneurship and a sole proprietor as sole trader. It is a type of business run by only one individual. Legally no distinction is made between the owner and business.

• *Association of persons/ Partnerships*

As the name suggest, it is the type of business owned or shared by two or more persons. Each partner is liable to both profit and loss, and all play an equal role in different aspects of business.

• *Private limited company*

It is a privately owned company that limits the liabilities and legal protection for its shareholders. According to Dictionary of Accounting (2010), a private limited company may be defined as 'Any limited company that is not a public limited company. Such a company is not permitted to offer its shares for sale to the public and it is free from the rules that apply to public limited companies.' (2010).

• *Public limited company*

From Dictionary of Accounting (2010) the definition of a Public limited company is 'A company registered under the Companies Act as a public company. Its name must end with the initials, 'PLC'' (2010). This type of company offer shares or stocks to the public, meaning they can be acquired by the general public.

Not-For-Profit

• *Trust*

This is a legal relationship between a trustor? and a trustee. Here the trustor offers the legal title of a property or asset to the trustee for the benefit of another party called the beneficiary. This type of relationship is known as fiduciary relationship. (Committing to work for the best interest of other party or entity)

• *Society*

A society is a group of people working for a charitable/social cause.

• *Sec 42 Non-profit Company*

Any organization or association that applies its profit and income for fulfilling its mission and rejects the payment of profits, dividends, or income to its members. So, we may ask under which legal status do the existing social enterprises operate. According to the survey conducted by the British council:

*"135 of the 143 surveyed social enterprises provided their legal status. 28% of these listed themselves as 'not yet registered', 8 26% listed themselves as some form of non-profit, and 41% listed themselves as some type of for-profit organization. After 'not yet registered', the most common form is 'partnership' - a for-profit form chosen by 19% of respondents."* (Ahmed, M. M., et al., 2016).

Our interviewed, youth led organization is also "Not yet registered"

Policies

Having the correct policies and legal framework in place is very important especially for entrepreneurship. A study discusses how regulation and policies can both hinder and facilitate SMEs. Government policies allow different institutes and organizations to function according to the norms of the state and what will best help

them operate efficiently. Many theories have been put out in the literature, and deliberate efforts are still required regarding the role of government in sustaining a competitive climate, conducive to successful operations, for the SMEs through economic policies (Dandago & Usman, 2011).

But unfortunately, in Pakistan there are not many laws or policies that apply to social enterprises, however, some that do have direct or indirect impact are following:

◆ **Social Enterprise**

Planning commission of Pakistan is currently in process of establishing the center of social entrepreneurship. It is still in the early stages and planned mentioned initiatives in the following tables (See Table 02 till table 04).

**Table 2:** Policies for skill development

Teaching social entrepreneurship in institutes	Higher Education Medium Term Development Framework II
Promotion of innovation and creativity	Framework for Economic Growth by Planning Commission
10-year plan for development of small and medium enterprises	Sindh Strategy for Sustainable Development
Emphasis on development of	National Youth Policy 2018, HEC Offices of Research, Innovation and Commercialization at universities, Technical Education and Vocational Training Authority (TEVTA), Punjab Youth Policy

Source: Ahmed, M. M., et al., 2016

**Table 3:** Support and Regulation (NGOs & Enterprises)

Main regulatory body, also tracks the transactions of NGOs	Securities and Exchange Commission of Pakistan – SECP
Supporting student business ideas, innovation, and research	Entrepreneurship Development Policy
Promotion of competitiveness in small and medium sized businesses especially in international market by helping them acquire international certifications	Certification Incentive Program for SMEs 2014

Legislation regarding registration of public and private limited companies + SECP registered	Companies Ordinance, 1984 – section 42
Legislation for Association of persons/ partnership entities	Partnership Act, 1932
Legislation for non-profit organizations	Societies Registration Act, 1860. Cooperative Societies Act, 1925

Source: Ahmed, M. M., et al., 2016

**Table 4:** Finances and Investment

Monitoring foreign funds to non-profit organizations	Foreign Contributions Act of 2015 (Gishkori, 2015)
Federal regulator of banks and financial institutes	State Bank of Pakistan
Loans for youth led businesses	Prime minister’s Youth entrepreneurship scheme -YES- Kamyab Jawan

Source: Ahmed, M. M., et al., 2016

◆ **Financial Sources**

i. *Donations*

Information from a survey suggests that nearly 40% of social enterprises receive donations Ahmed, M. M., et al., (2016).

. In interview with FTM, the study found that the main financial source for their organization is donations as well, besides receiving the funds from their global team. R1 told:

*“The main entity for our funds is our global team. We rely completely on them – Secondly, we seek financial help through the lead members and the team in regard to donations or bringing material from their homes that can be used and lastly, we do fund raising”*

R1 says:

*“We held a small junk collection in my area - We targeted certain locations and in one day we earned around Rs.3000”*

The process of collecting donations obviously differ from organization to organization, for FTM Pakistan, the lead member said that they organized fund collections and Junk collections through their team members, each member was able to hold this process of fund/ Junk collection in their respective localities allowing them to target larger area and more people.

ii. *Grant funding*

The second most common financial source for social enterprises is grants. Grants are funds given by a foundation and/or Government to an entity for a specific purpose usually one which is social or economic. Grants are of big deal for social organizations because unlike loans, grants are non-repayable. This alleviates the financial restraints of one receiving the grant.

iii. *Concessional loans*

Concessional loans are slightly different than market loans in regards that the terms are more generous. These loans have extended grace period and/or lower interest rate. Therefore, for social enterprises, concessional loans become another great financial source. Although concessional loans as we see, are potentially a good financial source but for Pakistan's social enterprises, it has been observed, that very few were able to attain concessional loans. It is reported that amongst these few social enterprises that received concessional loans, all are male led organizations. No female-led social enterprise has been able to receive concessional loans in Pakistan. The said concessional loans have been reportedly only received by the ventures in Punjab province. These loans were mainly provided to the organizations with leaders aged 25- 34 (Ahmed, M. M., et al., (2016).

. In fact, when it comes to business loans only about 2% of these go to women (Richardson, Tsui, Nazir & Ahmed, 2017).

◆ **1.3. Income Utilization**

Budgeting the funds/ surplus raised by these organizations is probably the most crucial step. It must be well planned and put for the success of the organization and achievement of goals. So, for example, the interviewed organization's main goal is to produce maximum number of product from the collected funds. And they do this through calculated steps. First is to determine the cost of raw materials. This way the process of budgeting funds for other aspects like workshop setup, and transport, becomes easier given that the major objective has already been met i.e., targeted production

R2 told:

*"In the first cycle, we also check the cost of the approved raw materials - and with respect to that we are able to calculate the cost of other items like transport cost etc."*

From the survey conducted by British council (Ahmed, M. M., et al., 2016) , we are able to find more aspects on which social enterprises are likely to spend their funds. It includes the following:

- Growth and development activities
- Rewards to staff
- Funding third party social and environmental activities
- Savings
- Profit sharing with owners and shareholders

➤ **What issues and drawbacks do they face?**

*i. Funding and Finance*

Reportedly, most social enterprises in Pakistan face the issue of lack of funds and investment (Ahmed et al., 2016) .This may arise because of certain interlinked factors like building social trust and recognition in society; lack of which contributes to low level of funds and investment. Besides that, many indirectly affecting policies in Pakistan are not seen as very helpful towards social enterprises in relation to funding and finance. For example, the regressive taxation system that becomes a barrier to financial growth.

*ii. Lack of government support/ grant funding*

We have observed earlier that there is barely any government contribution in this sector keeping aside the fact that social enterprises are not legally recognized in the first place. The lack of support reflects as a major challenge in operation for these organizations. Moreover, issues also arise due to inefficiency of our government creating challenges like lack of advisory institutions, and inadequate access to public goods and utilities like electricity, water supply etc. Grants as also discussed before are a huge financial opportunity for social enterprises and it helps them grow towards their aim. However, unfortunately social enterprises do not receive any significant amount of grants and so seeking them it becomes a major challenge for these organizations. R2 says:



*“I can hope that government could start an agency that could provide us with small funding, just enough for the start-up to keep working.”*

*iii. Hardships in doing business*

Reports show that doing business or starting a business in Pakistan is not very convenient. The world competitiveness report from 2017-18 shows that estimated 17% rate of corruption in Pakistan plays part as a huge barrier for the businesses. It also highlighted other factors alongside for example, lack of skilled labor which was 13% and regressive tax regimes (Global Competitiveness Report, 2018).

Besides all these factors, on international grounds Pakistan ranks high for many other factors that are impediments for business start-up see table 05.

**Table 05: Ease of Doing Business, 2019**

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

Source: World Bank, 2020

In world competitiveness report of 2019, Pakistan was ranked 110<sup>th</sup> on the chart of Global competitiveness index 4.0 which measures national competitiveness that is defined as the set of institutions, policies and factors that determine the level of productivity. All these factors impact social enterprises in relation to taxation, labor, productivity, and government policies. (Global Competitiveness Report, 2019).

*iv. Lack of social recognition and Awareness*

There is not only lack of legal recognition but also social recognition for social enterprises in Pakistan. A huge population in our country is unaware of what social enterprises are and what they do. Due to this lack of recognition, it can be hard to build and sustain a social enterprise because it becomes a challenge to not only have people be a part of your organization but also support your enterprise. R2 tells:

*“First of all, to raise this topic in the country is the biggest challenge because you need people to join the team and most people don’t do so.”*

The lack of legal recognition also comes into play here as data suggests that working without an identity demotivates the employees working at SEs. Paying them salary becomes a problem when there is only so much the organization is making with no or poor legal and societal knowledge about social enterprises. This ends up in high rate of turn-over and retaining employees at SEs becomes difficult (Qamar, Ansari, Tanveer, & Qamar, 2020)

*v. Covid-19*

Currently as we know, Covid-19 is the biggest challenge in all sectors globally. It has had a very prominent effect on the world. R2 told during the interview how Covid-19 has impacted their organization.

*“Right now, the major challenge is covid, because you have to do everything virtually and that is hard to tackle. Because underprivileged people are not on internet so, we are not able to talk to them.”*

➤ **How can social entrepreneurship become better and efficient in Pakistan?**

### **3.1. Government Policies and investment**

Likewise, any other sector, social enterprises can greatly benefit through government investment especially given the fact that government as for now plays a very little role.

It is easily understandable that government needs to play their part for the efficiency and betterment of this sector. Here are some policy recommendations that Government should adopt in order to eradicate issues for social enterprises and help them flourish.

#### *3.1.1. Legal recognition*

Social enterprises are yet to obtain a legal status in Pakistan. This is an important step for the government and a first towards building more policies for this sector. Legal recognition goes a long way hence it is easily the most basic and necessary step that government must take in Pakistan for the betterment of social enterprises. Also as mentioned earlier in financial sources, that commercial banks in Pakistan seem to be hesitant in providing loans and/or concessional loans to social enterprises, (which is, possibly in Pakistan) stemming from the lack of legal and social recognition, becomes a huge barrier for the organization leaders. Legally recognizing and defining social enterprises will allow policy makers to develop more suitable policies for development of social enterprises (Noya & Clarence, 2013)

#### *3.1.2. Grants*

We already discussed the importance of grants and how much support it brings to organization such as social enterprises. It will help social enterprises financially sustain and excel towards their objectives.

#### *3.1.3. Tax incentives*

Providing tax incentives to social enterprises will ease their work. Given that most common challenge faced by social enterprises is in regard to their finances, tax incentives can be another way of providing these organizations some sort of relief and ease in operating.

#### *3.1.4. Agency for regulation and support*

Like any sector, regulation is very important in social enterprises as well. We are aware of Securities and Exchange Commission of Pakistan (SECP) as the main regulatory body for organizations such as NGOs, regulation of social enterprises perhaps under the same agency should be initiated alongside its legal recognition. Here, it is also recommended that the Centre of Social Entrepreneurship under the Planning Commission is also brought into immediate and affective use to support social enterprises (Richardson, Tsui, Nazir & Ahmed, 2017).

#### *3.1.5. Provision of sustainable finance*

Because of the issues and challenges that social enterprises face, like lack of funds, social recognition, and trust - highly impact their donations and other financial sources. Hence, it is recommended that government should create a body that will help to sustain social enterprises especially during their financial lows. Sustainable finance can be provided through co-investing with private sector, seed funding or other investment programs as are established in many countries such as Australia, Poland etc (Noya & Clarence, Policy brief on social entrepreneurship, 2013). Moreover, a temporal method is also suggested for program funding to meet the needs of organizations receiving support which entails that government should focus their funding on those social enterprises that create such externalizes that correlates with government's own aims and objectives. For example, in Quebec the government made investments in early childhood centers that were helping combat the low employment level among women (Mendell, 2010).

#### *3.1.6. Public procurement*

Public procurement will create awareness; make use of their provided goods and services, and open doors of opportunities for social enterprises. Government can also play a crucial part in incentivizing public procurement of social enterprises by private

sector (Richardson, Tsui, Nazir & Ahmed, 2017). This can be a major step for these organizations and help them greatly in meeting their economic and social objectives.

#### *3.1.7. Raising awareness*

In Pakistan there is lack of awareness in regard to social enterprises, therefore often times it is a huge barrier to growth for them. Lack of social awareness and trust is a constraint on donations, charity and public participation where required. So, government must help raise awareness, sponsor, and advertise these enterprises and their cause. A recommended way is to award social innovators and scientist for their contribution, this way encouraging them as well as raising awareness in the country by promoting their work. Some examples are the Social Enterprise Awards in Thailand, the Community Solutions Tour in the US, and the Social Value Awards in UK.

#### *3.1.8. Facilitate potential funders and investors*

Government should provide facilitation for those who are potential investors for social enterprises. This should also be targeted towards female led social enterprises to bridge that gap and lack of opportunities created due to gender inequality [53]. An example of this is the social investment tax relief provided in UK to those who invest in social enterprises. Through this the government provides a reduction of 30% of the investment in income tax bill for the particular year. That's way encouraging potential investors to invest in social enterprises.

#### *3.1.9. Incubators and accelerators*

Government should help facilitate building incubators and accelerators for social enterprises similar to few that are already operating in Pakistan for example, invest to Innovate, The Hatchery, Technology incubator center at National University of Science and Technology and Nest I/O.

#### *3.1.10. Mentorship programs and Education on Social Entrepreneurship*

Government should introduce mentorship programs to help those in the early start-up phase of these organizations. It will mainly help youth-led social enterprises and educate more people on social entrepreneurship. This is likely to bring long-term benefit in social enterprises. Government/Higher education commission should work with educational institutions to create a more effective and updated curriculum for educating students regarding social entrepreneurship. This will help create understanding in the students as to what is social enterprise and how they operate given that it is something people often confuse because of the sea of definitions that are applied to this concept, hence, it is important to educate the youth on this topic. Providing them with better education will allow us to integrate them in our social economic sector in the future. So many people including our youth in Pakistan are oblivious to this concept of social entrepreneurship and it makes us question how many potential social entrepreneurs, we are losing due to the lack of effective education.

#### *3.1.11. Creating a culture of social entrepreneurship*

Creating such environment means encouraging people to practice social entrepreneurship and assimilating their innovatory ideas into this sector, welcoming them, and unveiling their potential. A good example of this is French Jeun'ess initiative which was introduced in 2011. It was a public-private partnership between many ministries, social enterprises, and organizations from social economic sector. The aim of this initiative was to promote social entrepreneurship amongst young people through three different ways.

- a- By education
- b- Through initiatives
- c- And integration of young people into this sector.

According to a research report:

"A budget of €1.3 million euros was allocated for the years 2010 and 2011, and a further €600,000 euros has been engaged until the end of 2013" (Noya, A. 2014).

Besides this, it must be realized that social enterprises need business support however the way to approach is to understand the social dimensions as the main reason of existence of social enterprises (Zheliakov & Stoyanov, 2015).

#### 3.1.12. Ethical business and corruption

A main barrier for many social enterprises or businesses in general is the lack of business supporting environment, ethical business and/ or increase in corruption which has been a major challenge for Pakistan. The government needs to make sure that the enterprises it facilitates or provides help to financially or otherwise must be authentic and truthful towards their objectives and that the grants and donations trusted to them are put to right use. The government must regulate and make sure that these enterprises work ethically, true to their social or environmental causes. This is highly important so that the interests of those who donate or invest in these organizations are also protected.

Ethics in business can also be highlighted through the Muslim traditions. The obligatory charity that is Zakat and optional charity like Waqf.

#### 3.1.13. Sustainability and Competitiveness in SEs

Following are recommended for increasing sustainability and competitiveness in social enterprises:

a. Government should facilitate social enterprises through establishing an advisory committee with experts in areas such as marketing, finance, and sales, to all social enterprises.

b. Government should establish funding scheme to provide one-off funding for start-up capital expenditure to increase competition among social enterprises (Leung, Mo, & Ling, 2019)

### 3.2. For Private Sector

#### 3.2.1 Research and development

The topic of social enterprises as of now has very limited research available. More research will have a huge impact on this sector by bringing innovation, efficiency, and problem solving ability.

#### 3.2.2 Networking and Partnerships

Networking and working in partnership with other actors involved in social innovation or social entrepreneurship is highly emphasized and encouraged. (Dawson & Daniel, 2010)

#### 3.2.3. Efficient staff/ labor

More manpower especially skilled labor will create increased outcome. FTM leader told while explaining the success of their organization in Gilgit, that it was all possible *“through our volunteers”*

#### 3.2.4. Education and skill development

Education and skill development should be more emphasized for the success of these organizations.

The employees and leaders of social enterprises should consider gaining education and acquiring relevant skills through experience in this field before the start-up of their organization or during the hiring process (Halimat et al.,2022). This way it is likely that their social enterprise will sustain and have an impact on the long run. According to FTM's Chapter leader: *“From the beginning, I have been working as a guide. In my community, I would practice fund raising, and building membership skills and that has really helped me throughout this period of start-up.”* The finance lead member also mentioned the use of bargaining skills that help them *“purchase materials at a cheaper cost”*.

#### 3.2.5. Raising awareness

It is important for social enterprises that they do their part in raising awareness. Today we have resources like technology and internet at everyone's disposal, which makes social media a huge platform to create engagement and raise awareness. This obviously requires for the team part of these social enterprises to be well acquainted with social media and acquiring social media handling and marketing skills. However,

doing so will not only champion the social or environmental cause of the particular enterprise but will also educate and inspire the youth to take part and engage in social entrepreneurship in Pakistan.

### **3.3. Model Solutions**

Following countries are some model examples that can be applied. All of these countries have strong and successful policies that help their social enterprises grow.

#### *i. THAILAND*

A great model for us can be Thailand. Thailand has very supportive laws and policies for social enterprises. According to their policies, social enterprises are given corporate income tax exemption, public sector support for investment and funds and interest rate subsidy. Furthermore, the government of Thailand has been actively taking measures to promote social enterprises and education and research on social entrepreneurship. One of the examples on their efforts to promote social entrepreneurship and encourage people is Thai Social Enterprise Awards. Hence, Thailand has become one of the top countries with enhanced and successful social economic sector.

#### *ii. SOUTH KOREA*

South Korea can be a prime example for a supportive legal framework that helps social enterprises and bring enhancement in this sector. Under South Korean law, social enterprises are recognized with clarity and distinction. For these organizations the government has introduced guaranteed funds called KODIT, a Korean Credit Guarantee Fund. These facilitate finance when social enterprises are able to stimulate sound credit transactions. They also provide with government funded incubators and accelerators like Seoul Creative Lab. It is through these policies and actions that South Korea was ranked 7<sup>th</sup> best country to be a social entrepreneur in, back in 2016 according to a study by Global Social Enterprise Network and Thomson Reuters Foundation.

#### *iii. UNITED KINGDOM*

Another model for us is UK. In UK government has taken several measures to ensure promotion of social enterprises. Here, we have government initiated social finance, Big Lottery Fund which provides grants, the Social Value Act introduced back in 2012 for public procurement to allow social enterprises with opportunities to deliver their goods and services to public. Besides these UK has emphasized on research and development for this sector like through The National Evaluation of the Social Enterprise Investment Fund. This is why UK is comparatively far ahead than many countries in terms of successful sector of social entrepreneurship.

### **3.4. How Financial Institutions can help in development of social enterprises?**

Financial institutes can play a key role in financing the development of social enterprises. Through impact investment and provision of loans, these financial institutes can open doors of financial independency for social enterprises. After all, banks play a crucial role in facilitation of businesses hence in every aspect, from giving out loans to its dividend payout policy it has the ability to highly impact businesses across the country (Imran, K; Usman, M; Nishat, M, 2013). Take an example of commercial banks; these banks often work in collaboration with social welfare organizations to ensure resources for 'scaling up'. Banks have also promoted Bank-NGO collaboration through economic and sector work (ESW) to increase its knowledge on the operations of these social welfare organizations and induce development for them. In short, banks have shifted their attention towards financing these social organizations as it expands its overall agenda (World Bank, 1996). Social-ethical banks or banks with social agendas finance social welfare organizations and social enterprises, especially through impact investment. Besides commercial banks, microfinance banks are another great instrument used widely to finance SMEs and social enterprises. In fact, Pakistan was

ranked in the category 'overall regulatory framework and practices for Microfinance' in a sample of 55 countries by the Economist Intelligence Unit from the *Economists Magazine*, proving the well establishment of this financial instrument, especially in Pakistan. The other financial instrument is capital market. By luring investors with long-term investment horizons, the capital market offers a way for firms to raise the long-term financing requirements through equity and long-term debt. For the system to maintain the required amount of liquidity, capital markets and banks are both essential (Anwar, Y. 2011). Some innovation has also taken place within the financing of social welfare organizations through financial institutes. One example is SIB called Social Impact bond that aims to bring together these social welfare organization, private and public institutes to invest in collaboration towards the collective goals of social impact i.e., impact investing. This financial tool allows investors to invest in social organizations and receive a reward in case of success of this investment. This reward is paid by the government, which essential plays the role of promoting these investments from private investors. The amount invested is returned alongside the reward, however on the other hand, if this investment fails then no reward is paid, and the investors has to bear the loss of his entire investment (Biancone, P., & Mohamed Radwan Ahmed Salem, M. 2019).

### 3.5 Islamic Financing

In many cases, traditional financial institutions can fail to finance social enterprises, especially under strenuous economic conditions. However, Islamic financing has proven to be very aidful in those circumstances and in others (Abozaid,2022). The foundation of the Islamic financial system is social solidarity and equity, which aligns with the goals of microfinance. Islamic microfinance provides Sharia-compliant, interest-free loans that can help the poor by promoting productive initiatives, boosting income and savings, and enabling the creation of capital (Bennet, M. 2015). Especially in Pakistan, Islamic Financing has seen much progress thanks to the introduction of Islamic banks. Through Islamic financing tools like Waqf (perpetual endowment), Sadaqah (voluntary charity) and Zakat (obligatory charity), many social welfare organizations have been supported. In fact, this has been found abundantly in the history as well where Islamic financing has been used as an alternative to fund the social sector. Basically, the goals and conditions of Islamic financial instruments are comparable to those of social impact investments, which produce both economic and social advantages (Biancone, P., & Mohamed Radwan Ahmed Salem, M. 2019). In terms of waqf, there are mainly two basic types of waqf recognized by Islam are awqaf al-khairi (charity) and awqaf al-ahli (family waqf). The former is committed to the common good and the welfare of deserving people, whereas the latter is only committed to the benefit of a deceased person's family and other close relations (Usman, M. and Ab Rahman, A. 2021). Both in their own terms have shown tremendous impact on social sector of Muslim countries. As for zakat, through the use of the following sharia-compliant tools and methods, it can be utilized in conjunction with other Islamic financing sources to promote social businesses and increase financial inclusion (P. P. Biancone and M. Radwan, 2015). Wealth redistribution through zakat, sadaqa, waqf, and Qard hasan, as well as the use of risk-sharing-based financing through microlending for small and medium-sized businesses, is the first two. Islamic finance can also offer crowd-funding, which is the process of adhering to Sharia law while collecting modest amounts of money from a large number of people via an online platform. Islamic crowd funding is viewed as a practical means of financing equities that complies with Sharia (M. Asutay, 2010) .

## 4 Waqf for the development of social enterprises

Let us first define what waqf is. Literally waqf means to preserve or contain. In Islam, waqf is a charitable practice of giving over some of your possession or asset for example, land, a building etc. for social welfare. There are many instances in Islamic history when socio-economic benefits were yielded from this practice of Muslims,

initiated by the Prophet (PBUH) himself. Even, today waqf is widely practiced by Muslims around the world. Understanding how to properly utilize this financial tool can help us unlock its true potential (Manshor & Abdullah, 2020). Waqf is of three main types. First is the Religious Waqf. The endowed asset is utilized for religious purposes for example building mosques. Second type is Philanthropic Waqf where the endowment is made to achieve social welfare and benefits the public by alleviating poverty, unemployment etc. Lastly is the Family Waqf. In this type of waqf the endowment is made for family for example the waqf from parents to children (Salarzehi et al., 2010).

Waqf has tremendous ability to create social welfare. It embodies the nature of social entrepreneurship which is why it is seen as an incredible financial tool for social enterprises --- and has been used for Islamic economic development through-out years hence is encouraged to be utilized in context of social entrepreneurship and business. One of the waqf models proposed insinuates that the property or finances acquired through the mechanism of waqf can be utilized for social entrepreneurship activities and the profit raised through these entrepreneurial activities can be redistributed into the waqf fund (Iman & Mohammad, 2017).

When we understand the application of waqf for social entrepreneurship, we realize its ability to counter the weaknesses in modern capitalist society which enables accumulation of wealth by certain number of people in society. Combatting poverty and promoting redistribution of wealth and resources becomes increasingly difficult. However, Islam has provided us with the prime solution to develop our socio-economic sector through Islamic instruments like Waqf (Manshor & Abdullah, 2020).

## 5. Conclusion

This paper overviewed the concept of social enterprises, exploring the variety of definitions and models previously proposed in the literature. As the aim of this paper, social enterprises of Pakistan are discussed, from legal framework, directly and indirectly applicable policies, to the issues and challenges that were lack of government support, grant funding, financial barriers, overall economic climate of Pakistan which to a discernible extent makes doing business difficulty and of course the lack of social recognition in Pakistani society. Considering these factors, the paper first highlights the importance of social enterprises to truly depict why it is necessary that appropriate policies are introduced to uplift this sector. Factors such as Education, health, women empowerment, alleviation of poverty, employment opportunities and creation of surplus are among many benefits that social enterprises bring to the table. From understanding just how much potential this sector has, the paper further includes policy recommendations for both government and private sector. Some policy recommendations for public sector include, legal recognition, tax incentives, facilitation of investors, public procurement, need to promote ethical business and preventing corruption. Further, the role of financial sector including Islamic financial institutions is very important as they can play a great role by introducing products and services for social enterprises' development. For private sector, recommendations include networking and partnerships, raising awareness, acquiring relevant education and skill development. In conclusion, by analyzing this sector we reveal a great potential for social enterprises to contribute to our social and economic sector likewise its success in other countries. Social enterprises have potential of major growth and contribution as these organizations are opening doors for innovation but regardless of these potential positive outcomes several challenges still exist which withhold this sector from truly outshining in Pakistan.

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