Introduction to Social Enterprises in South Africa

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AGENDA

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8. What’s Unique about Social Enterprises?
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Greenpop is a dynamic social enterprise that has built a very engaged community of customers and volunteers.

Greenpop has planted and maintains 40,002 trees in 286 locations such as under-greened schools, creches, community centres and deforested areas.

What’s special is just how many volunteers (3,478) have joined Greenpop in its 3.5 years of operation and paid their costs to travel to an African country to help plant trees. Greenpop has made doing good lots of fun.
2. EXAMPLE: GREATER CAPITAL

Greater Capital has a Non-Profit Legal Form

Greater Capital is a social enterprise providing social research, enterprise development and due diligence services.

After struggling to find donations, Greater Capital repackaged its work as consulting services and started hunting for customers.

Greater Capital now has over 100 clients and earned income covers more than 80% of its operating costs. It has also grown and become a significant player in SA’s social enterprise space.
3. OTHER LOCAL EXAMPLES OF SOCIAL ENTERPRISES
4. POTENTIAL OF SOCIAL ENTERPRISES

United Kingdom there are approximately 70,000 social enterprises contributing in excess of £18 billion (approx. R320 billion) to the UK economy and employing approximately a million people Social Enterprise UK. (Small Business Survey, 2013)

Social Enterprises in the European Union Account for over 3.5 million jobs (Study on Practices and Policies in the Social Enterprise Sector in Europe, 2007.)

Grameen Bank was formed in 1996 as a Micro-finance institution. It serves over 85,000 villages in Bangladesh alone and has issued loans to 8.4 million people by 2011, and 80% of loan recipients have used the loan to reduce their level of poverty.

Mondragan was formed in 1956 in Spain as a federation of worker cooperatives. By the end of 2013, it was employing 74,061 people in 257 companies and organizations.
5. DEFINITION OF A SOCIAL ENTERPRISE

“A business or other organization characterized by the delivery of social value as the principal aim as opposed to maximizing profit for the owners/shareholders; and the ongoing production of goods or the provision of services to generate an income that covers costs and potentially allows for a surplus.” (ILO)

“An organization that has a market orientation but exists to address a social or environmental issue.” (Greater Capital)

“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”. (IDC)

A social enterprise is a social business or business venture that that exists to fix a social or environmental problem and uses its profits for this purpose. (Marcus Coetzee)
6. CRITERIA FOR A SOCIAL ENTERPRISE

To be considered a social enterprise, organizations must:

• Have a clear social and/or environmental mission set out in their governing documents
• Generate the majority of their income through trade
• Reinvest the majority of their profits
• Be autonomous of state
• Be majority controlled in the interests of the social mission
• Be accountable and transparent
### 7. CONVERGENCE BETWEEN BUSINESSES AND NPOs

<table>
<thead>
<tr>
<th>Source of income</th>
<th>Traditional NPO</th>
<th>NPO with income generation activities</th>
<th>Social enterprise</th>
<th>High Impact Business</th>
<th>Socially responsible business</th>
<th>Traditional business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grant-dependent</td>
<td>Grant-dependent with some trading activities</td>
<td>Trading activities with some donations</td>
<td>Trading Activities</td>
<td>Trading activities</td>
<td>Trading activities</td>
<td>Trading activities</td>
</tr>
<tr>
<td>Profits</td>
<td>Always reinvested in enterprise</td>
<td>Can be extracted as dividends to shareholders</td>
<td>Economic value creation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary intention</td>
<td>Social value creation</td>
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</tbody>
</table>

Can you think of any good examples of each of these?
9. LEGAL FORMS FOR SOCIAL ENTERPRISES

**Non-profit** legal forms:
- Non-Profit Company
- Voluntary Association
- Non-Profit Trust

**For-profit** legal forms:
- Sole Proprietorship
- Close Corporation
- Business Trust
- Personal Liability Company
- Private Company
- Public Company

NPO Accreditation by Department of Social Development

S30 Accreditation ("Public Benefit Status") by SARS

S18A Accreditation ("Donor Deductible Status") by SARS

Or create a combination of all of these in the form of a “Hybrid” Social Enterprise model
What’s Unique from a Traditional Businesses perspective?
• Designed for a social purpose
• Reinvestment of profits
• Potential for increased staff, customer and staff loyalty

What’s Unique from a Traditional Nonprofit Perspective?
• Increased self reliance and independence from donors
• Freedom over how best to spend funds
• Build a reserve for “rainy days” and unforeseen circumstances
• Scale with right business model.
• Results orientation
• Ability to receive impact investment
• Perception that the organization is taking initiative to look after its future.
• Increased approval and cooperation from businesses
Results based on a survey conducted by the Bertha Centre in 2014 on the type of support that social entrepreneurs need. Sample = 144 questionnaires, 69 focus group participants and 14 in-depth interviews.
CHALLENGE 1:
ACCESS TO MARKETS

- Unaware of supplier opportunities in government and business.
- Don’t know the process for submitting bids.
- Don’t have the right level of Black-Economic Empowerment.
- Entrepreneur is the “wrong” colour.
- Government pays for activities not results/outcomes.
- Don’t have the right documentation (e.g. tax clearance certificate, audited financial statements, B-BBEE certificate).
- Too much procurement bureaucracy.
- Customers don’t appreciate the additional value that social entrepreneurs have to offer.
- No directory of products (goods/services) of social entrepreneurs.
- “Price war” format of government tenders.
- Perception of corruption of procurement processes and with “political inner circle winning tenders”.

Customers can include:
- Small businesses
- Nonprofit organizations
- Corporations
- Government
- General public
CHALLENGE 2: ACCESS TO FINANCE

- Don’t know how to access enterprise development (ED) funding from corporates.
- ED funders are not interested or confused by enterprises with a social purpose.
- Grant funders are wary of any “business-like” aspects of the enterprise.
- Impact investors complain that social entrepreneurs have the wrong business models.
- Financial bureaucracy and red tape.
- Banks unwilling to give loans to enterprises with a “non-profit” legal form or those owned by a nonprofit organization.
- Donations to for-profit entities not tax deductible for the giver (no PBO status).
- Some investors consider normal labour intensive enterprises as good “impact investments”.
- Rules for reserve ratios of foundations encourage grants not impact investments.
- Lack of finance for startups and idea generation.

Funders can include:
- Government
- Enterprise Development Departments
- Banks
- Impact Investors
- Foundations
- Crowdfunding
CHALLENGE 3: ACCESS TO SUPPORT

• Lack of specialized training for social entrepreneurs.
• Huge number of inexperienced entrants into the field.
• Training is either too business orientated or too socially focused – very few providers get it right.
• Social entrepreneurs are desperate for networking opportunities, particularly with other social entrepreneurs.
• Need help with developing business models that appeal to impact investors.
• Need help identifying procurement opportunities and preparing suitable proposals.
• Want government and funders to use existing organizations to provide support – don’t want support from people that don’t understand them properly.
• Need for shared workspaces.

Support can include:

• Training
• Incubation
• Shared workspaces
• Networks

• Mentorship
• Seminars
• Conferences
• Academic programmes
11. THE ECOSYSTEMS DEBATE: “CHICKEN OR EGG”

- Countries such as the United Kingdom have ecosystems that support social enterprises.
- To what extent are these ecosystems a cause or consequence of social enterprise activity?

### Size of UK Social Enterprise

- **280,000** Social enterprises in UK
- **70,000** Employ at least one person
- **1 million** People employed in total
- **£50 billion** Combined turnover a year

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Correlation versus Causation

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BIS Small Business Survey 2012 ‘very good fit’ definition (2012)

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for social entrepreneurs
12. PRIMARY ECOSYSTEM DRIVERS?

Which are the factors that would most stimulate the growth of social enterprises in South Africa?

- Incubators
- Funders
- Government Strategies
- Impact Investors
- Investor Readiness Clinics
- Tax Incentives
- Micro Grants
- Conferences
- Academic Research
- Mentorship
- Practical Training
- Directory of Social Enterprises
- Leadership Building
- Procurement Policy
- Leadership Building
- Social Innovation Labs
- Study Tours
- Practical Training
- Award Campaigns
- Idea Generation Fund
- Peer Learning
- Industry Associations
- New Legal Forms
- Marketing Campaigns
- School Programmes
- Certifications
- Case Studies
- Revise B-BBEE codes
- Government Strategies
13. RESOURCES

- Choosing the Right Legal Form for your Social Enterprise by Marcus Coetzee
- Guide to Legal Forms for Social Enterprises in South Africa by Bertha Centre
- A Guide to Legal Forms for Social Enterprises in South Africa by Legal Resources Centre
- A Guide to Finance for Social Enterprises in South Africa by Greater Capital
- What Makes a Social Enterprise a Social Enterprise by Social Enterprise UK
- Business Models for Social Enterprises by Marcus Coetzee
- Think Like a Social Enterprise by Marcus Coetzee
- Setting up a Hybrid Social Enterprise by Marcus Coetzee
Reflecting on whether a social enterprise is the right model for you:

- Who is your **beneficiary** (i.e. the people or community who will benefit from the services of the social enterprise)?

- Who is your **customer** (i.e. the person or organization that will pay the social enterprise to deliver its services)?

- Will the social enterprise be able to **generate a surplus** (i.e. profit margin) from sales to the customer?

- Will the social enterprise require a **loan** or **equity investment** in order to expand?

- How much **control** do you personally desire to have over the social enterprise?
Thank you

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