



Turning Entrepreneurs Into Venture Capitalist

# **Development Aid vs Social Enterprise - A Pakistan Perspective**

## A State of Aid:

The ethos of social and economic development takes its roots from the concept of empowerment. A state of empowerment is only possible when nations discover their internal strengths, and understand how to use their potential to its full capacity to fill gaps in existing systems. Pakistan is slowly coming to this realization; however, its heavy reliance on foreign aid has not let it come full circle.

Since its inception in 1947, Pakistan has been an aid dependent nation. According to a CRS report for Congress 2001, an estimated \$ 73.1 billion were disbursed in overseas development assistance from 1960 – 2002. These funds were given by several bilateral and multilateral donors. History shows that the United States has been by far the single largest bilateral donor and from 1951 – 2011 obligated nearly \$ 67 billion to Pakistan.

From 1960 to 1998, Pakistan was the third largest recipient of foreign aid. Aid inflow from the United States increased during the 60s and a significant portion was routed towards infrastructure development, industrialization, food support and humanitarian assistance. When Pakistan declared war with India in 1965, these sources of funds were retracted. The 80s experienced another hike in foreign aid, particularly from the US for development and military assistance on account of Pakistan serving as its ally in the cold war against Soviet Union. Most of the funding was halted in the 1990s when the US Congress failed to receive a certificate that Pakistan was not developing a nuclear bomb. Aid was further curtailed when Pakistan conducted its nuclear tests in 1998.

The graph for US aid to Pakistan spiked again after 9/11 and the US renewed its commitment to Pakistan in 2009 after the issuance of the Kerry-Lugar-Berman Bill also known as 'Enhanced Partnership with Pakistan Pact'. This Bill was moved by the US Congress in 2010 and authorized the release of \$1.5 billion per year to the Government of Pakistan from 2010 to 2014. The purpose of this aid was non military in nature and was focused on economic development, reforming governance and investing in the society, hence initiating release of funds for with a more people-oriented approach. According to the Center of Global Development, of the aid disbursed to Pakistan from FY02 to FY09, only 30% was appropriated for economic development whereas the remaining 70% was used in security related assistance. Under the KLB Bill, the amount set for economic related assistance increased from 30 to 41 percent. According to the Quarterly Progress and Oversight report on Civil Assistance Program in Pakistan, as of March 31, 2013, \$3.571 billion has been spent on civil assistance programmes since 2010. These funds were intended to develop the country's infrastructure, help the government address the needs of its citizens, improve economic opportunities and strengthen Pakistan's ability to bring about social and economic reforms thus reinforcing stability.

Despite the fact that funding has been slightly reduced, Pakistan is the fourth largest recipient of US funding following Israel, Afghanistan and Egypt. Although Bangladesh has similar needs, and a comparable population, the US has still pledged seven times more funds to Pakistan.

Among other donors there is World Bank's International Development Association, Japan, the UK, EU Institutions, Germany, Canada, Australia and UAE. Multilateral institutions like Asian Development Bank have extended funds of \$4.4 billion from FY09 to FY12. IMF extended \$5.2 billion from FY08 to FY12 and the new government has entered into a new agreement with the fund for \$6.6 billion bailout.

In spite of all of this foreign aid being contributed to Pakistan's economy in different sectors, the socio-economic indicators are not showing substantial improvement. A large portion of the Pakistani population live in a state of intense deprivation and suffer from conditions such as poor health, lack of education, inadequate living standard, lack of income, disempowerment, poor quality of work and threat from violence. 60% of the population in Pakistan is living below the poverty lines on less than \$ 2 a day. The situation with respect to education in Pakistan is deplorable; the country ranks 113 out of 120 countries on the Educational Development Index. A total of 49.5 million adults in the country are illiterate, two thirds of which are women. This is the third largest number of illiterate adults in the world. Despite these statistics, the total spent on education is merely 2.2% of the total GDP.

One specific reason that has been outlined by analysts is that aid extended in majority of the cases has been by donors who have geo-political interests in Pakistan; hence the intention to develop takes a back seat. However, it is also the internal aid-dispersing agencies that need responsible and structured monitoring and assessment through programmes that are developed and implemented perhaps not by public sector but individuals and organisations from the private sector. The reason for this is the mere fact that the private sector might be a more neutral and efficient entity to identify gaps and shortcomings. Another important factor to support this recommendation is the fact that due to a lack of any noticeable government initiatives or a visible impact created by external aid, the private sector has stepped up and is striving to improve the social, environmental and economic scenario through various initiatives. According to the policy outlook paper by Carnegie Endowment by S. Akbar Zaidi, the US has been more focused on investing in Pakistan's military, in the hope that it would serve as a better ally in the war on terrorism after having suffered greatly during the catastrophic 9/11, and the loss of thousands of lives. The vision of what it could actually have achieved by diverting attention to areas which have the potential of really enhancing stability in the region has since become fuzzy.

Another facet as to why we have not been able to get the intended result from the foreign aid disbursed to us is that Pakistan's debt servicing has gradually increased over the years, hence reducing the amount of aid resource available for the country. To put it crudely, we are stuck in a vicious cycle where we are taking on more debt to pay off our existing debt.

The USAID fact sheet on US Assistance to Pakistan specifies the issues that plague effective delivery of aid as under:  
"Challenges to implementation of the civilian assistance program in Pakistan remain in every sector. Limited local technical capacity has affected the implementation of many assistance efforts. Many programs operate under difficult security conditions, and implementing partners and program participants have been subject to criticism and harassment for their association with U.S. Government efforts. Program staffing and events have been hampered by the denial of visas and visa extensions to U.S. Government employees and implementing partners, and project personnel have been kidnapped and killed in areas where security is lacking. Despite these challenges, implementation of assistance programs continued. May 2013 parliamentary elections held the promise of a historic, peaceful transfer of civilian power in Pakistan that, in turn, had the potential to produce changes in government priorities and the direction of assistance programs."

According to a report by USAID, the risks that obstruct the effective utilization of US financial assistance to Pakistan, can be applied to why despite different kinds of ODA available to Pakistan, it has been unable to produce the desired impact. The risks identified are as follows:

1. Political instability.
2. Operational obstructions/bottlenecks created by bureaucratic rules and regulations of Pakistan government.
3. Resistance to change at government level due to personalized agendas.
4. Vulnerability to natural disasters, which affects project implementation.
5. Leadership turnover leading to inconsistent programme implementation.
6. Environmental impact of some development projects.
7. Limited institutional capacity to release true aim of project.
8. Inadequate financial management leading to difficulty in accountability and reporting.
9. Security risks.

According to a paper on 'Foreign Aid and Growth Nexus in Pakistan: The role of Macro Economic Policies' by Mohammed Javaid and Abdul Qayyum, effective utilization of aid is created due to donor conditionality attached to aid inflow. In addition, an unstable macroeconomic environment which is created due to high inflation, lack of trade openness and high budget deficit, leads to a rather volatile environment not conducive for effective aid utilization that can lead to sustainable economic development in Pakistan. At the same time aid distribution processes are often not clearly thought through as is apparent from their dispersal and disbursement and a dearth of local agencies that should be there to measure the needs and impact of any social, environmental and economic factors pre and post-aid distribution also mars the effectiveness of these funds.

William Easterly in his paper on The Political Economy of Growth without Development (2001) states that: "Pakistan has had respectable per capita growth over 1950 - 99, intensive involvement by donors and international agencies (\$58 billion in foreign aid), and has a well-educated and high-achieving elite and Diaspora. Yet Pakistan systematically underperforms on most social and political indicators — education, health, sanitation, fertility, gender equality, corruption, political instability and violence, and democracy — for its level of income. It systematically underperforms on improvements in these indicators for its rate of GDP per capita growth over time. I call this pattern 'growth without development.'"

## Is Philanthropy the Answer?

According to the 'World Giving Index' which measures charitable behaviors around the world, Pakistan ranked 85 out of 153 countries and it is the fourth most charitable nation in South Asia. According to Pakistan Centre for Philanthropy, 30% of individual and corporate funds were routed to water and sanitation, environment advocacy and communication, and 70% is used for health and education based projects.

In contrast to foreign aid, where effective utilization is dependent on a lot of factors, philanthropy or charitable donations are helping run organizations like Khana Ghar, Edhi Foundation, The Citizens Foundation and Human Development Foundation.

As explained by Anatol Lieven in his book 'Pakistan: A Hard Country', there is a severe lack of trust in public institutions, which is why people opt to donate to NGOs operating in Pakistan instead.

Keeping this in mind one may pose a few questions: Despite the injection of foreign aid and charity into different sectors in the economy, what is the reason that we have still not been able to create a pace for transformational change in Pakistan? What is it that will fill the trust deficit that exists between the population and the public sector? How do we empower a nation that has been raised on foreign aid since its inception, to think and find solutions to challenges that exist within their society and environment?

## The Way Forward:

Pakistan is undergoing a great period of change. In the midst of political instability, security issues and an energy crisis, a strong force is raging under the surface. According to UNICEF, the country has one of the largest youth bulges in the world. Ten years ago, the youth of this country played a passive role and had almost become oblivious to issues around them. Times have changed and with the advent of social media, this rapidly growing youth

population has found a voice, and has begun to take notice of societal issues. Moreover they are not afraid to voice their opinions. With the presence of a medium that provided a platform to them to express themselves, the youth appears far more enlightened and motivated to bring about a change in the way things are happening in Pakistan. There are two facets to it however; it is the youth that is an impressionable target for involvement in crime, violence and extremism that in most cases is a result of social injustice, unemployment and often the overall scenario of hopelessness and desperate times that is also being presented by the media. But by providing them with sustainable avenues alongside the platform to voice their opinions through social media, this important segment of the population can turn out to be the most important resource that a country like Pakistan, with immense untapped potential yet innumerable struggles, has.

According to the statistics provided by the Election Commission of Pakistan (ECP), approximately 48% of the registered voters were under the age of 35; therefore we can safely conclude that not only do they have potential and passion but as mentioned above, this young human capital is the greatest resource Pakistan has, which if utilized efficiently can be a source of sustainable economic development in the country. This however may prove to be a challenge, considering that there is a dearth of employment opportunities and we will need 3 million jobs in the next five years to engage and employ this young resource to its full capacity.

## The Advent of Social Enterprises

Although it is expected of the local government bodies, the fact remains that the government alone cannot be expected to create avenues for the youth, when there are other social, political and economic challenges that obstruct the road to development and progress. This gap is a primary instigator that has spurred the growth of social enterprises in Pakistan. These enterprises have a heavy mandate to provide skill development and capacity enhancement opportunities to all sectors of society but primarily the youth population in both urban and rural centres of the country.

Social enterprises are focused on bringing about noticeable and profound changes in the community and environment by improving social conditions. They serve as intermediaries and platforms that help create a dialogue between the beneficiaries, the public and private sector. Their objective is to behave as agents of change by encouraging innovation. Social enterprises are created to fulfill a specific social need in the community. The concept is structured around a business model that takes into account all aspects of business i.e. marketing, finance, distribution; but the collective vision is to create sustainable social impact.

Charity and foreign aid in their truest sense are resources, which if not utilized effectively will lead to zero change in status quo. Social enterprises behave as vehicles of driving forth a mandate that may be initially backed by charity or foreign aid, but the eventual objective is to create sustainable income streams from which future generation benefit. In a philosophical sense, social enterprises turn the focus of a nation from external sources to its innate potential and capability. Social enterprises in Pakistan are reaching beneficiaries across a diverse range of industries and sectors such as: agriculture, education, health, women empowerment, and youth development. There is a clear understanding that the target markets they are serving belong to socially and economically marginalized families.

## The Two Streams of Social Enterprises

A clear distinction between the two streams is that of for-profit and not-for-profit social enterprises. With some of the non-profit organisations and their impactful presence, a number of problems that exist within our social setups and specifically neighbourhoods in the densely populated and often underprivileged areas, have met with solutions and are progressing towards betterment. But with more people from the private sector as well as the civilian society realizing the need for initiatives that are self-sustaining, revenue-generating and that produce long lasting tangible results,

there has been an emergence of for-profit social enterprises in the recent past. Although both sets of social enterprises have a substantial reach and have succeeded in most cases in creating an impact, it is the unconventional approach of applying business models to societal, environmental and economic questions, and converting them into sustainable and commercially viable ventures that seem to make long-term difference to the stakeholders. Nevertheless, a blend however disproportionate it might be in ratio at the moment, of social enterprises both not-for-profit and for-profit, is a positive indication of people and organisations taking charge of situations and problems through both philanthropic as well as entrepreneurial solutions.

**Akhuwat Foundation** is a phenomenal example of a philanthropic venture which evolved into an exemplary microfinance model for the underserved population. This model has been commended world over and is featured in the curriculum of local and international universities. What came to be known as The Akhuwat Model is based on four core principles: interest-free loans, use of religious places to distribute these loans, spirit of volunteerism and transforming borrowers into donors. Their recovery rate so far has been 100%, and they have been successful in gaining the attention of major international donors like The World Bank. Akhuwat Foundation is an MFI that works on the principle of developing human capital by focusing on inculcating in borrowers the attitude that they must pay it forward by helping other people.

**The Citizens Foundation (TCF)** is another established name in the fraternity of social enterprises. It has a vision to make education accessible to all, irrespective of income and class differences. A total of 126,000 students are enrolled in the 910 TCF schools across Pakistan. These schools have a full-time female faculty of 6,300 members. By developing avenues for education, TCF has been able to create 9500 jobs in the communities it operates in.

**Aman Foundation** has created a strong name for itself in the social enterprise sector over the years; it is a local, not-for-profit fund that is supporting sustainable, scalable and systematic development through strategic interventions in the areas of health, nutrition and education through vocational skill building. Although it is a not-for-profit, Aman is run like a business entity with clear KPIs, accountability and transparency. AMANTECH, Aman's vocational training institute is doing noticeable work. The goal is to develop the skills level of Pakistan's labour force to local and international standards. This Institute is equipped with state-of-the-art workshops, and has an experienced team of instructors who have expertise in different occupations. Currently the Institute has 2000 students enrolled in 9 trades.

**The Rural Support Programmes Network** is a non-profit company by the Rural Support Programmes (RSPs) of Pakistan. This is a network of 11 RSPs that works with not just the rural but with the underserved sectors of the population. RSPN seeks to provide a strategic platform for capacity building and assists in policy advocacy and linking beneficiaries to donor agencies. So far the RSPN is serving 4.8 million rural households in Pakistan.

## The Entrepreneurial Solution to Social Issues

According to a research conducted by the Global Entrepreneurship Monitor in 2012, 46% of the respondents wanted to start their own businesses and 66% considered entrepreneurship as a good career choice. Clearly there is no lack of intention or initiative, but there is certainly a gap in the market for a solution that caters to the needs of this percentage of aspiring entrepreneurs while at the same time addressing social problems and gaps. An enterprise called Social, Entrepreneurship and Equity Development was born in response to this social need.

SEED takes a 360-degree view of the entrepreneurial life cycle and has initiated companies and projects that cater to each part of this life cycle.

Relevant guidance, venture capital and mentoring is provided at idea inception, incubation, acceleration and if need be, the exit stage as well. Not only is SEED providing required support at all point in the entrepreneurial lifecycle, it is developing the entrepreneurial landscape by providing a clear direction to the enterprising minds of Pakistani people. This will eventually lead to poverty alleviation in the long run. There is no dearth of ideas and skill in Pakistan and if provided with a platform to develop these into implementable businesses, they can grow into sustainable enterprises.

Social, Entrepreneurship and Equity Development - SEED serves as that platform; it aspires to do so by focusing its efforts on building the pillars of entrepreneurship which are: providing entrepreneurs with a level-playing field, giving them access to knowledge and providing avenues of financing by linking the right investor to the relevant entrepreneur.

**SEED Incubation Centre** is a business incubation facility that not only provides accommodation to young entrepreneurs for conducting their business operations but also serves as a launch pad for their ventures. The organisation believes in the value of academic, experiential and practical knowledge, therefore, the incubation centre also offers the startups with mentoring and guidance by a panel of distinguished entrepreneurs who are experts in their particular industry.

Mentors on the panel of SEED Incubation are from a diverse range of industries i.e. the corporate sector, the social enterprise sector, technology, organisations with a special focus on social innovation; hence the guidance provided by them provides an adequate view and comprehension of the landscape of entrepreneurship in Pakistan and abroad. Currently the mentors belong to Pakistan, India, UK and Australia and the list is growing.

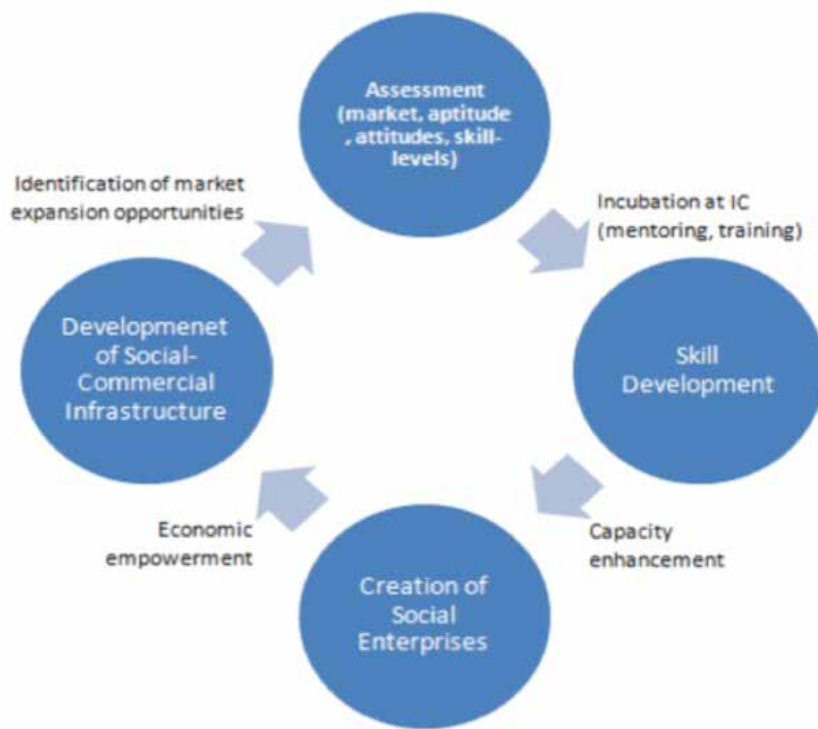
**Potential Enterprise Mapping Strategy (PEMS)** by SEED started as a research and mapping project of an important yet overlooked industry of Pakistan. It addresses the challenges and opportunities that exist in the microenterprise sector of Pakistan. According to research, 73.8% of the total labour force in Pakistan comprises of the informal sector labour force and has the potential of contributing almost \$90 billion to the economy. Unfortunately, it is unable to perform to its full potential as this sector is disorganized and neglected, with no support from the government and lack of finances. Based on the findings of the research, recommendations were given to fill the gaps identified. If these are taken into consideration by the public and private sector, it can help to develop the microenterprise sector to a level where they can actively contribute to Pakistan's economy.

PEMS is running micro training programmes to train different occupations from the grass-roots. Training programmes are designed keeping in mind the social, and economic challenges faced by these enterprises and helping them arrive at solutions that can help to make their businesses scalable and sustainable.

SEED has conceptualised the REACH – Rural Empowerment and Capacity Honing project. The objective of REACH is to create a common platform where members of the public, private and development sector can interact with members of the rural community. This will help to create a dialogue with the rural community to understand problems specific to their genders, localities, towns and districts and hence treat the entire rural population as a heterogeneous group.

REACH has been created to develop an understanding of entrepreneurship and social entrepreneurship in the rural communities, and to educate, train and mentor members of the rural population making them aware of their hidden potential. By creating an ease of access to finance, funding and other necessary resources required by fledgling social enterprises born as a result of the training, a sustainable cycle of change and positive social impact will be created, leading to the progress and success of social and commercial infrastructure.





In essence what REACH aspires to achieve is collectively what social enterprises envision to create in Pakistan. In the face of challenges, these enterprises provide doable and realistic solutions and opportunities to deserving members of the community, to fend for themselves rather than rely on temporary resources like charity and aid.

In the recent past, there has been the emergence of some more social enterprises following the same model as that of an entrepreneurial venture with a social impact. These are enterprises that regardless of their scale have explored the dynamics of a situation at an individual level and provided innovative solutions for them.

The Rickshaw Project is one such initiative; it is a social enterprise based in Karachi and is trying to create a sustainable source of livelihood for people with disabilities (PWDs). The aim of The Rickshaw Project is to empower people with disabilities via employment and inclusion. The main philosophy is to bring about a change in mindsets. With respect to PWDs, seeking assistance is not an issue as almost everyone is willing to help only to the extent of donating money. But these individuals do not need donations; they require employment that will provide a sustainable source of income and an opportunity to become part of Pakistan's labour force.

Another comparably smaller yet effective project is The Reading Room Project that provides low-income Pakistani students with access to world-class educational resources in a supportive environment. It applies the concept and notion of sustainability without donations hence, creating a social enterprise. The aim is to tangibly boost learning outcomes and to cause a fundamental change in perspectives by changing how children learn.

## Conclusion

The number of these entrepreneurial streams that are being explored to address the gaps and issues that exist within any community is still far from satisfactory. But a stronger inclination towards this option and a more effective method to execute such initiatives can be encouraged through a larger platform that can form a network of such enterprises.

Charity, which is capable of solving an immediate financial deficiency, has its drawbacks. It may solve obvious problems at hand; however, it is simply a means of redistributing income from the haves to the have-nots. It is employed within the given structures of society and is funded mainly through donations, which of course is not a very sustainable source of financing. The impact or change that one is expecting is rather short-lived.

The for-profit social enterprise model is an anomaly to most but the truth is that it is a long-term solution to problems in the environment and community, and can serve society in a profitable manner. These social enterprises opt for collaborations with partners from the public or private sector, which can provide the initial capital to launch and support a social

Having said this, a social enterprise that is for-profit cannot rely on external sources of funding. What needs to be understood here is that in contrast to consumer products that remain a property of the corporate entity even though customers are purchasing it, the social product/programme which is meant to serve the underprivileged, should have the scale and scope to deliver two things:

- 1) Empower communities.
- 2) Scale programmes to a level where beneficiaries eventually take ownership of the programme and help other marginalized groups in the community.

The ripple effect has a far better reach of a small-scale project that usually starts off with a grant, into a far more impactful programme that continues on with the cycle of being sustainable and scalable in future.

All in all, it is logical to conclude that social enterprises operating in the country have one vision - An empowered Pakistan!

## About SEED:

SEED is a Social, Entrepreneurship & Equity Development organization; it is the central hub through which a number of diverse initiatives sprout and branch out with the potential of continuing on with this cycle. SEED provides strategies and solutions that are relevant to all the stakeholders who are part of the entrepreneurial ecosystem in Pakistan and serves as a fulcrum for them. These solutions are based on constant and holistic research carried out in partnership with members of the public and private sector. An umbrella company that is based on the core belief of initiating and investing in ventures that have the potential of creating a social impact, SEED serves as a platform for the development and facilitation of entrepreneurship in Pakistan. The organisation has a strongly established presence in Pakistan, the UK, Sri Lanka and the UAE. With a core team of experienced entrepreneurs, SEED aspires to bring dynamism to the field of entrepreneurship.