

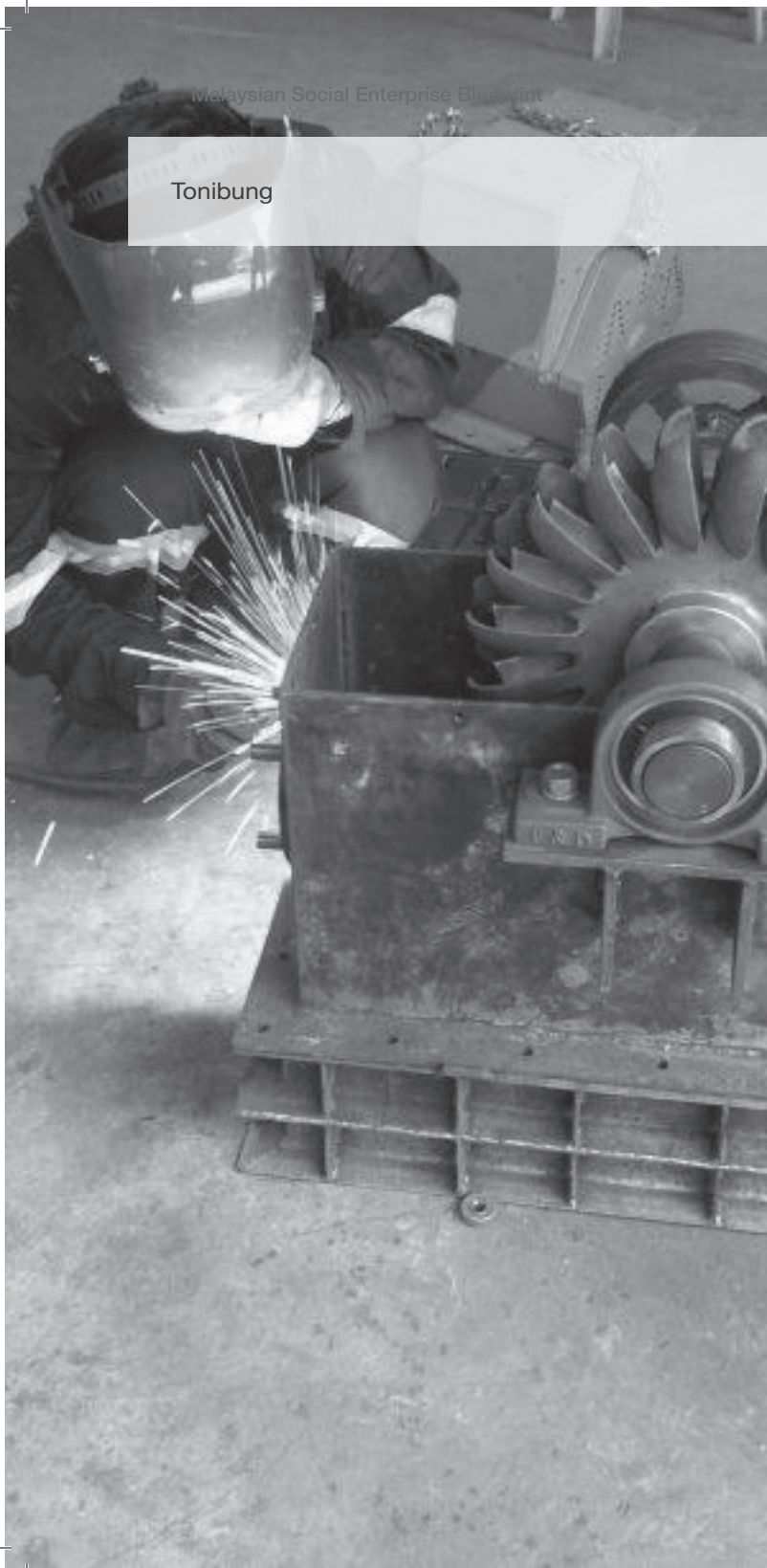
# UNLEASHING THE POWER OF SOCIAL ENTREPRENEURSHIP

MALAYSIAN SOCIAL ENTERPRISE BLUEPRINT

2015 -2018



Tonibung



Johor Area Rehabilitation Organisation



Les Petits Chefs







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# EXECUTIVE SUMMARY

Having evolved from the traditional for-profit, non-profit, and public sectors, impact-driven and entrepreneurial individuals have been pioneering social enterprise, a new form of enterprise. This model unleashes value not only through economic wealth creation but also by creating beneficial impact to society and the environment.

Social entrepreneurship is a unique sector; currently one without a succinct, accurate description of what is a 'social enterprise'. This lack of a definition has led to confusion among stakeholders and potential entrepreneurs. While there may not be a universal definition, social enterprises have primary and secondary characteristics.

**Primary: A social enterprise is an entity which balances both impact and business in order to solve a legitimate social or environmental issue through its offerings, which are driven by market needs.**

**Secondary: A social enterprise is an entity that operates by being inclusive and transparent in its activities, while being fully accountable to its shareholders and beneficiaries.**

Countries like the United Kingdom, United States, South Korea, Vietnam, Thailand, Singapore, Myanmar and Australia regard social entrepreneurship as a key national agenda and have set up agencies to champion the growth of social enterprises in the country. For example, in Thailand, there are now over 120,000 social enterprises. In the United Kingdom, there are over 70,000 social enterprises. They employ over a million people and contribute more than 5% to national GDP.

In Malaysia, it is estimated that there are 100 social enterprises operating mostly in the areas of education, poverty, rural development, environmental sustainability, employment for the marginalised, and at-risk youth.

Several challenges and missed opportunities need to be unlocked to unleash the full potential of social entrepreneurship. These include:

- Rigidity and lack of institutional awareness
- Lack of legal recognition and policy structure
- Negative public perception and recognition
- Lack of access to quality human capital
- Lack of access to sizable financial capital
- Lack of support to grow and scale

The Malaysian Social Enterprise Blueprint is a three-year roadmap that describes the strategic thrusts needed to accelerate the development of the sector.

**By the year 2018, we aim for the Malaysian social enterprise sector to be self-sustaining, equitable, and people-centric in order to empower impact-driven entrepreneurs.**



To achieve this, the blueprint identifies three fundamental building blocks to develop the sector:

- I) social enterprises and social entrepreneurs
- II) larger ecosystem
- III) institutions including public and private players

The three strategic thrusts will **inspire a movement, create an enabling ecosystem, and affect systemic changes**. Each thrust is supported by three main catalysts.

#### **Inspire a movement**

Building a critical mass of sustainable social enterprises to inspire a movement in support of social entrepreneurship. This is achieved by generating awareness in grassroots communities as well as by equipping them with the necessary skills, knowledge, and capital to launch and scale their social enterprises.

#### **Create an enabling ecosystem**

Creating more inclusive and cross-sector participation, including the private and public sectors,

to encourage the development of more partnerships, collaborations, and intermediaries. This can result in policy discussions and development, strategic investment, training organisations, capital creation, and synergies.

#### **Affect systemic changes**

Enabling sector-wide systemic changes where regulatory, tax, and administrative frameworks are introduced to ensure that the sector's development continues beyond the time horizon of this blueprint. These systemic changes catalyse a tipping point, unleashing an enabling environment and a whole new market for social enterprises.

The development of the social enterprise sector in Malaysia is both a challenging and daunting task. It requires complete buy-in and commitment from all parties involved. However, this has been done in various countries, which have successfully implemented a national blueprint, masterplan or strategy, including Thailand, South Korea and the United Kingdom.

Social entrepreneurship is still embryonic in Malaysia. This is the perfect opportunity for us to invest strategically to ensure the development of a sector that will transform the nation's economy to one that is more equitable and sustainable.



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## FOREWORD BY PRIME MINISTER OF MALAYSIA

Malaysia's strong economic record and a steady GDP growth over the past 50 years is a testimony to the entrepreneurialism of our rakyat. As we approach 2020 and become a high-income nation, we must ensure that we build a people-centric economy that is sustainable and equitable.

Although the economic growth of the nation is looking optimistic, the government is also aware of the growing inequity that is slowly emerging as a result of the disparity in the socio-economic

development. The role of social entrepreneurship in promoting a sustainable and equitable economic growth has been a focus of many governments around the world.

In the United Kingdom, for example, since the launch of the national social enterprise strategy in 2002, the government has invested billions of pounds in the sector. Today, there are over 70,000 social enterprises employing more than a million people and contributing more than 5% to UK's GDP. In 2014, it is estimated that the top 1,161 social enterprises in the UK generated £2.5bn (RM13.5bn) profit to plough back into society.

The Government recognises the potential of social entrepreneurship in not only addressing our country's pressing issues but also redefining how business should work in order to achieve a people-centric economy. That is why in 2013, I announced RM20m for the Malaysian Global Innovation and Creativity Centre (MaGIC) to set up a social entrepreneurship unit to catalyse impact-driven enterprises.

This Malaysian Social Enterprise Blueprint by MaGIC Social Entrepreneurship is a bold and ambitious strategy towards radically growing the social enterprise sector in Malaysia. Through this strategy, I believe that we will create a strong foundation and environment for social enterprises to grow so I encourage all sectors to be involved in realising this blueprint.

Together, we can make social enterprises grow bigger and stronger in our economy and ensure that we create long-term benefit for our rakyat at the same time.

**YAB Dato' Sri Mohd Najib bin  
Tun Haji Abdul Razak**  
Prime Minister of Malaysia





## FOREWORD BY MaGIC CHAIRMAN

Over the last few years, we have witnessed a new generation of Malaysian entrepreneurs who are focused not only on creating wealth but also addressing major social and environmental issues that are close to their heart. This band of social entrepreneurs are creating a growing momentum where more and more Malaysians are deciding to give back to the community through enterprising means. This is a positive change in our entrepreneurship landscape.

Although social entrepreneurship isn't new in places like the United Kingdom, United States of America and Northern Europe, it's a growing

movement here in Malaysia. In these countries, social entrepreneurship is regarded as a key national agenda and an important driver of economic growth that is both equitable and sustainable. Within ASEAN itself, countries like Thailand, Vietnam and Singapore have set up government agencies dedicated to spearhead the growth of social entrepreneurship.

While social entrepreneurs in Malaysia have delivered significant impact to their communities and the environment, there are still many barriers left in their way to grow and ultimately multiply their impact.

In 2013, the Prime Minister set up a social entrepreneurship unit under the Malaysian Global Innovation and Creativity Centre (MaGIC) to catalyse impact-driven enterprises. The role of MaGIC Social Entrepreneurship to build cross-sector partnerships, tapping into the strengths and resources of each sector to drive this movement, will be key to the growth of social entrepreneurship in Malaysia.

I believe that this movement for social entrepreneurship will ensure a more equitable and sustainable economic growth. When the people prosper, the country prosper as well.

This Malaysian Social Enterprise Blueprint is not just a document. It is an encapsulation of the dreams and aspirations of Malaysians who wish to make this country a better place for all. I encourage all sectors to be involved in this movement to build a nation that is prosperous and resilient.

**Tan Sri Dr Mohd Irwan Serigar Abdullah**  
**Secretary-General of Treasury**  
**Ministry of Finance**

**Chairman**  
**MaGIC**



## FOREWORD BY MaGIC CEO & EXECUTIVE DIRECTOR OF SOCIAL ENTREPRENEURSHIP

Social entrepreneurship in Malaysia is still in its very early stages. The sector has largely been driven by a passionate, like-minded community with occasional support from the public and private sectors alike. While the community of social entrepreneurs in Malaysia has delivered significant impact to their communities and to the environment, there are still many barriers that stand in their way to grow and ultimately amplify their impact.

MaGIC Social Entrepreneurship has been mandated to develop this sector. We are spearheading the growth through a strategic and pragmatic approach which is centred on the community of social entrepreneurs. In the past few months since the unit's inception, we have conducted several community outreach programmes, especially with rural and remote communities. We have trained hundreds of budding social entrepreneurs and committed RM500,000 to five social enterprises to help them grow and scale.

MaGIC Social Entrepreneurship is also coordinating the development of this sector by fostering collaboration between the public, private, and social sectors through a series of consultations and discussions to better understand what is needed to develop the social enterprise sector in Malaysia. We have uncovered unique insights that have shaped the development of the Malaysian Social Enterprise Blueprint. As a result, we have a blueprint which is truly people-centric by design.

The Malaysian Social Enterprise Blueprint is not a roadmap developed in isolation from other sectors. It is a roadmap that describes the potential for social entrepreneurs to contribute effectively in the development and progression of our country to become a fully developed nation. We passionately believe that we can make Malaysia the regional leader for a people economy. We will achieve this through our mission to unleash the potential of social entrepreneurship to drive long-term benefit for society and the environment.

We hope that you will join us on this journey to transform this sector. Together we hope that we can create a sector that is resilient, self-sustaining, and more importantly, equitable for all.

**Cheryl Yeoh**  
CEO  
MaGIC

**Ehon Chan**  
Executive Director  
MaGIC Social Entrepreneurship



## IV

## ABOUT MaGIC

The journey of MaGIC began as a startup itself in April 2014. We share the same passion and experience of taking the leap of faith into the world of startups. MaGIC serves as the platform to support entrepreneurs to grow and develop so they can compete regionally and, eventually, globally.

As part of the ecosystem, MaGIC aims to drive and catalyse the entrepreneurial spirit in Malaysia. Most importantly, we strive to connect the pieces together. We are here to be the connecting bridge between

you and the next step of moving your startup to a regional and global level. We make sure there are no missing links in the journey of an entrepreneur.

Taking the first step will always be the hardest. Your journey into the startup ecosystem will be more impactful with the right support system and community. Through our various programs and initiatives, there is certainly something that will be highly beneficial and useful to those who have always believed in taking a challenge and making a

difference within their community.

Whichever startup track you are embarking on or are already in, MaGIC can make a positive difference to your journey. MaGIC happens when you believe.

For more information visit: [www.mymagic.my](http://www.mymagic.my)



# ABOUT MaGIC SOCIAL ENTREPRENEURSHIP

MaGIC Social Entrepreneurship (SE) is a dedicated team within MaGIC that is responsible for fulfilling the mandate given by the government to develop the social enterprise sector in Malaysia through its special allocation of RM20 million funding.

The vision of the social entrepreneurship team is to make Malaysia the regional leader for a people economy. This is achieved through its mission to unleash the potential of social entrepreneurship to drive long-term benefits for society and the

environment. To achieve its vision and mission, the social entrepreneurship team is organized around three key focus areas:

## Community & Outreach

Focusing on generating awareness and buy-in among the stakeholders, grassroots, and rural communities on the potential and opportunities related to social entrepreneurship.

## Academy

Upskilling, knowledge, and capabilities for social entrepreneurs through a structured learning program to equip social enterprises to be investment-ready.

## Ventures

Investing in social entrepreneurs and enterprises through grant funding for both pilot and growth stage social enterprises in order to materialise their social or environmental impact.

For more information visit: [www.se.mymagic.my](http://www.se.mymagic.my)



# ACKNOWLEDGEMENT

We would like to thank the following organisations and their representatives for their input towards the development of this blueprint.









# Chapter 1

## What is social entrepreneurship?

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## 1.1

## Why social entrepreneurship?

Having evolved from the traditional for-profit, non-profit, and public sectors, impact-driven and entrepreneurial individuals have been pioneering social enterprise, a new form of enterprise. This model unleashes value not only through economic wealth creation but also by creating beneficial impact to society and the environment. Social entrepreneurship is the only form of enterprise that has the potential to radically transform capitalism as we know it by resolving social or environmental issues that are neglected by the traditional sectors.

Given its unique composition of creating social impact and entrepreneurship, this sector has the potential to solve major and often neglected issues faced in our nation and globally.

The current economic model has created immense wealth for the majority of the population. While it has alleviated people from poverty and unlocked benefits that have been previously unavailable, the current economic model is still not equitable.

Based on the Malaysian Department of Statistics 2012 census, 5% of Malaysian households earn less than RM1,000 per month. This is roughly 1.5 million Malaysians. Urban and rural households earning less than RM500 were estimated at 87,720 and 292,400 respectively, for the same period. On the other hand, the number of households earning more than RM5,000 per month is three times higher in urban areas than in rural areas (2012, Malaysian Department of Statistics – Table 1 Percentage

distribution of households by Income Class, Malaysia, 1970 – 2012).

As more emphasis is given to rapid economic development and growth, the current economic model continues to be detrimental to the environment. Our primary source of energy is still derived from non-renewable sources. A lack of social innovation has hindered our ability to elevate those who are underserved or not served by the market to enjoy the same quality of life as the rest of the population.

One of the reasons social entrepreneurship has been receiving recognition is due to traditional sectors increasingly becoming outdated and ineffective.




Sector	Factors of a shift	Main benefits
 Non-Profit	<ul style="list-style-type: none"> <li>Reducing reliance on unpredictable sources of income to sustain operations</li> <li>Increasing ability to scale up impact while being more cost-effective in reaching beneficiaries</li> <li>Expanding scope of impact beyond the current beneficiary profile</li> </ul>	<ul style="list-style-type: none"> <li>Creation of reliable sources of income to help maintain or grow operations</li> <li>Independence and ability to utilise funding not earmarked for specific purpose</li> <li>Availability of funding to invest strategically in products/ services for beneficiaries</li> </ul>
 For-Profit	<ul style="list-style-type: none"> <li>Creating a distinctive capability and advantage by tapping into a traditionally 'non-viable' market</li> <li>Contributing more to the community through more strategic and coordinated philanthropy</li> <li>Attracting and retaining talent by providing an opportunity for employees to provide in-kind support</li> </ul>	<ul style="list-style-type: none"> <li>Provide returns to shareholders who are increasingly more conscious about investment</li> <li>Establish presence and footprint in a new market through social or environmental contributions</li> <li>Contributing back beyond financial means, through in-kind support and capabilities</li> </ul>
 Government	<ul style="list-style-type: none"> <li>Reducing the cost of public service and goods delivery</li> <li>Increasing the quality of the public service and goods delivery</li> <li>Responding quickly to the needs of the public</li> <li>Reaching out to a public previously beyond reach</li> </ul>	<ul style="list-style-type: none"> <li>Cost-effective means to serve the public with basic services and goods</li> <li>Provide more 'customer-centric' focus in terms of delivery of public service and goods</li> <li>Inclusive and participative form of government where all are served</li> </ul>

Table 1.1: Factors favouring the shift towards social enterprise



Social entrepreneurship is a rapidly growing sector due to its ability to develop social innovations that are financially viable to private sector investors. Technological advances have also catalysed social

entrepreneurship through affordable design and its ability to transcend geographic boundaries as a channel to connect with beneficiaries.



*Teaching underprivileged children at ARUS Academy*

As a result of for-profit and non-profit sector players supporting social entrepreneurs within their communities, the social innovation that is created out of the entrepreneurial sector is evident, albeit difficult to quantify. Technology and social innovation, the primary domains of academic institutions and corporate research and development units, are now being rapidly adopted and introduced to the market by highly driven and motivated entrepreneurs.

### Case study #1: Embrace



Embrace is a social enterprise that focuses on improving the survival of premature and low birth weight infants by providing extremely affordable and effective thermal wear. Established in 2007 by a group of five Stanford University students, today they have saved over 144,000 infants globally with over 4,400 health workers trained along with 9,200 mothers educated on the issue. Embrace's solution enables those with no access to infant incubator machines to have better access to the healthcare that is critical for the infants'

survival. Prior to the introduction of this thermal wear, access to infant incubators in developing countries and communities was extremely expensive and difficult.

By introducing affordable and easy-to-operate thermal wear for premature and low birth weight infants, Embrace has provided underserved and isolated communities with the opportunity to save childrens' lives.

Source: [www.embraceglobal.org](http://www.embraceglobal.org)

1.2



## Definition, understanding & characteristics

Social entrepreneurship is a unique sector; currently one without a succinct, accurate description of what is a 'social enterprise.' This lack of a definition has led to confusion for stakeholders and potential entrepreneurs. While there may not be a universal definition, the inception of this sector has been primarily attributed to the convergence of the three traditional sectors; non-profits (social), for-profits (private), and government (public).

The convergence of the traditional sectors is partly due to a shift whereby players are adapting certain 'traits' of other sectors in order to better meet their objectives and overcome the challenges they face.






Sector	Initial Imperative	Emerging Imperative
 <b>Government</b>	To deliver basic public services and goods to the citizens	<ul style="list-style-type: none"> <li>• Develop a more citizen-centric delivery of public services and goods</li> <li>• Increase cost efficiency and effectiveness in the delivery of services/goods</li> </ul>
 <b>Non-Profit</b>	To achieve a social or environmental mission for the target beneficiaries	<ul style="list-style-type: none"> <li>• Develop a new business model that generates additional income</li> <li>• Develop an operating model that is more financially sustainable</li> </ul>
 <b>For-Profit</b>	To maximize shareholder value through commercial activities	<ul style="list-style-type: none"> <li>• To play a bigger role in advocating for a specific cause or issue</li> <li>• To operate in a more responsible and ethical manner</li> </ul>

Table 1.2: Emerging imperatives across sectors

Government, which has been traditionally viewed as the primary supplier of public services or goods, is slowly moving towards a people-centric approach. This approach means that more focus and resources are being allocated to deliver public services that are coherent with the public's increasing demand for access and quality of service. A people-centric approach also allows for innovation within the service to remain relevant and useful.

Similarly, more and more non-profits are focusing on improving their operating models to ensure long-term sustainability and longevity. Non-profits are adopting a new business model where a revenue-generating component is used to offset the risk of a fall in donation income.

Moreover, for-profits are also strengthening their charitable activities beyond the current scope of Corporate Social Responsibility (CSR) programs that typically operate under the organisation's marketing and communication departments. More for-profit

organisations are strengthening their philanthropy and charitable activities by establishing dedicated foundations that contribute both financial and in-kind support to its target beneficiaries.

As a result of the evolving priorities of the traditional sectors, a fourth sector aptly named as the 'for-benefit' sector has emerged where impact-driven and entrepreneurial individuals are solving a social or environmental issue using viable business means. The for-benefit sector has created many variants of blended entities such as social enterprise, social business, and even socially responsible business. These entities have a strong social or environmental mission at their core and have a business model that creates value not only for the economy, but for society or the environment as well.

## 1.3

## Connecting & synergising the sectors

The role of the social enterprise sector is not to replace existing sectors but rather to connect and synergise the traditional sectors in order to deliver economic, social, and environmental value for all stakeholders involved. As such, the role of social enterprises is to leverage on the opportunities and synergies existing within the traditional sectors in order to fulfil their social or environmental missions.



Figure 1.1: Social enterprise Venn diagram

There are several key forces at play among the traditional sectors that are creating an ecosystem of opportunity for social entrepreneurs. These forces stem from the need of the non-profit, for-profit, and government to meet their objectives in a new and complex environment. The private sector, for example, is reacting to more ethical and transparent ways of doing business in order to grow and meet shareholders' imperatives. For-profit enterprises are looking into social entrepreneurship as a demonstration of commitment to go beyond the traditional corporate responsibility programs to deliver more business and social value.

As more and more businesses turn to social entrepreneurship as form of conducting business, opportunities for cross-sector collaboration are being created with government and the non-profit sector. This cross-sector collaboration has created a new need for non-profits to be more transparent, accountable, and most importantly, adopt sustainable means of operating their organisations.

Social entrepreneurship is also an avenue for the government to be more proactive and focused in meeting the public's demands and expectations for public services and goods. Government ministries, agencies, and proxies which are inundated by the strict procurement and processes are slowly transferring responsibility to social enterprises through a social-public-private partnership model based on performance incentives and rewards for social enterprises.

As government seeks to reduce its operational expenses and channel more funds towards services and goods which are directly impactful to the public, forward-thinking ministries and agencies are already looking into social enterprises to deliver public services and goods on government's behalf while simultaneously achieving the goals of increased operational and cost efficiencies.



## Case study #2: United Kingdom G8 Social Investment Task Force

UK Prime Minister David Cameron established the Social Impact Investment Task Force in 2013, headed by Sir Ronald Cohen, to coincide with the UK assuming the presidency of the G8. In 2014, a report entitled “Impact Investment: The Invisible Heart of Markets” was published, which includes four main recommendations to rapidly advance the social impact sector.

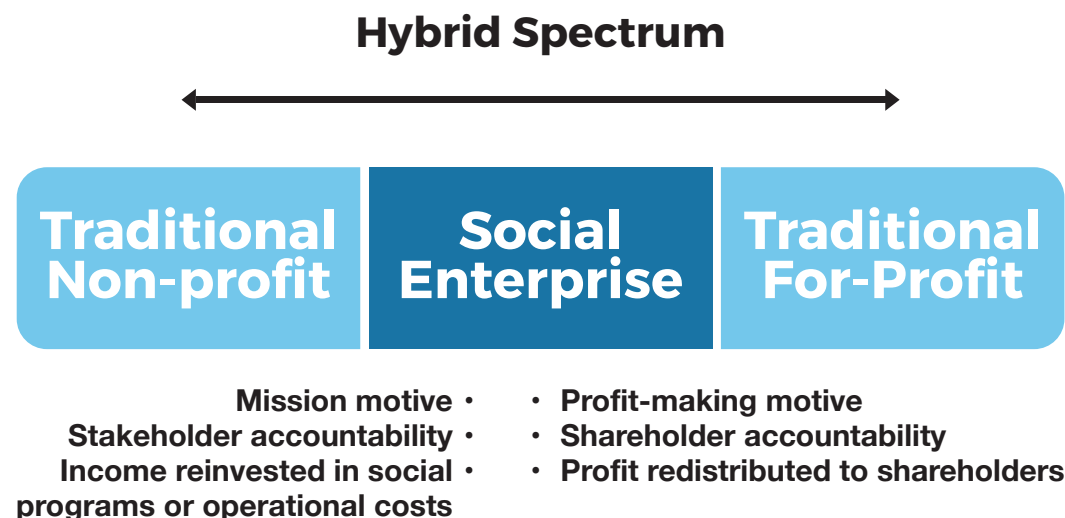
Recommendations from the task force include relaxing current laws and regulations to enable non-profit status organisations to be involved in commercial/trading activities, while also encouraging governments to create incentives and instruments that ease the process for social enterprises to start, operate, and grow.

Similarly, the report calls for GBP 1 trillion of capital to be created to encourage impact investment in this sector. The GBP 1 trillion recommendation requires a complete rethinking about the fiduciary duties of foundations, and pension funds in particular, to invest in impact-centric organisations.

*Source: Social Impact Investment Taskforce, (2014), Impact Investment: The Invisible Heart of Markets, UK's presidency of the G8*

**IMPACT INVESTMENT:  
THE INVISIBLE  
HEART OF MARKETS**  
Harnessing the power of entrepreneurship,  
innovation and capital for public good





*Figure 1.2 : Hybrid Spectrum*

Social enterprise lies at the junction between non-profit and for-profit organisations. Social enterprise has the purpose of a non-profit but the financial rigor of a for-profit. Within this midsection of the spectrum there are several variants that exist in addition to social enterprise, such as social business, social venture, and socially responsible business.

Social enterprise in this context means that a social entrepreneur's priority is to deliver impact through

viable business means. Further, if the enterprise is profitable, it will be able to scale up its operations and thus deliver more impact through commercial or trading activities.

The need for a definition is largely due to the necessity of providing legal context and recognition for this sector. While there is no universal definition, there are several key characteristics that would describe a typical social enterprise. These characteristics

could be categorized into primary and secondary characteristics that cover why the social enterprise exists and how it is operated.

<p><b>Primary Characteristics</b></p> <p>A social enterprise is an entity which balances both impact and business in order to solve a legitimate issue through its offerings, which are driven by market needs</p>	<p><b>Business Viability</b></p> <ul style="list-style-type: none"> <li>Generates income from trading activities by offering products or services that are demanded by the market</li> <li>Sustains and grows itself through business means that are, by nature, profitable and scalable</li> </ul>	<p><b>Impact-Driven</b></p> <ul style="list-style-type: none"> <li>Exists specifically to solve a legitimate issue that is often neglected by either the public or private sector</li> <li>Exists specifically to serve a customer and beneficiary demographic that is often underserved by the market</li> </ul>
<p><b>Secondary Characteristics</b></p> <p>A social enterprise is an entity that operates by being inclusive and transparent in its activities, while being fully accountable to its shareholders and beneficiaries</p>	<p><b>Inclusive Equity</b></p> <ul style="list-style-type: none"> <li>Ownership of the social enterprise is distributed fairly to the stakeholders who are involved in the enterprise</li> <li>Ownership of the social enterprise is fairly distributed between the shareholder, management, and beneficiary</li> </ul>	<p><b>Inclusive Governance</b></p> <ul style="list-style-type: none"> <li>Decision rights are distributed fairly to its shareholders, stakeholders, and potentially the beneficiaries</li> <li>Governed in a fair and transparent way focused on achieving the mission and objectives</li> </ul>
	<p><b>Responsible &amp; Transparent</b></p> <ul style="list-style-type: none"> <li>Accountable to the actions and consequences related to the activities of the social enterprise</li> <li>Discloses information that is accurate and timely for the purpose of informing the shareholders and beneficiaries</li> </ul>	<p><b>Fair Compensation &amp; Returns</b></p> <ul style="list-style-type: none"> <li>Compensates its employees fairly in recognition for their role and contribution to the social enterprise</li> <li>Provides fair financial returns to its shareholders in exchange for specific impact outcomes</li> </ul>

Table 1.3 : Characteristics of a social enterprise

1.4



## A viable form of investment

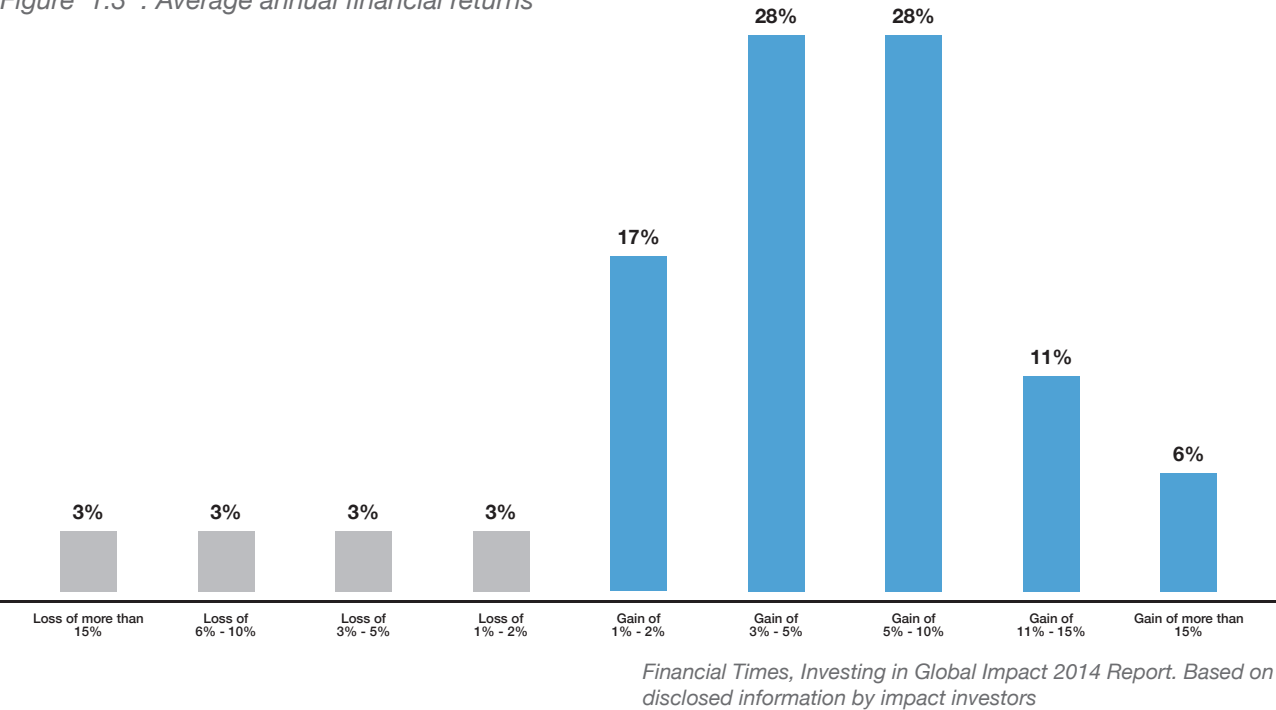
A key challenge for the social enterprise sector is a lack of awareness and buy-in from mainstream financial institutions and the public sector. Given the dual missions of being impact-driven while maintaining a healthy bottom line, there is still confusion as to how conventional institutions could play a role in 'mainstreaming' social enterprise.

From the perspective of an investor, the true financial value of this sector is extremely difficult to derive due to the variety of definitions of social enterprise. As a result, it is difficult to accurately measure and identify social enterprise activities. However, preliminary data has demonstrated that this sector is able to generate financial returns for investors.

Social enterprises are increasingly attracting the attention of a new form of investor who looks beyond traditional investments and returns. Previously, social enterprises would attract mainly wealthy philanthropists as investors. However, given the encouraging returns on investment in the social enterprise sector, 'mainstream' investors including corporate foundations, trust organisations, private equity, venture capital, and, to some extent commercial financial institutions, are quickly recognizing the financial impact of this sector.



Figure 1.3 : Average annual financial returns



According to a study conducted by the Financial Times in 2014 looking at the financial performance of several impact investors, for-benefit enterprises are more likely to generate 8% to 10% returns on investment. Moreover, several for-benefit enterprises are registering double-digit financial returns, in addition to their social and environmental impact (Investing for Global Impact 2014, 36).

In 2014, J.P. Morgan and the Global Impact Investing Network (GIIN) found that of 125 impact investors worldwide, 20% have increased their impact investing commitments from the previous year. According to another 2010 report by J.P. Morgan and the Rockefeller Foundation, the impact-investing market may reach USD 1 trillion by 2020. The growth of impact investment unleashes new potential for

the impact sector in bringing more capital to resolve big issues as compared to traditional philanthropy (Spotlight on the Market 2014, 5).

This is consistent with the UK's G8 Task Force Report on Social Impact Investment, where a recommendation was made to create a capital of GBP 1 trillion by removing barriers and redefining the fiduciary duties of charitable foundations and pension funds specifically (Impact Investment: The Invisible Heart of Markets, 18). The taskforce recommendation also highlighted that including 'impact' as an additional dimension in the investment decision-making process will create an environment where there is a sizable opportunity for social enterprises to tap into and rapidly accelerate the growth of the sector (Impact Investment: The Invisible Heart of Markets 2014, 28).





## Chapter 2

# Situational context for social entrepreneurship in Malaysia

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## 2.1



## Economic & social challenges

The development of the Malaysian economy has been a story of both remarkable strides and of missed opportunities to leapfrog other developing countries. The Malaysian Gross Domestic Product (GDP) has increased 17.5 times and GDP per person has increased 7.8 times from 1980 to 2013. As the economy has shown significant growth thanks to its rich resources and export-oriented commodities, median household income is now one of the highest in Asia, after developed nations (Khazanah State of Households Report 2014, viii).

However, Malaysia still faces fundamental challenges despite making huge strides in both economic and social development. For example, only 24% of the workforce has an education beyond secondary school and only 10.4% possess a tertiary degree. Given the lack of quality talent to fulfil the needs of a high-income nation, Malaysia faces big barriers in realising its ambition to become a fully developed nation within the next decade (Khazanah State of Households Report 2014, 8).

Almost a quarter of households in Malaysia earn less than RM 2,000 per month. The state of Kelantan is poorer than Indonesia and a little better off than Sri Lanka, with only half of Kelantan's rural households having access to running pipe water (Khazanah State of Households Report 2014, viii). The lack of equitable spread of wealth and access to basic public services is persistent, which has resulted in government emphasizing collective economic and social development.

## 2.2

## Addressing the challenges

We face many social, economic, and environmental challenges as a country. While the country continues to make progress towards becoming a high-income nation there must also be a recognition that advancement should not come at the expense of the marginalised and isolated communities of Malaysia, regardless of political belief, race, gender, and religion.

While urban and most rural communities are connected to the national/state electricity grid,

there are still remote and isolated communities that do not have access to reliable and cheap forms of electricity. While almost the entire population of Peninsular Malaysia has access to electricity, 5% of the population of Sabah and Sarawak lack access to electricity (Improving Rural Development 2011, 175). This is equivalent to 300,000 people who do not have access to reliable energy; roughly the population of Kuala Terengganu.

### Case study #3: UK Peterborough Social Impact Bond

Social Impact Bonds (SIBs) harness private capital to achieve measurable gains on social challenges. SIBs improve the social outcomes of publicly funded services by making funding conditional on achieving results. Investors pay for the project at the start and then receive payments based on the results achieved by the project.

In 2010, a GBP 5 million Social Impact Bond was launched to tackle the increasing challenge and cost of managing recidivism in Peterborough. A consortium of six companies led by One Service managed to reduce recidivism by 8% by providing accommodation, medical services, family support, employment and training, benefits and financial advice.

Source: <http://www.socialfinance.org.uk/impact/criminal-justice/>



## 2.3

## Current state of social entrepreneurship in Malaysia

The Malaysian social enterprise sector is currently in its infancy. The sector has been largely driven by isolated communities in a specific geographic region or a particular theme. However, there is a common recognition among key stakeholders that social enterprise has the potential to solve many social challenges by utilising the best of for-profit and non-profit sectors.

Recognising this potential, Malaysia hosted the Global Social Business Summit in 2013, the very first time the summit was held outside of Europe. At the summit, the Malaysian Prime Minister, YAB Dato' Sri Najib Razak committed RM 20 million to set up a Social Entrepreneurship Unit under the

Malaysian Global Innovation and Creativity Centre (MaGIC).

Even though there is an increasing number of supporting intermediary organisations for social enterprises, including British Council, myHarapan, iM4U, Scope Group, Tandemic, and Social Enterprise Alliance, only 0.02% of Malaysians are working in social enterprises. In comparison, 1.5% of China's working population is working in social enterprises (Global Entrepreneurship Monitor 2013, 30). Although the intermediaries in this sector have actively generated awareness and supported the community, these initiatives alone are inadequate to fully realise the potential of this sector.

### Case study #4: Thailand Social Enterprise Sector

Thailand's approach to developing the social enterprise sector has been largely focused on the community of social entrepreneurs in the country. The government has had a strong interest and commitment to develop this sector through the establishment of a 'promotion committee' under the Prime Minister's office in 2009.

In 2010, the government created the Thailand Social Enterprise Office (TSEO) in order to further develop the sector as a focal point for policy development and management of the sector. In 2014, TSEO held another public consultation on the Social Enterprise Promotion Act in order to further mainstream social entrepreneurship as a legitimate and recognised sector of the economy.

Source: [http://www.asef.org/images/docs/Session%201.3\\_Nuttaphong%20Jaruwannaphong%20%28Thailand%29.pdf](http://www.asef.org/images/docs/Session%201.3_Nuttaphong%20Jaruwannaphong%20%28Thailand%29.pdf)

## 2.4

## Transforming & accelerating change

The social enterprise sector has the potential to play a pivotal role in the larger transformation journey of Malaysia, as outlined in the federal government's transformation program. There are several National Key Results Areas (NKRA) within the Government Transformation Program (GTP) 2.0 fit for social entrepreneurs' involvement.

Table 2.1: NKRA supporting social enterprise growth

### NKRA

### Potential role of social enterprise

Improving Students Outcomes (Ministry of Education)	<ul style="list-style-type: none"> <li>• Providing better access to education for remote and isolated communities through enabling technology and relevant curriculum</li> <li>• Supplementing current national curriculum with relevant industry and vocational skills to increase post-education options</li> <li>• Empowering students to be more invested in their own education through self-taught and peer-to-peer learning opportunities</li> </ul>
Raising Living Standards of Low-Income Households (Ministry of Women, Family and Community Development)	<ul style="list-style-type: none"> <li>• Providing skill-based programs and workshops for low-income individuals to be more employable and market ready</li> <li>• Creating market access and opportunities for underserved or underemployed demographic to generate and increase income</li> <li>• Designing and developing basic necessities/infrastructure for durability and affordability to create wealth in physical assets such as housing</li> </ul>
Improving Rural Development (Ministry of Rural and Regional Development)	<ul style="list-style-type: none"> <li>• Providing alternatives to basic necessities such as reliable electricity, sanitation and water supply</li> <li>• Equipping youth with entrepreneurial and business skills needed to generate and increase household income</li> <li>• Creating self-sustaining infrastructure independent of existing grids for remote and rural areas</li> </ul>



*The “Penampang Broom Army” at work during one of the flood relief efforts in Sabah lead by Tonibung*

These are just some examples of how social entrepreneurship can be a key instrument in the national agenda of growing a more equitable economy and also promoting sustainable social development. This calls for more comprehensive and long-term investment in the sector to build a connected ecosystem that supports the movement.

### Case study #5: Tonibung

Tonibung is a social enterprise based in Penampang, Sabah that provides indigenous and remote communities with reliable and affordable sources of electricity. The remote communities of Sabah do not have access to the state’s electricity grid and consequently rely on either diesel generators that are costly to operate, or solar panels that are costly to install and complicated to maintain.

Tonibung solves the lack of accessible, reliable and cheap sources of electricity by using micro-hydroelectric dams that generate reliable and affordable sources of electricity for remote communities. Tonibung also trains local indigenous youth with the theoretical and applied knowledge needed to become qualified micro-hydroelectric dam technicians and engineers.

### Case study #6: TRY Mabul

TRY Mabul is a social enterprise that operates in Mabul Island, Sabah, where the youth of the island have no access to secondary education. The youth of the island are likely to experience substance abuse, gambling, and even being pulled into gangs that prey on the community. TRY Mabul aims to prevent these destructive habits by providing the youth with the vocational skills needed by the tourism industry.

TRY Mabul provides youth with relevant skills needed in the local tourism industry, training them in culinary arts, hotel management, and tourism skills. TRY Mabul equips the youth with skills that will give them better career prospects and escape the poverty cycle despite a lack of access to secondary education.

## Case study #7: ARUS Academy

ARUS Academy is a social enterprise based in Bukit Mertajam, Penang that provides students from low-income communities and high-need schools with 21st century learning opportunities, such as programming and coding. ARUS Academy works through a cross-subsidisation model where income generated from its ARUS camps are used to sustain its Academy courses aimed at disadvantaged youth from the community.

ARUS provides better access to quality education that complements the current national curriculum. By bringing STEM (Science, Technology, Engineering, and Math) and Maker Education to their beneficiaries, ARUS inspires its students to become better learners, encourages them to pursue higher education, and supports them to ultimately escape the poverty cycle.



*A teacher guiding students during a TedEd meeting at ARUS Academy*





### Case study #8: EPIC Homes

EPIC Homes is a social enterprise based in Selangor that provides indigenous communities with affordable and quick-to-assemble housing. 82% of Orang Asli are in need of housing aid in Peninsular Malaysia, approximately 12,322 families.

EPIC Homes works by connecting volunteers with the indigenous community and training volunteers to become builders through courses and training programs. After volunteers are sufficiently trained, they are dispatched to an indigenous community for a build project. Houses can be built for around RM 50,000.00 and within a week. EPIC Homes is now improving its house design and venturing into disaster recovery projects as part of its growth strategy.



### Case study #9: Biji-Biji

Founded in 2012, Biji-Biji is a social enterprise that champions sustainable living and minimising carbon footprint. Through the use of green technology, waste management methods, and creative ways to reuse trash, Biji-Biji aims to inspire a society that is accountable for its waste and leaves a minimal impact on the environment.

Biji-Biji charges clients for three services: sustainable builds, product design and workshops. Their builds include self-watering vertical garden installations, bamboo structures, and furniture made from discarded materials. Workshops include teaching children to find creative solutions for common household waste.

By 2015, Biji-Biji generated over RM500,000 in sales, mostly from commissioned projects, outdoor installations and selling upcycled furniture. Biji-Biji has obtained corporate jobs from clients such as Hong Leong Foundation and Genovasi Malaysia.



## Case study #10: PT Foundation's Community Health Care Centre

Founded in 1987, PT Foundation is a community-based organisation in Malaysia that works with key affected populations on HIV and AIDS, gender identity and sexual health. PT Foundation provides information, advocacy, HIV prevention, care and support services.

PT Foundation's Community Health Care Centre was transformed into a social enterprise in August of 2013. PT Foundation generates revenue through user

fees at the health centre. Costs cover HIV screening, counselling, and referral services. Through a cross-subsidisation model, patients who can afford the full fee of testing subsidise those who cannot afford to pay.

PT Foundation uses a set of service-oriented indicators to measure its impact on the community. They include: number of calls received on the counselling line, the

number of men who reached out to the organisation, number of HIV tests conducted, as well as number of clients who followed up on treatment. By monitoring these indicators, PT Foundation is able to gauge the level of outreach and the effectiveness of its programmes.







## Chapter 3

# Challenges in developing the sector

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## 3.1

## Rigidity & lack of institutional awareness

The government and market regulatory agencies are ill-equipped to support social enterprises and entrepreneurs due to the lack of legal recognition as to what constitutes a social enterprise in Malaysia. The lack of a unifying entity to coordinate and champion social entrepreneurship in Malaysia creates further unnecessary complexity.

The existing legislation that governs how an organisation is registered in Malaysia needs to be re-examined. Current legislation caters to organisations that are either for-profit or non-profit. It does not cater for blended organisations such

as social enterprises, which may have non-profit motives but are engaged in for-profit commercial/trade activities. As such, many social enterprises in Malaysia are limited by the laws and statutes under which they are registered, which either prevents them from engaging in larger commercial activities or receiving tax and financial benefits available for non-profits.

The development of the social enterprise sector in Malaysia requires all parties involved, including community, private, and public sector players to be uniformly aware of what social enterprise

is all about. The lack of definition and awareness of this sector has made it difficult to develop its legitimacy. Consequently, institutions such as banks, foundations, and even government agencies are unable to help social entrepreneurs in starting or growing their organisations.

While social enterprises do engage in commercial activities, they typically require a longer operating period to break even and ultimately generate returns to their investors.

## 3.2

## Lack of legal recognition & policy structure to support

One of the biggest hurdles any social enterprise encounters is to find the right legal structure under which to register and operate. The lack of a legal definition and recognition of social enterprise as a distinct form of organisation in Malaysia has led to many social entrepreneurs operating under a variety of legal forms, which are governed by different acts and regulations.

Many social entrepreneurs are faced with the dilemma of choosing an entity under which to incorporate due to dual goals. While sole proprietorship has been the cheapest and most convenient way to

start a social enterprise, it does not enjoy the same tax benefits and government incentives that non-profits or charitable organisations receive.

Similarly, social enterprises that operate as a society, charitable organisation, or non-profit, face a very real and substantial risk of legal non-compliance as they engage in commercial activities to sustain their operations and increase their impact. As such, the lack of a suitable legal entity structure limits many social enterprises in Malaysia from properly operating.



*APE Malaysia volunteers building feeding platforms for the Siamang and spider monkeys in Zoo Melaka*



## Case study #11:

### What Malaysians want in a social enterprise definition

The Malaysian Global Innovation and Creativity Centre (MaGIC) held a series of roundtables nationwide and invited submissions from social organisations, academic institutions, and private organisations to define social enterprise. Over 200 participants attended the roundtables across nine cities: Kota Kinabalu, Penang, Johor Bharu, Kuching, Kota Belud, Alor Setar, and Cyberjaya. Common themes across the discussions are highlighted here.

#### Two main questions were asked regarding defining social enterprise:

1. What in your view are the most important characteristics of social enterprise?
2. How do we address organisations that fall into the grey areas of social enterprise?

#### Question 1

### What are the most important characteristics of a social enterprise?

Participants agreed that **social enterprises must have a core social mission that is consistent in their activities, a business model for financial sustainability**, and raised the issue of **profit distribution**.

**Having a core social or environmental mission** was integral for all responses. Some university submissions stated that this needed to be the primary reason the social enterprise was set up. The social enterprise must be socially driven, and their social mission cannot be a convenient afterthought. The mission must be consistent in practice and all activities such as production, sales, and hiring should align with this mission. Participants at the roundtables also identified passion, grit, and determination for the social purpose as a common characteristic in social enterprise behaviour.

In identifying business models as a requirement, participants understood that **social enterprises must generate profit from selling a product or service commercially**. However, there was also an ethical component to the financial sustainability. Participants felt that it was necessary that this business model was socially responsible and aligned with the enterprise's social mission. In other words, the business must generate "profit with purpose" and social impact.

Participants and respondents highlighted that **revenue must be reinvested conscientiously: either back into the business or the respective beneficiary communities**. However, participants were divided over the enforcement system for profit reinvestment. Some participants highlighted the need for an asset or dividend lock, whereas other participants felt that this hindered innovation and creativity.

Binary University, for example, highlighted that profits can be returned to the owners in the form of dividends but should be capped to prevent excessive profiteering. Further, the university added

that some countries have introduced an asset lock so that assets cannot be distributed amongst the owners for personal gain if the enterprise dissolves. Assets must be transferred to another asset-locked body or non-profit organisation. This was echoed in a British Council submission; when the profits from selling the business are returned to shareholders, it functions as a traditional for-profit business.

Across the roundtables, the concept of community was emphasized as a critical component of social enterprise. Roundtable participants recognised that social enterprises must serve a community in need. However, the exact relationship of a social enterprise to empower or include a community was varied. It ranged from donating to hiring from these communities.

There was some debate regarding staying local versus the ability to scale. Some participants felt it was more responsible for social enterprises to employ people and source supplies locally, while others felt that this hindered an enterprise's ability to scale and replicate its model.

#### Question 2

## How do we address organisations that are in grey areas of social enterprise definition?

Roundtable participants identified three key components of gauging whether a company could be labelled as a social enterprise: social mission, social impact, and financial distribution control.

First, organisations need to have a clear and consistent social mission with identifiable beneficiaries. Second, organisations need to create social impact in communities. Whether this impact should be measured by the organisations or tested by an independent body was not decided at the roundtables. Thirdly, social enterprises should control the distribution of their profit.

There was an emphasis on intangible elements of a social enterprise: authenticity, sincerity, passion,

as well as ethics and morals. These are much more difficult to measure but they highlight an important element of character of the social enterprise sector.

British Council highlighted several key elements to judge the social enterprise label:

- An organisation charter that outlines its social or environmental mission as well as ethics and impact
- The implementation of an impact measurement tool
- An equity model that limits how shares are distributed if the company is sold

Participants and respondents brought up concerns that a definition was only relevant if an independent, governance body existed to impose it. However, respondents also raised concerns of the usefulness of putting up barriers in such a nascent sector.

## 3.3

## Negative public perception & recognition

Public perception often confuses social enterprise with the traditional social and non-profit sector. The general public's perception of this sector is often related to altruism and charity as opposed to a viable or financially rewarding career option.

This misconception means that social enterprises often struggle to attract investment, charge competitive pricing, and recruit talent. In turn, many commercial and traditional investors stay away from social enterprises. This leads to low capital availability for social enterprises to either pilot or scale. Many social enterprises end up relying on

donations, charitable contributions, or grants to help them pilot or scale their ventures.

Production costs are often higher for social enterprises due to their sustainable and inclusive practices and sourcing of materials. Without education, the general public does not see the value and may not be willing to pay for more expensive goods and services provided by social enterprises.

Lastly, this perception makes it difficult for social enterprises to attract top or fresh talent, especially when competing with the private or public sectors.



*Les Petits Chefs : Single mothers preparing Christmas Cookies*

## 3.4

## Lack of access to quality human capital

Given the lack of institutional and community support available for social entrepreneurs in Malaysia, this sector struggles to attract and retain quality talent. Entrepreneurship, not to mention social entrepreneurship, is seen as a high-risk and non-viable career option for youth.

Significant support is needed to channel talent into this sector and help social enterprises set up, operate, and grow their business and impact. Available professional business and consultancy supports are still beyond the means of the average social entrepreneur, who often relies on pro-bono

and charitable in-kind contributions of professional service firms due to their low profit margin.

Without quality expertise, social enterprises lack the capability to attract investment, scale, or attract mergers and acquisitions. This creates a perpetuating cycle of small and limited social enterprises.

### Case study #12: Capability building grants

The UK Social Impact Investment Taskforce Report recommends that impact-driven organisations have access to grants build capacity. This access builds the organisational capability needed to operate in a highly complex and large capital industry. The need for impact measurement, transparency, and accountability requires impact-driven organisations to have the ability to accurately measure, evaluate and report their results to meet their fiduciary duty to its shareholders and beneficiaries.

## 3.5

## Lack of access to sizeable financial capital

Malaysia has a robust and strong financial sector. Almost all Malaysian-based institutions are able to cater to both commercial/conventional and Islamic banking needs of the market, from individuals and small & medium enterprises to large corporations. While the government has set in place sound regulatory frameworks to encourage these sectors, very little is being done to unlock opportunities for social entrepreneurs to get funding to start and grow their social enterprise.

This lack of access to financial capital is not only due to the embryonic nature of this sector, but also due to the lack of awareness by these financial institutions to find social enterprises that are investment ready. Given the lack of financial and business incentives from the government to help create financial capital wealth in this sector, many social enterprises are still funded mainly through charity, foundation work and even corporate responsibility programs.

This may deter and inhibit the competitiveness of social enterprises in Malaysia.

### Case study #13:

#### Relaxing legal barriers to increase financial capital

The UK Social Impact Investment Taskforce Report calls for the review and relaxation of current laws that prohibit non-commercial organisations to engage in commercial activities in order to encourage more participation in the impact investment sector by charities, foundations, and other organisations.

A review of existing laws is needed to ensure that current organisations with charitable status or benefiting from tax incentives will continue to receive benefits even if they engage in commercial activities. This would require a significant shift in the current form of organisation governance, especially on the fiduciary duty of its trustees and members.

The review of existing laws and regulations promotes asset and fund management companies, such as pension funds, to make large investments in impact-driven companies such as social businesses, enterprises, and other charities with revenue generating activities.



## 3.6

## Lack of support to grow & scale

There are numerous barriers and challenges for social enterprises in Malaysia to start and grow their social enterprise. The very few social enterprises in Malaysia that have been able to scale are currently held back due to lack of support available. Successful social enterprises in Malaysia also tend to financially plateau due to an inability to expand and penetrate new markets in and outside of Malaysia.



*The Biji-Biji Initiative prototyping and building at their Open Workshop in Kuala Lumpur*





# Chapter 4

## Approach in catalyzing the sector

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| 4.2 | Applying the catalyst to accelerate the sector           | 45 |

## 4.1



## Identifying the fundamental blocks to develop the sector

The development of any sector requires the commitment and buy-in of all stakeholders in order to effectively create an irreversible change and momentum in the social enterprise sector. As such, the development of this sector should be focused on enabling impact-driven and entrepreneurial individuals to become highly successful social entrepreneurs.

The blocks are the thematic keystones of the blueprint, and the activities within each block are purely focused on creating a lasting and systemic change in the sector.

For this 3-year blueprint, the fundamental blocks are: I) Social Entrepreneurs, II) Ecosystem, and III) Institutions which all play an important role in developing the sector. Each fundamental block

will be further catalysed by identifying key strategic thrusts, which will rapidly develop the social enterprise sector through targeted investment and relevant initiatives for social entrepreneurs.

## The building blocks and challenges faced in the sector

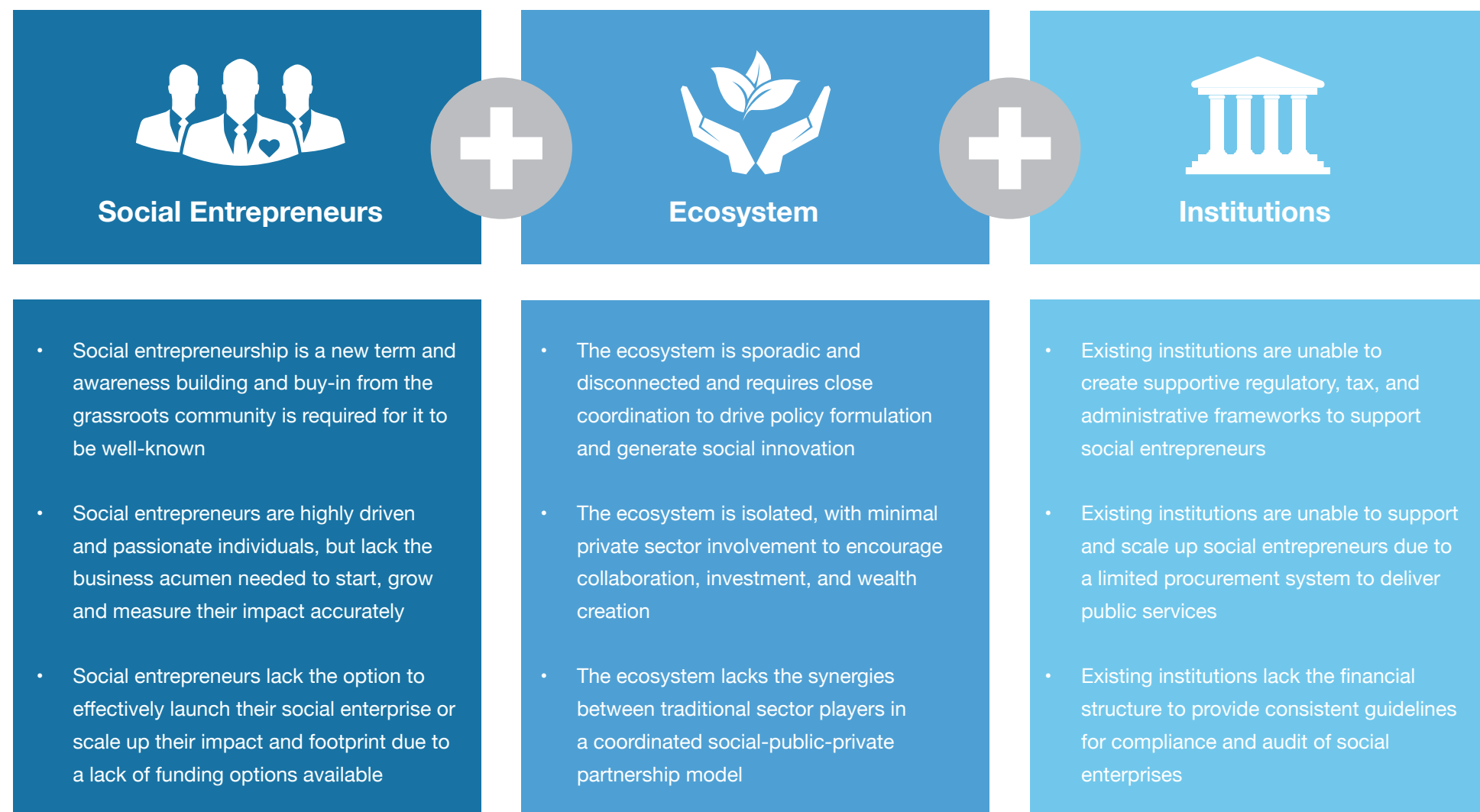


Table 4.1: Building blocks and challenges faced in the sector

4.2



## Applying the catalyst to accelerate the sector

The development of the social enterprise sector in Malaysia must be done at an accelerated pace in order to capitalize on the growing momentum that exists within the community. As such, each building block will be accelerated by a relevant strategic thrust that encapsulates the ethos and key activities required to achieve the objective of a sector-wide advancement by 2018.

The strategic thrust acts as a catalyst to the building blocks of the development of this sector. Each strategic thrust has specific outcomes which will indicate sector-wide development at an accelerated pace.

## Strategic thrusts of the building blocks



**Social Entrepreneurs**



**Ecosystem**



**Institutions**

2015

### **“Inspire a movement”**

Generating awareness among the grassroots community while equipping them with the necessary knowledge and skills to successfully launch and scale their social enterprise.

2016

### **“Create an enabling ecosystem”**

Creating a more inclusive sector through participation from the private and public sector by encouraging discussions on policy development, investment, capital creation, and synergies

2017

### **“Affect systemic change”**

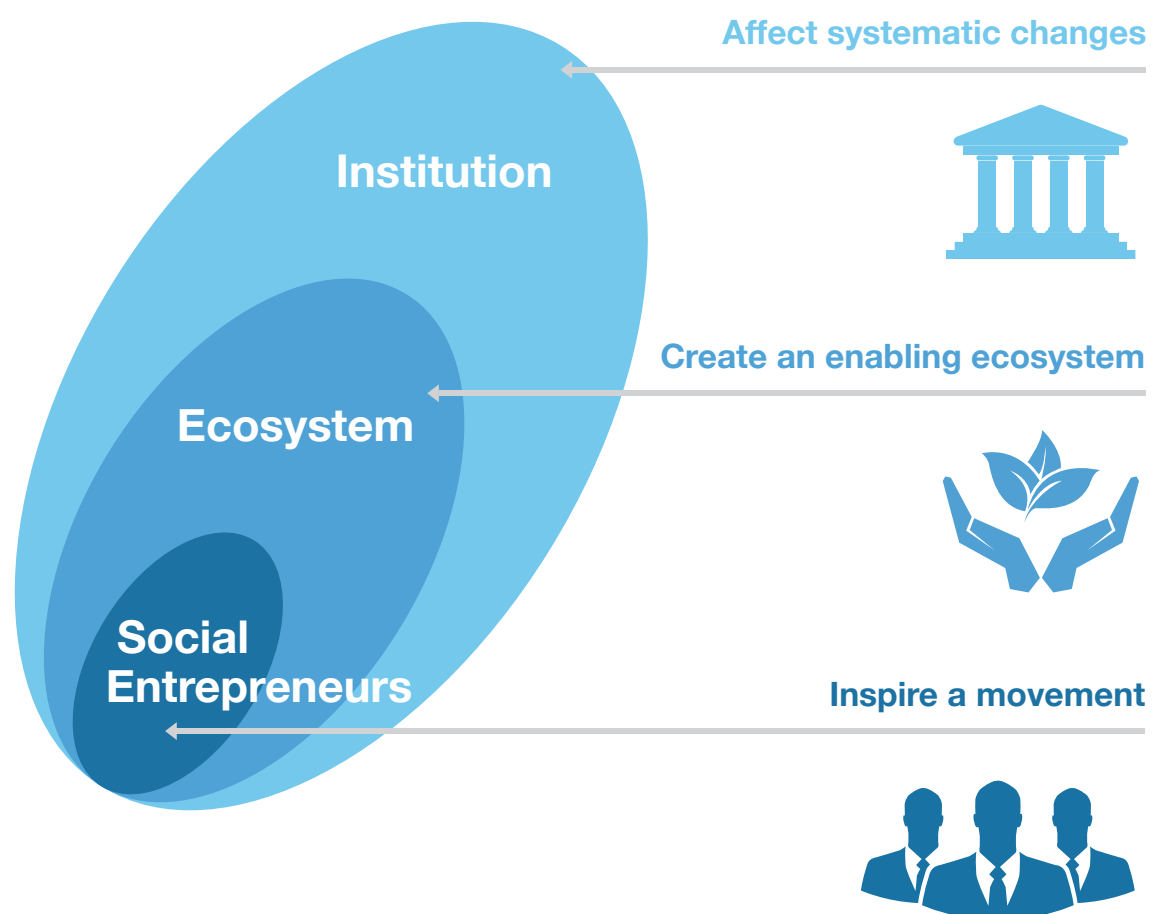
Enabling sector-wide systemic change whereby regulatory, tax and administrative frameworks are introduced to ensure that the sector's development would continue beyond the time horizon of this blueprint

*Table 4.2: Strategic thrusts of the building blocks*



Three strategic thrusts to meet the challenge of creating a thriving ecosystem for social enterprises in Malaysia...

...realised by enabling initiatives that will culminate in a thriving ecosystem for Malaysia



Introduce supportive regulatory, tax and administrative framework

Advocate for public procurement to encourage more good quality, cost-effective, and innovative public services

Define the financial structure and provide guidelines for legal compliance and auditing



Establish knowledge base to inform policy and development, spurring social innovation

Encourage private sector involvement to increase collaboration, strategic investment, and capital creation

Foster social-public-private partnerships to create synergies



Create awareness and promote better understanding of social entrepreneurship

Build the human capital of social entrepreneurs and those who work in social enterprises

Catalyse more successful social enterprises by helping them pilot or scale

Figure 4.1 : Three strategic thrusts for social enterprises



# Chapter 5

## Thrust 1 : Inspire a movement

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## 5.1



## Create awareness & promote better understanding of social entrepreneurship

Grassroots involvement and support is necessary to justify the investment and allocation of resources into developing the social enterprise sector in Malaysia. Thus, increasing public awareness is crucial to create a movement within the critical mass and trigger the shifts required to bring systemic change to the sector.

### Case study #14: Thailand Social Enterprise Office (TSEO)

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The Thailand Social Enterprise Office demonstrates how to effectively generate awareness and showcase the value of social enterprise to the larger community and public at large. The TSEO was created to ensure a focal point for matters related to social entrepreneurship and help formulate policies and relevant instruments to unlock government benefits.

TSEO's approach to developing the sector is based on generating social innovations that are impactful to not only the sector, but also to other sectors as well. The approach undertaken by TSEO focuses on building the capacity of the social entrepreneur, in addition to creating enabling infrastructure and facilities such as co-working spaces for social enterprises.

TSEO is currently in the process of providing inputs for the drafting of the Act on Social Enterprise Promotion for Thailand.



### Creating awareness among passionate and driven individuals

Creating awareness among the public is necessary to create a passionate community that will support and demand a large-scale national movement for social enterprise. As such, there must be a coordinated effort to highlight the potential, results, and opportunities that are available for would-be social entrepreneurs.

Creating awareness on a community level generates the momentum for the larger public to learn, commit, and advocate for the accelerated development of the sector.

### Reaching out to underserved and remote communities

Social entrepreneurship should be inclusive to all communities, regardless of socio-economic background. There must be an element of inclusiveness and outreach, especially to those who are underserved and located in remote communities. Social entrepreneurship needs to be positioned not only as another form of enterprise, but also as a solution for those who are off the grid.

Reaching out to underserved and remote communities would not only expose them to an instrument for development, but also surface innovation that exists in these communities.

### Bridging the community divide

The community of social entrepreneurs currently exists in isolated pockets and is limited by geographic boundaries, leading to minimal collaboration and knowledge sharing between urban and rural communities of social entrepreneurs. Bridging the gap between these communities will create a platform where knowledge and opportunity is shared equally for the greater benefit of the sector.

### Educating the public on the social enterprise sector

The public should be educated about social enterprises and their impact. This knowledge will empower them to support the sector, whether through the purchase of products or services,



*Eat, Shoots & Roots : A group photo of the local community & organization members during a workshop on building a community garden*

or creating supporting instruments. A deeper community understanding of the sector will unlock the potential of high growth and scalable social enterprises.

### **Evidence base and knowledge of the sector**

Understanding of the landscape and state of the sector will allow a strategic investment of resources where it is most needed in the sector. Once the awareness is there, it will become easier not only to identify social enterprises but also for social enterprises to self-identify. A defined sector also facilitates research and development to be carried out.

## 5.2

# **Build the human capital of social entrepreneurs**

The social enterprise sector in Malaysia requires significant human capital investment in order for this sector to strengthen and mature. Significant resources must be allocated to develop necessary knowledge, capability and quality talents. Given the dual objectives of a social enterprise to deliver not only financial returns but also positive impact to society and environment, active intervention must be introduced well before an individual ventures into this sector while providing similar

opportunities throughout the life journey of the social enterprise.

### **Embedding social entrepreneurship in the education system**

In order to build a pipeline of quality social entrepreneurs, it is recommended that social entrepreneurship is embedded in the current national education system for both public and private academic institutions. Embedding social entrepreneurship into the curriculum should begin at the secondary school level in order to enable tertiary institutions to provide more technical and in-depth capacity building for youth to venture into social entrepreneurship.

Embedding social entrepreneurship courses and elements into the curriculum would also create a lasting awareness and cultural acceptance of social entrepreneurship as a viable academic and career option post-education.

### Connecting the sector with tertiary academic institutions

There is a skills gap between what the sector currently requires and what tertiary academic institutions are imparting to those seriously venturing to become social entrepreneurs. The skills gap exists primarily due to the lack of collaboration between practitioners and academics. Skills such as impact measurement, issue identification, and general business acumen are currently lacking, reducing the quality and likelihood for a social enterprise to be investment ready.

Connecting practitioners and academics would ensure that social entrepreneurs are equipped with the fundamental skills and acumen needed to run a successful social enterprise, while increasing the pipeline of social entrepreneurs who are viable for investment.

### Providing continuous technical and capability opportunities

As a sector in its infancy stage with rapid development foreseen in the next few years, it is critical for social entrepreneurs to be continuously developed as they start their social enterprise venture. As the sector matures through the legislation and introduction of new policies and tax/financial instruments, there is a need to ensure that social entrepreneurs are well equipped to receive changes in the sector.

Providing social entrepreneurs with the opportunity to continuously learn and up-skill their capabilities would increase the likelihood of success for the social enterprise to operate and rapidly scale up its impact footprint as well.



*LH Learning Group: Group of students participating in the Turbo Charge Learning School Program in SMK Sri Utama*



### 5.3

## Catalyse more successful social enterprises by helping them pilot or scale

To ensure the long-term success and continuity of this sector, it is imperative for the social enterprise to deliver the impact and financial returns expected by the market. The success of the social enterprise must be based purely on its ability and prospect to deliver results. Institutional players should provide support in terms of opportunities and in-kind benefits in order for social enterprises to progress from

ideation to pilot, and eventually expansion stage. The performance of social enterprises demonstrates the viability of this sector and encourages the injection of more financial and human capital to sustain it.

### Creating a safe environment to venture into social entrepreneurship

Venturing into social entrepreneurship is a highly risky move for any individual, requiring not only extensive capital but personal support for the social entrepreneur as well. Subsequently, there is a need to create a safe environment where interested individuals are able to test out their social enterprise idea through a controlled pilot or simulation. This enables the individual to determine the project's overall viability before going full-scale and making the career transition.

Creating a safe environment would enable more interested individuals to evaluate and decide whether or not to assume the risk of venturing into social entrepreneurship full-time, while simultaneously increasing the likelihood of creating successful social entrepreneurs.

### Developing an advocacy mindset among all institutional players

There must be a significant shift in the mindset of those involved in the social enterprise sector in Malaysia. Major institutions such as government agencies, private sector companies, and even intermediaries must take an advocacy role rather than a passive-observer role in this sector. Institutions have to clear a path for social entrepreneurs to be successful by unlocking resources and opportunities which are not typically made available to them.

Developing an advocacy mindset among all institutional players would ensure more resources - whether it be financial or in-kind - to be unlocked for social entrepreneurs, allowing them to rapidly progress their social enterprise from pilot to growth.

### Demonstrating overall viability for further investment

The long-term success and continuity of the social enterprise sector lies in its ability to demonstrate positive results in both impact and financial returns. Therefore it is important for social enterprises to receive strategic investment based on their ability to meet both criteria. This affirms social enterprises' ability to create impact and self-sustain, further demonstrating the very real potential of this sector.

Demonstrating the overall viability of the social enterprise based on its performance in the market will attract more interest and participation from the traditional sectors, and inject more capital and talent into this emerging sector.





# Chapter 6

## Thrust 2 : Create an enabling environment

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## 6.1



## Establish a knowledge base to inform policy & development to spur social innovation

Creating an enabling environment requires much more than just the injection of human and financial capital into the sector. It also requires a common platform for all stakeholders to discuss and debate the merits of what is needed to create larger institutional change for social innovation in Malaysia. By creating a common platform and wider participation in the development of relevant policies, a more participative and equitable approach to the development of this sector is ensured.

### Case study #15: Spurring social innovation

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National Endowment for Science Technology and the Arts (NESTA) is an organisation that focuses on increasing the innovation capacity in the United Kingdom (UK) through programs, investments, policies, research, and strategic cross sector partnerships.

One of its initial projects include Bethnal Green Ventures, in which NESTA co-invested with the UK's Cabinet Office Social Incubator Fund. Bethnal Green Ventures is an accelerator program that aims to bring technology-based solutions to solve the world's most pressing social problems.

Source: <http://www.nesta.org.uk/our-projects/success-stories/Bethnal-Green-Ventures>

### Creating a platform for open discussion

A common platform for discussion is necessary for the development of this sector from a larger national perspective. While the sector itself should be led by the community of social entrepreneurs, it should also be mindful and inclusive of other institutional players from the private and public sectors. This common platform needs to gather and create a knowledge base that drives social innovation, the main output of this sector.

Creating a platform for open discussion and a knowledge base would ultimately identify any hidden or underutilised resource that could be used to rapidly develop the sector and spur social innovation.

### Driving policy development and instruments for implementation

The development of this sector should not be made in isolation from other sectors. Social entrepreneurs must drive the discussion about the development of this sector by showcasing real results, which will create the case for larger involvement and advocacy from other sector players. Social entrepreneurs need to drive matters related to policy development and instruments in order to create cross-sector support between the social enterprise sector and other sectors in Malaysia.

Driving policy development and instruments for implementation are necessary to steer the sector to generate social innovations that are replicable, scalable and, most importantly, solve a legitimate issue faced by beneficiaries.

### Establishing a knowledge base

The development of this sector will rely on the wealth of knowledge created in the form of new advancements in technology and social innovation. As such, there is a need to create a knowledge base where research and development activities will be commissioned to grow the sector strategically through the application of specific instruments such as capital injection, grant allocation, and even legislation.

Further, practitioners, academics, and other sector players can collaborate together on the knowledge base. This collaboration from stakeholders across multiple sectors ensures that strategic investments could be made in order to spur more social innovation and breakthrough.

## 6.2



## Encourage private sector involvement to increase collaboration, strategic investment & capital creation

The longevity of any sector is based on its ability to sustain itself independent from the state or governing agencies. To ensure the viability of this sector in the long term, it is necessary for the private sector to play a prominent role.

### Creating opportunities for private sector to be involved

The early-stage development of any sector is typically led by the state or its relevant agencies, and is supported by the grassroots communities that it is intended for. However private sector players, particularly those in the financial sector, must be involved in the early stages to comprehensively understand the trends and direction of this sector. Further this will enable them to identify what institutional changes are required for them to make significant investment and commitment to this social enterprise sector.

To achieve this the government will need to disclose information and data as to how effective it is in delivering public services and goods to its citizens. This gives social enterprises a foundation to determine how best to solve this issue through



facts and information. Similarly, government needs to devise an instrument where social enterprises are rewarded for reducing costs and improving quality of public service delivery.

Similarly the government should also encourage more participation across all sectors through a more collective and inclusive movement, which could be modeled after the collective impact or shared value movement that is happening globally.

Creating opportunities for the private sector would enable the social enterprise sector to be developed in a more coordinated manner while also ensuring that resources such as financial and in-kind capabilities are made available.

### **Incentivizing the private sector to commit and participate**

Private sector players are restricted by the level of commitment of their shareholders. While more companies are being more responsible and ethical in their practice, there must be significant incentive for the private sector to be involved and actively contribute to social enterprises. Targeted incentives are specifically devised at each stage of the sector's development to ensure continuous buy-in and commitment from the private sector.

This is where the government and regulatory agencies play a major role in crafting incentives such as tax and other business benefits that would enable the private sector to commit resources and investment to develop this sector. The role of the government in this instance would be to absorb the initial investment risk while slowly transferring the

risk back to the market through instruments such as match funding or even seed funding.

Incentivizing the private sector requires close coordination and strong governance to ensure that the incentives being introduced are fair for all parties involved. By creating the right incentive instruments, private sectors will be able to inject more financial and human capital required for the social enterprise to tap into.

## 6.3



## Foster social-public-private partnerships to create synergies

Public-private partnerships in Malaysia have been shown to improve public service delivery while reducing operational cost for the government and its agencies. Given the increasing demand for a customer-centric public service delivery, there is an opportunity for social enterprises to play a major role in delivering public services on behalf of the government in a more efficient and effective way. Opportunities must be identified and dedicated for social enterprises in order to create market demand.

### Identifying opportunities within existing public-private partnerships

Current public-private partnerships are purely based on the notion that the private sector is able to help the government in the delivery of public services. However, current government procurement systems and guidelines do not favour social enterprises who are typically much smaller, in terms of both financial and working capital available. Therefore current public-private partnerships must be evaluated in order to identify the potential areas in which social enterprises could partner with government.

Identifying opportunities within existing public-private partnerships would instantly create a market for social enterprises to compete in, while simultaneously creating an opportunity for the social enterprise sector to be injected with financial capital.

## Creating dedicated domains for social enterprise

The next step in the social-public-private partnership is to carve out a specific niche within the market for social enterprises to meet. The creation of a dedicated domain or preference for social enterprise would be useful in order to create a marketplace that is predictable, and will generate a reliable source of revenue for the social enterprise. The dedicated domain and preference however should be based on the ability of the social enterprise to bring public services or goods to a community that is either underserved or completely isolated.

Instruments such as the social impact bond have proven to be effective in countries such as the United Kingdom. There, social enterprises are incentivised to participate through the creation of special endowments or access to social impact

bonds offered by the government and local municipalities. The incentive of the social impact bond must be financially viable for investors and, most importantly, be effective in addressing the issue. Here, the role of the government is to create a preference and performance measure to ensure the partnership meets both impact and financial objectives.

Creating a dedicated domain and preference for social enterprise would ensure the delivery of public services and goods while simultaneously injecting significant cash flow into the sector through the commercial partnership between the social enterprise and the private and public sector.



*Ecoteer's conservation project near Taman Negara  
Malaysia protects endangered animals including tigers  
& help the Batek aboriginal community*



# Chapter 7

## Thrust 3 : Affect systemic change

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7.1



## Introduce supportive regulatory, tax & administrative frameworks

The previous two thrusts describe the ongoing effort that is required to create the critical mass of successful social entrepreneurs and enterprises in a strong and robust community. However, in order to fully develop this sector, a more systemic change is required to ensure that developments are irreversible and the sector continues on a growth path that continually improves the state of Malaysian social enterprises. Hence, there is a need to create systemic change through legislation involving the regulation, taxation and administration of this sector.

### Case study #16: Regulating an impact-driven sector

The Community Interest Company (CIC) was created in the United Kingdom (UK) in 2005 under the Companies Act 2004. The legislation and passing of this law facilitates the process of starting and operating a social enterprise in the UK.

Additionally the Office of the Regulator of CICs was also established to help individuals start their social enterprise, as well as to regulate the sector by investigating complaints from the public. Similarly, the Office of the Regulator acts as a focal point for all matters pertaining to regulatory changes in the sector through the announcement of dividend caps, incentives, and even new forms for the registration of a new social enterprise. As of 2014 nearly 10,000 Community Interest Companies have been incorporated and there are currently over 180,000 social enterprises in the UK.

Source: <https://www.gov.uk/government/organisations/office-of-the-regulator-of-community-interest-companies/about>



## Identifying key legislative changes to support social entrepreneurs

Many legislative changes are needed to fully support this sector, mainly in regards to acts that govern the registration of a legal entity in Malaysia. Currently legislations related to the registration of a legal entity do not fit the definition of a social enterprise. As such, the current legislation landscape is not conducive to the progression of this sector.

The development of this sector must include legislative changes regarding how a legal entity is recognised. This needs to be followed by a coherent set of policy instruments that will augment the operation of different regulatory agencies such as the securities commission, registrar of companies, and societies.

Identifying key legislative changes would ensure a specific form of legal entity that fits the definition of social enterprise and would facilitate the process of starting and easily operating a social enterprise.

## Defining regulatory and taxation regime for social enterprise

There is a need to define a regulatory and taxation regime for the social enterprise sector here in Malaysia. Given the complexity and dual missions of social enterprises (having a social or environmental purpose through commercial means), there must be a mechanism to properly govern and regulate this sector in a way that is conducive for individuals to become social entrepreneurs and for private sectors to invest in social enterprises.

Defining a regulatory framework and subsequently, taxation regime will ensure the sector continues to serve its purpose of solving legitimate issues for its intended beneficiaries while reducing likelihood for exploitation.



*A scarf designed & produced by an artisan distributed & promoted by Earth Heir*

7.2



## **Advocate for public procurement to encourage better quality, cost-effective & innovative public services**

While many governments have ventured into including social enterprises in its public procurement process, there are still fundamental changes that need to happen in order for social enterprise to competitively deliver public services or goods. Current public procurement processes and criteria must be re-evaluated and considered in order to identify what type of government procurement would be most logical and beneficial for social enterprise to participate in.

### **Expanding current public procurement to include social enterprises**

While current public procurement has been progressing with the introduction of public-private partnerships, there is still space and opportunity for social enterprises to compete. Given that social enterprises are relatively and typically smaller, the government must be able to expand public procurement to include social enterprises in areas where social enterprise could be a viable provider. Expanding current public procurements to include social enterprise must be strategic and targeted, which consider a clear valuation and categorization.

### **Setting up performance and service-level targets**

Government must set up realistic and specific performance and service-level targets for social enterprise to fulfil. As such, current procurement criteria and eligibility rules must be re-examined in order to ensure social enterprises are not automatically disqualified for legacy rules and criteria.

Performance and service-level targets must be set specific to the nature of the goods and services being procured from the social enterprise. These targets ensure that social enterprises are qualified to be awarded with public procurement contracts.

## 7.3

## Define the financial structure & provide guidelines for legal & audit

To ensure that the social enterprise sector continues to grow in Malaysia, there must be a coherent structure to govern the sector from a legal and compliance perspective. Social enterprises work on legitimate issues where the beneficiaries are very much dependent on solutions through enterprising means. However, there must also be safeguard mechanisms for the market to regulate, free from exploitation.

### Developing a financial structure for social enterprise

A standardised financial structure must be introduced and adopted in order to properly regulate the social enterprise sector. Given the large amount of investment that will be created through different entities such as government, financial institutions, foundations and trust organisations, there is a need to clarify how to measure and evaluate the impact that the social enterprise aims to deliver.

A standardised framework to measure and assess a social enterprise's impact and financial performance creates the trust and confidence that will attract more investment and capital into this sector.

Developing a financial structure for social enterprise would create a consistent framework for regulatory bodies to measure and evaluate a social enterprise based on specific guidelines and specifications.

### Adopting and creating standards for legal compliance

Given the commercial and trade elements of a social enterprise, it is recommended that a standardised framework is developed and adopted. Such a framework ensures that a social enterprise meets its primary objective of delivering impact and generating revenues through commercial or trade activities.

Adopting and creating standards for legal and audit compliance would attract the injection of more capital in the sector as a form of investment from other sectors.



# Chapter 8

## Expected outcomes

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8.1

## A robust community & movement of social entrepreneurs

One of the expected outcomes of this blueprint is to create a robust community and a movement of social entrepreneurs that are connected and integrated across Malaysia by 2018. Having gone through the entire phase of starting, operating, and growing a social enterprise, this community of social entrepreneurs are the very people who will lead, inspire, and set the momentum and direction of the sector.

This blueprint also aims to create a community of social entrepreneurs who have, by design, the mindset and culture of continuous improvement. Empowered intermediaries and other entities will provide the social enterprise community with the opportunity to acquire the skills and capabilities required to improve their social enterprise, making it investment-ready for either piloting or scaling.

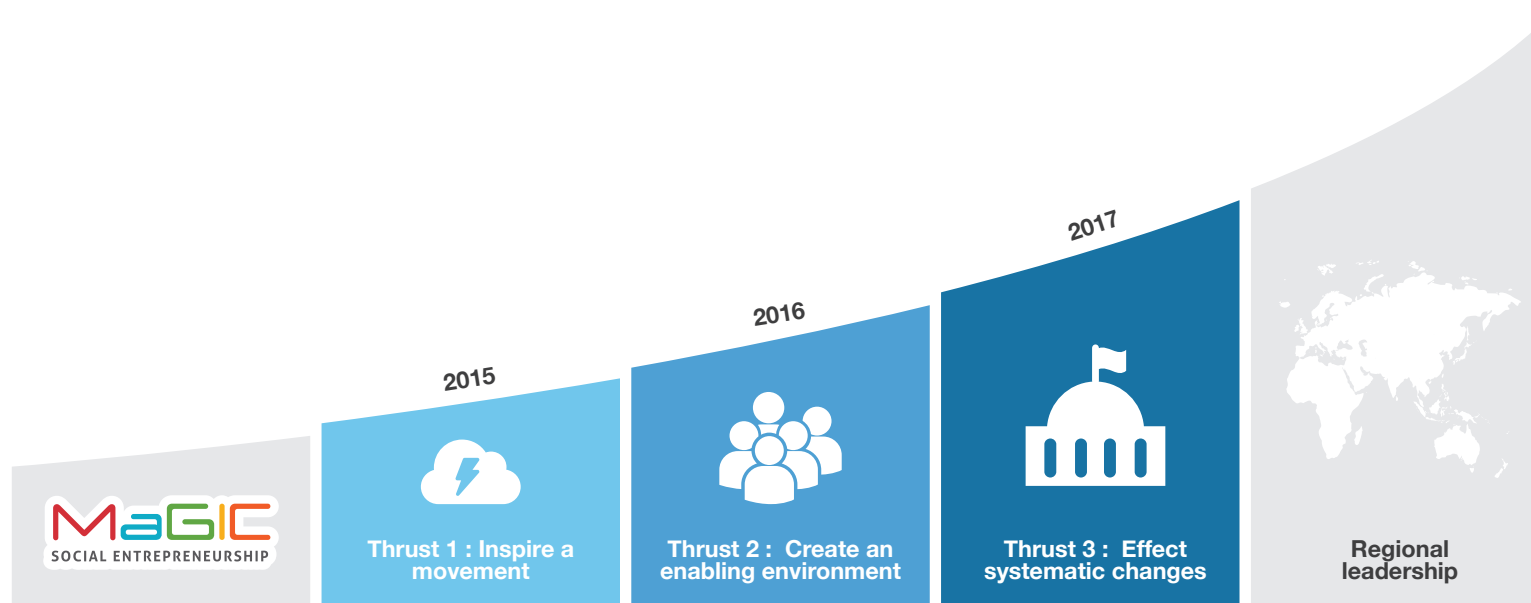


Figure 8.1 : Three thrusts for growing the social enterprise sector



8.2



## A thriving environment for successful social entrepreneurs

The creation of a robust community and movement of social entrepreneurs must be complemented with a supportive network that encourages natural partnerships to arise between social entrepreneurs and other relevant entities. This means that different stakeholders and sector players – be it non-profit, for-profit, or government – are collaborating in a way that would encourage more social innovation to be produced in Malaysia.

Moreover, creating a connected sector for social entrepreneurs also creates the platform for systems change in the sector. A connected sector facilitates the discussion and action on policy development and legal legislation needed to fully utilize the potential of this sector

8.3



## A resilient sector which is equitable & driven by the social entrepreneurs

The end-state of this blueprint is to create a resilient social enterprise sector where the stakeholders involved understand how advancing the sector is mutually beneficial, hence taking accountability for advancing the sector. This blueprint also calls for social entrepreneurs to lead the sector and accelerate it in terms of both impact and business returns, with clear guidance as to how this sector should be governed and regulated through a consistent legal and audit framework.

However, to create a sector with embedded market resilience requires the implementation of several institutional and fundamental changes. This blueprint calls for the introduction of regulatory, taxation, and administrative frameworks to drive the advancement of this sector. More regulatory, policy, and legislation frameworks better enable advocacy of public procurement in the delivery of public services to be open for social entrepreneurs.

## 8.4

## Beyond the blueprint

While the blueprint focuses on a three-year time horizon, what happens beyond 2018 still remains a question. While some countries prefer to have a more national focus such as South Korea, Thailand and Vietnam, there is a precedent in regards to a country that has taken social enterprise to a regional focus – which is the United Kingdom through its presidency of the G8.

The question will continue to be at the forefront of those involved in this sector. While social entrepreneurship does have the immense potential to effect systemic change in Malaysia, there is a larger ASEAN population of 600,000,000 that could also benefit from a strong regional champion of social entrepreneurship.



*Tanoti: A local Sarawakian producing hand made & fine crafted songket*



# Chapter 9

## Conclusion

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*A family walking along the Pahang River in Temerloh during a post-flood relief project with Do Something Good and Katzen*

## 9.1

# A challenging prospect to realise the full potential of the sector

The development of the social enterprise sector in Malaysia is a challenging and daunting task that requires complete buy-in and commitment from all parties involved, ranging from grassroots communities to industry leaders and influencers.

Social entrepreneurship in Malaysia is in its embryonic stage of development. The actual landscape itself is blurry, with many players still hidden from our reach and coverage. As such, this sector's advancement would require all stakeholders to be agile and adaptive to its changing needs, and

primarily the needs of the social entrepreneurs themselves.

While this blueprint calls for a sector that is very much focused on enabling the social entrepreneur, it must also be inclusive and beneficial for other sector players in the non-profit, for-profit and government sectors alike. The advancement of the social enterprise sector must be fair and equitable, where the environment is conducive for impact-driven and entrepreneurial individuals to succeed and compete.

9.2



## Creating an equitable economic & social model for all

As the development of the social enterprise sector must be equitable and fair, so must the responsibility and accountability of developing this sector. There must be recognition that the advancement of this sector is contingent on a collaborative effort between each ministry, agency and private sector entity, each of whom playing a significant contributing role.

The social enterprise sector should be a truly competitive and fair sector where the success of the social enterprise occur as a result of its own efforts and ability to solve social and environmental issues through enterprising means. This sector should not be exclusively dominated by any single entity, but instead coordinated and supported by the different stakeholders in different capacities.

9.3



## Getting involved, a call to action

While this blueprint is by no means a definitive and rigid way of advancing this sector, we do encourage those involved and interested to participate in any way possible. While the blueprint is the commitment of the government to spur the development of this sector, it is also an opportunity for all to make a contribution moving forward.

For more information visit: [www.se.mymagic.my](http://www.se.mymagic.my)



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## Appendix I – Existing definitions for social enterprise

While there are a variety of definitions of social enterprise, most definitions fall into two schools of thought:

### **Social enterprise as an organisational model**

In this school of thought, social enterprises are organisations that focus on both economic and social value creation, often with a trade-off between the two. This may include non-profit organisations that set up income-generating business units or business ventures that employ people from marginalised communities. This idea of social enterprise is at the base of social enterprise policy in countries such as South Korea, the US, and the UK. It is also the social enterprise concept used by large global investors in social enterprises such as Acumen Fund and LGT Venture Philanthropy.

**Social enterprise as the initiative of a changemaker.** In this school of thought, the focus is on the social entrepreneur as a social innovator. A social enterprise is an organisation that

has been created by someone who has applied entrepreneurial approaches to the social sector. The social entrepreneur has found innovative, new ways of addressing social problems or meeting social needs. This concept of social enterprise does not necessarily require that the social enterprise have a commercial business model. This idea of social enterprise has been adopted several global foundations celebrating social entrepreneurs, such as Ashoka, The Skoll Foundation, and the Schwab Foundation.

### **Social Enterprise Policy Frameworks Globally**

A variety of legal frameworks exist for enterprises that blend elements of the non-profit and for-profit categories. Three prominent examples of these hybrid forms of organisation include the low-profit limited liability company (L3C) in the USA, the Community Interest Company (CIC) in the UK, and the privately-regulated Benefit Corporation (commonly referred to as B-Corp) in the USA. What is common amongst these hybrid forms is that they

seek to expand the financing available to blended enterprises and also offer credible commitments to enforce such enterprises' dual missions.

In the United Kingdom alone, the social enterprise sector employs more than two million people, including half a million sole traders. Social enterprises represent 15% of SME employers. Further, social enterprises are estimated to have total annual incomes of £163 billion a year and contribute £55 billion to the economy in Gross Value Added in the UK.

In the next two pages we have outlined the ways that these frameworks seek to regulate an enterprise's social mission, tax treatment, and financing.

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	Community Interest Companies (UK)	Low-Profit Limited Liability Company (USA)	Community Contribution Company (Canada)
<b>SOCIAL MISSION</b>	<ul style="list-style-type: none"> <li>The Community Interest Test requires that “a reasonable person might consider [the CIC’s] activities are being carried on for the benefit of the community.”</li> <li>The CIC must report its community interest achievements to the Regulator annually, and in this report, it must “confirm that access to the benefits it provides will not be confined to an unduly restricted group.”</li> <li>Required that the activities of the company are carried on for the benefit of the community</li> </ul>	<ul style="list-style-type: none"> <li>An L3C must “significantly further the accomplishment of one or more charitable or educational purposes”</li> <li>The company “would not have been formed but for the company’s relationship to the accomplishment of those purposes”</li> <li>Neither income production nor property appreciation may be a significant purpose of an L3C, and some statutes require this to be stated in the L3C’s formative documents.</li> </ul>	<ul style="list-style-type: none"> <li>Based on the CIC framework</li> </ul>
<b>TAX &amp; LEGAL TREATMENT</b>	<ul style="list-style-type: none"> <li>No special tax benefits</li> <li>Prohibited from being a charity</li> </ul>	<ul style="list-style-type: none"> <li>Offers some tax benefits over a standard for-profit form</li> <li>Can avoid entity-level federal income tax liability entirely due to its pass-through treatment (in which the partners are taxed individually, but the partnership is not directly taxed).</li> </ul>	<ul style="list-style-type: none"> <li>No special tax benefits</li> </ul>
<b>FINANCING STRATEGIES</b>	<ul style="list-style-type: none"> <li>Can accept equity investment money and issue shares</li> <li>Asset lock: legal promise stating that the company’s assets will only be used for its social objectives</li> <li>On dissolution, assets may not be paid out to directors, members, or equity holders; all assets must go to another entity whose assets are perpetually devoted to community benefit.</li> <li>Dividend cap: can pay shareholder dividends limited to 35% of annual profits</li> </ul>	<ul style="list-style-type: none"> <li>Can accept program related investments (PRIs) from private foundations in the form of loans or equity</li> </ul>	<ul style="list-style-type: none"> <li>Can accept equity investment money and issue shares</li> <li>Asset lock: limits the distribution of assets to shareholders to a maximum of 40%, with the remainder distributed to charitable organisations and/or other asset-locked entities</li> <li>Dividend cap: can pay shareholder dividends limited to 40% of annual profits</li> </ul>

**Benefit Corporation (International)****Social enterprise (South Korea)****Social enterprise (Thailand)**

- Mission lock: must thrive to increase both social value and shareholder value. The purpose of the organisation can only be changed with a supermajority vote of shareholders
- Specific requirements in purpose, accountability, and transparency must be met, including the annual benefit report
- Decisions must be made taking all key stakeholders into account
- Must commit to use “the power of business to solve social and environmental problems.”

- The organisation's main purpose should be to realise a social objective, such as raising local residents' quality of life, etc., by providing vulnerable groups with social services or jobs or contributing to local communities
- 30% of employment should be the disadvantaged or 30% of the business should be providing a social service
- The organisation may take on multiple types of incorporation, such as NGO or for-profit organisation

- The organisation must undertake a manufacture or other operations which do not adversely affect health, society and environment in the long-term

- No special tax benefits

- Reduced taxes

- The organisation may take on multiple types of incorporation, such as NGO or for-profit organisation
- Does not currently enjoy tax benefits but feasibility is being examined

- Incorporated as a traditional corporation
- A B-corporation may be in a better position to attract and accept PRI (program-related investment) money

- The organisation should spend  $\frac{2}{3}$  of profits on the social objective
- Profits must cover at least 30% of labour costs

- Does not enjoy specific benefits

## Social Enterprise Policy Frameworks in Asia

### South Korea

South Korea is the only country in East Asia to legally define a social enterprise. In 2006, the government enacted the Social Enterprise Promotion Act (SEPA) 2006. As of November 2014, there are 1,165 certified social enterprises in South Korea. The government aims to promote more than 3,000 certified social enterprises by 2017.

Article 2 of the Law on the Promotion of Social Enterprises describes the legal concept of a social enterprise as the following:

- A company which reinvests profits in the business or the local community putting priority on pursuing social purposes rather than on maximizing profits for shareholders or owner of the company.
- Its main purpose should be to realise a social objective, such as raising local residents' quality of life, etc., by providing vulnerable groups with social services or jobs or contributing to local communities.

- Can take the form of a corporation or an association under the Civil Law, a company under the Commercial Act or a non-profit private organisation;
- It should employ paid workers and conduct business activities, such as the production and sale of goods and services;
- It should have a decision-making structure in which interested persons, such as service beneficiaries and workers, etc., can participate;
- Where it has distributable profits for each fiscal year, it should spend at least 2/3 of the profits for social objectives (applicable only to a company under the Commercial Law);

South Korea has also implemented a dedicated unit, called the Social Enterprise Division, under the Ministry of Employment and Labor, as well as the Korea Social Enterprise Promotion Agency (KoSEA), which is responsible for implementing and promoting social enterprise policies such as business incubation, business unit certification, business monitoring, consultation services and networking. The government takes the lead in fostering the step-by-step development of social

enterprises through incubation institutions and support programs. The regulatory environment also encourages enterprises to participate.

### Singapore

In Singapore, no specific legislation regarding social enterprises has been enacted, nor has an explicit definition for social enterprises been provided. Based on the operation model, Singapore classifies social enterprises as Work Integration Social Enterprises (WISE), plough-back-profit models, subsidized services models, and social needs models. There is no legal entity that is a hybrid between a traditional non-profit and traditional for-profit.

Rather, the majority of charities and non-profit organisations in Singapore are established in the form of a company limited by guarantee (CLG), meaning that the liability of its members is limited by its constitutional documents to such amount as the members undertake to guarantee. While a CLG can accept donations and grants, it is unable to receive funding in the form of equity as it does not have share capital. A CLG may be registered and regulated as an approved charity in order to enjoy



full income tax exemption on income and receipts.

Under the Ministry of Social and Family Development, the government has created the ComCare Enterprise Fund (CEF) to help newly established social enterprises survive and grow during their first two years of existence. It aims to provide seed funding for sustainable new and existing social enterprises that train and employ disadvantaged populations in Singapore. The government provides financial assistance to newly created social enterprises from the perspective of investment.

### Thailand

In Thailand, the Regulation for National Promotion of Social Enterprises provides the definition of a social enterprise as a business that has the explicit purpose of “addressing problems and developing a community, society, or environment, and generating revenue by selling goods or providing services not with the primary object of maximizing profit for its shareholders or owners.”

It must possess the following specific attributes:

1. Undertake a manufacture or other operations

which do not adversely affect health, society and environment in the long-term;

2. Apply a doctrine of self-sufficiency;
3. Have the potential to have its own financial stability;
4. Accumulate revenue principally from businesses or operations carried out to further a purpose of addressing problems and develop communities, societies or environments, or returning benefits societies;
5. Possess the capacity to be in a variety of organisational forms;
6. Exercise good governance

In 2011, the government formed the Thai Social Enterprise Office (TSEO). As well as working with the stock exchange, the TSEO is looking into tax incentives for investors and social enterprises themselves, as well as working on common social impact measurement standards.

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## Appendix II – Working definition for social enterprise in Malaysia

In developing a social enterprise definition for Malaysia, we set out four key goals:

**Goal 1** The definition is designed to support the development of enterprises that might not naturally flourish in the market economy. As a result, it should benefit organisations whose primary mission is social.

**Goal 2** The definition must be sufficiently specific to provide policymakers, investors, and grantmakers the confidence that when they support a social enterprise, they are supporting a bona fide purpose-driven organisation. It should be able to provide answers to classify a wide variety of organisations, whose social purpose is ambiguous. The definition should also be difficult for profit-driven organisations to abuse.

**Goal 3** The definition must be sufficiently open to allow social entrepreneurs to innovate and adopt a wide variety of business models and approaches to addressing social challenges.

**Goal 4** The social enterprise definition should be applicable to different types of legal entities, including Sdn Bhd, associations, or companies limited by guarantee. Malaysian social enterprises have incorporated in all these forms.

### Definition

Any legally registered organisation shall be considered a social enterprise if it satisfies all of the following requirements:

1. The primary mission of the organisation is to address any of the social agendas listed below. The organisation takes all reasonable effort to execute the mission;
2. The organisation is designed to use a commercial business model to sustain itself;
3. The majority of its profit is reinvested into carrying out its social mission;
4. The organisation fulfils its social agenda in a way that is both distinct and socially meaningful from any other traditional commercial enterprise, especially in operations and management

Social agendas include, but are not limited to, activities aimed at the improvement of:

1. Material living conditions for the bottom 40% income bracket;
2. Health;
3. Education;
4. Productive and valued activities for bottom 40% income bracket;
5. Governance and basic rights;
6. Leisure and social interactions (inclusion of other members in society);
7. Natural and living environment;
8. Economic and physical safety;
9. Children;
10. Culture;
11. Disability;
12. Unity and discrimination;
13. Older persons;
14. Poverty;
15. Water and sanitation; and
16. Participation of women and youth in the workforce.

A social enterprise is not considered to fulfil a social agenda if its activities are limited to:

1. benefiting only the members of a particular body or the employees of a particular employer; or
2. political campaigning and activities intended to support political campaigning.

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### Implications

The definition has a few noteworthy features:

1. **Pre-revenue startups can be social enterprises.** The definition does not require that an organisation's business model sustain its activities. Instead, the definition requires that social organisations be designed to be self-sustaining. This means that the business model should plausibly sustain the organisation's activities.
2. **Social enterprises are not designed to rely on volunteering, grants, or donations to stay afloat in the long-term.** While the second criterion allows for these forms of support to be used to start a social enterprise, it is expected to sustain itself with a commercial business model in the long run.

3. **Organisations that operate exactly like other profit-maximising organisations are not considered social enterprises, regardless of their stated mission.** The requirement that a social enterprise "fulfils its social agenda in a way that is both distinct and socially meaningful from any other traditional commercial enterprise" means that social organisations have to do things that traditional, profit-maximising do not. Many businesses already solve real problems and have a social impact through the course of their normal business. A social enterprise must go above and beyond a traditional, profit-driven entity in creating social impact. This is referred to as the concept of additionality. A social enterprise might have significant differences in operations that reduce profits but create more benefits to the underprivileged. It may also include activities that help change a market for social benefit. An organisation that simply fulfils existing market demand for a product or service -- even if it's a socially-oriented product or service -- is not considered a social enterprise.
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### Social Enterprise or Not?

To help understand how this definition applies to different types of organisations, we have put together a series of fictional companies and tested them against the definition in the next page.

Organisation	Is it a social enterprise?
<p>Northern Bank Berhad is a large financial services group. In its portfolio of social initiatives, the bank has a large CSR department where it funds generously initiatives to build creativity in education.</p>	<p>Northern Bank does not meet criteria 1 and 3 of the definition. The primary mission of the bank is to generate profits. It also does not invest the majority of its profits into its social mission.</p>
<p>GoTent produces tents for UNHCR and other organisations that help provide emergency housing for refugees. To date, the company has not issued any profits or dividends to shareholders so all profits have been reinvested into the company.</p>	<p>GoTent does not meet criteria 4 of the definition. GoTent simply fulfils commercial demand for tents from social organisations like UNHCR. Providing a product or a service to a buyer in the social sector is not sufficient to becoming a social enterprise. If, for example, GoTent redesigned tents for extreme affordability to sell tents to social organisations at prices that traditional for-profit tent makers would not, GoTent could be considered a social enterprise.</p>
<p>NGOConsult is a consulting firm that serves nonprofits and social enterprises exclusively. In addition to strategy consulting, NGOConsult provides training to social organisations. The trainings are free to social enterprises and paid for by international agencies and foundations.</p>	<p>NGOConsult is a variation of GoTent. Much like GoTent, NGOConsult fulfils an existing market demand from international agencies and foundations to provide training to NGOs. As a result, NGOConsult does not meet criteria 4.</p>
<p>HelloFood is a food delivery app. The app allows you to order healthy food, which is delivered by a network of independent delivery bikes. The company claims it has increased the revenue for independent delivery riders, a low-income group. It also says it has reduced the exposure of people to safety risks like robberies and thefts when getting food late at night. HelloFood has reinvested all profits back into the company to date.</p>	<p>HelloFood does not meet criteria 4. A number of other food delivery apps already exist in the market. HelloFood's social mission is being accomplished in an identical way by existing profit-driven enterprises.</p>

## Appendix III – Malaysian social enterprise ecosystem

### The Big Picture

In Malaysia, social enterprise is a young but rapidly growing sector. Over 100 social enterprises exist in Malaysia. More than 75% of Malaysian social enterprises were founded in the last five years.

According to the national survey, 19% of social enterprises are involved in community development & integration, 15% are involved in the environment and sustainability, 14% in economic access and poverty alleviation, 11% in education, and 10% in healthcare.

### The Founders and the Social Enterprises

The majority of social enterprise founders are aged 30 and below, showing that there are more youth taking the initiative to start a social enterprise.

Approximately two thirds of founders transitioned into social enterprise from the corporate sector, compared to a third that had previously been working in the social sector before. When asked why they had transitioned from their corporate

backgrounds, the majority stated that they wanted to work on something that was impactful to society.

The typical Malaysian social enterprise has a team of four full-time paid staff and six regular volunteers. For each full-time paid staff member in a social enterprise, the organisation has two regular volunteers.

The typical social enterprise also has yet to break even. Over two thirds of social enterprises have not yet broken even. Among those social enterprises who have started sales, 50% haven't yet consistently covered costs, 28% have broken even but are looking for consistent customers, and only 22% have found a consistent set of customers.

The majority of the social enterprises' biggest revenue stream came from doing B2B sales (38.78%), followed by B2C sales (28.57%). The top 3 priorities of surveyed social enterprises are (i) to build their business sustainability, (ii) secure additional funding and (iii) seek expert support and mentorship.

### The Ecosystem

In order to flourish, social enterprises require access to a range of support from government, academics, civil society, impact investors, incubators, network platforms, angel investors, consultants, market access facilitators, and others. Innovation does not exist in isolation, but comes about when different kinds of stakeholders come together share knowledge, learn from each other and interact. Villgro Innovations Foundation and Okapi Research outlined the elements of a healthy social enterprise ecosystem as demonstrated below. Several aspects of a healthy social enterprise ecosystem exist in Malaysia, although not all of them. >>



Categories	Description	Malaysian Context
Support Organizations	<ul style="list-style-type: none"> <li>• Investors and angels</li> <li>• Incubators/accelerators</li> <li>• Banks providing ease of access to loans</li> <li>• Support services and mentors from private sector and civil society providing other kinds of non-financial services such strategy, management, legal support</li> <li>• Business plan competitions</li> <li>• CSR and philanthropy</li> </ul>	<p>A variety of support services from private sector and civil society exist in Malaysia including organisations such as myHarapan, Tandemic, and Social Enterprise Alliance. Further, grant providers and competitions also exist in Malaysia, such as from:</p> <ul style="list-style-type: none"> <li>• AirAsia Foundation</li> <li>• The British Council &amp; Arthur Guinness Fund's Entrepreneurs for Good</li> <li>• myHarapan Social Business Challenge</li> <li>• Agensi Inovasi Malaysia's Berbudai Berganda Challenge</li> </ul> <p>However, this is far from creating an enabling support system. Malaysia is lacking in financial involvement from investor, banks, company CSR initiatives, and philanthropy. The development of most social enterprises in Malaysia is funded through grants or personal money. Rarely are social enterprises backed by investors. According to the national survey, 81% of social enterprises put in their personal money. Among those who put in their own money, 70% of them fully funded their ventures themselves.</p>
Knowledge providers	Primarily from academia and consulting, these are organisations and institutions that provide knowledge and capacity-building	<p>A growing number of academic institutions are involving themselves in social enterprise. These institutions include the Centre for Social Entrepreneurship at Binary University and the Social Enterprise and Economic Development program at Universiti Malaysia Kelantan.</p> <p>However, academic institutions and consultancies in Malaysia has not yet undertaken a great deal of research and capacity in social enterprise, leaving ample space for improvement in this area.</p>

Categories	Description	Malaysian Context
Network, Enablers, and Policy	Shaping the way stakeholders interact, rather than directly supporting social entrepreneurs, these organisations include network platforms and forums, macro enablers including international foundations and development agencies supporting infrastructure and programmes, and the government	<p>Malaysian government is taking a more active role in supporting the social enterprise sector. However, over two thirds of social enterprises in the national survey felt that there was a lack of policy advocacy.</p> <p>Increasing public forums and conferences are focusing on social enterprise as a theme, such as the 2015 International Conference for Young Leaders, which focused on “Changing Communities through Social Entrepreneurship.” Additionally, the Global Social Business Summit was held in Kuala Lumpur in 2013.</p> <p>However, there do not exist ecosystem enablers that provide access to markets or actively link philanthropy funding to the social enterprise ecosystem.</p>

### What are the challenges, barriers, and potential solutions for Malaysian social entrepreneurs?

Three key challenges for Malaysian social entrepreneurs emerged in the roundtables, survey results, and submissions: the lack of a legal entity for social enterprises; low public awareness; and a struggle in acquiring the right skills, talent, and funding to sustain and scale their enterprises.

#### Challenge 1

**Not having a formal legal identity for social enterprise holds back the sector.** In the roundtables, social enterprises stated that choosing between non-profit versus for-profit labels were undesirable. A key reason for wanting a formal legal identity or certification was because corporate foundations or CSR departments (i) found it problematic that profits come into a social project or (ii) have legal restrictions that make it difficult for corporate funders to support a private company or a Sdn Bhd.

**Suggestion:** Participants wanted to see a new registration option that lay between a society and a Sdn Bhd. This new hybrid model would provide

incentives such as tax relief in order to promote the growth of social enterprise. Suggestions also included establishing an independent body that would monitor impact measurement guidelines across registered social enterprises.

#### Challenge 2

**Low public awareness serves as a barrier to potential customers and investors.** 95% of social enterprises in the MaGIC national survey voted that the public has between very little or little understanding on SEs. Over a third of social enterprises identified weak public understanding of social enterprises as being one of their biggest challenges in running their venture. Roundtable participants and submissions stated that larger society often equated social enterprises to non-governmental organisations that are not-for-profit. Further, public mindset sees commercial business as more convincing and legitimate, which puts social enterprises at a value disadvantage. This serves as a barrier to supports such as funding, tax relief/exemptions, corporate engagement, and bank loans.

**Suggestion:** Participants suggested that there be

more visibility and community outreach to spread knowledge and awareness of social enterprise. Examples of these included roadshows, urban and rural outreach, social enterprise ambassadors. Community engagement should involve different aspects of society such as academicians.

Participants highlighted the fact that online information about Malaysian social enterprise needs to be more easily accessible.

#### Challenge 3

**Lacking the skills to turn a profit** - Over 16% of respondents in the national survey identified financial sustainability and revenue generation as one of their top three challenges. Among those who have started sales, almost half haven't yet been able to consistently cover costs, 28% have broken even but are looking for consistent customers, and only 22% have found a consistent set of customers. Roundtable participants felt that one of the greatest challenges to financial sustainability was because they lacked business acumen.

**Suggestion:** Participants suggested seeing more

programs by social enterprise intermediaries. Suggested programs included accelerators, incubators, and more trainings for financial sustainability and management. British Council also reiterated this stating that there needed to be more intermediaries to assist social enterprises in financial training, business plans/models, marketing and communication, market research, and developing products or services that reach a market.

#### Challenge 4

**Lacking resources such as funding and talent** - Over 21% of social enterprises in the MaGIC national survey identified a lack of resources being one of the key barriers to running their venture. Roundtable participants echoed this, highlighting that there was insufficient capital to help their ideas material.

Additionally, participants stated that their enterprises and the sector at large had trouble attracting and retaining talent. They stated that reasons for this included a lack of awareness in regards to how to get involved and a poor public awareness of the sector. According to the national survey, 75% of social enterprises agree that hiring is

difficult, and of those who agreed, 60% of them say it is due to difficulty in hiring good quality manpower or the right people to do the job. 27% says it is hard to reach the salary demand, and 13% says people are skeptical of the nature of work.

**Suggestion:** Participants felt that larger public legitimacy of social enterprise would assist in funding. Participants suggested that social enterprises themselves needed to provide effective human resource support. Remuneration should be at market rate, career growth potential, personal and professional development, and social purpose needed to be articulated in employment. Externally, they suggested better public awareness and government incentives might attract talent and resources into the social enterprise sector.

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### What kinds of changes in Malaysia's Legal or Policy Framework could help Malaysian social enterprises?

Participants outlined the following the suggestions for Malaysia's legal or policy framework, which can be categorized into three: awareness, legal or financial incentives, and government enforcement.

Suggestion	Description
<b>Official recognition</b> of social enterprise	Participants were keen to see a specialized label or brand in order to generate awareness, similar to the B-Corp brand in the United States. Participants felt that recognizing social enterprise accomplishments and showcasing the results that social enterprises have made would improve public awareness. Participants also suggested requiring social enterprise education in school curriculums. Setting a national vision for social enterprise would be helpful.
<b>Provide tax incentives</b> to make it easier for donors and corporate bodies to contribute to social enterprises	Participants recognised that there needed to be a new structure for social enterprise, one that would recognize and assist their dual social mission and business models. Tax incentives (relief or exemption) were brought up multiple times as a tool to support social enterprises. Legal suggestions included giving social enterprises a pioneer status to be relieved from tax for a permitted period of time, and perhaps to receive tax-exemption for the portion of income reinvested back into the enterprise.
<b>A legal framework</b> to prevent abuse	<p>However, participants also voiced concerns that tax incentives might bring companies masquerading as social enterprises into the sector. Participants also felt that benefits for social enterprise staff would assist them, especially in the start-up phase.</p> <p>Some participants believed that a specific legal structure could also necessitate a governance body that would require that social enterprises have an explicit social mission, transparency, as well as financial and impact measurement systems. This could build trust amongst the public of the legitimacy of social enterprises.</p>



“The concept (of social entrepreneurship) may be quite new in Malaysia but we already have several resourceful social entrepreneurs. These people are special because they see opportunities rather than problems and apply fundamentals of business to create a sustainable model, without depending on charity, that leads towards equitable society.”

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**YAB Dato' Sri Mohd Najib bin Tun Haji Abdul Razak**  
Prime Minister of Malaysia



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