

# National Social Economy Draft Green Paper

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**25 February 2019**

**Economic Development Department**

**Note on terms used:**

**Draft Green Paper** – this document - a preliminary summary of work completed by the team assigned to initiate the development of a Green Paper. It will be released to participants at a number of workshops and will be presented to the Minister of Economic Development for consideration.

**Green Paper** – the official consultation document to be released by the Minister of Economic Development on behalf of the SA Government, following formal consideration of the Draft Green Paper and feedback received from affected constituencies. The Green Paper will then be the basis of a further round of consultation and policy refinement.

**White Paper** – the formal policy position of the SA Government, following the completion of consultation on the Green Paper.

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## EXECUTIVE SUMMARY

1. The South African government recognises that the Social Economy has the potential to stimulate economic activity while fostering greater social cohesion, inclusion and solidarity. A case may be made for an appropriate set of policy support, to be identified and implemented.
2. This Draft Green Paper is a consultation document that sets out preliminary thinking and proposals of a policy position for the Social Economy, with specific Policy Intervention Recommendations. It is the subject of consultation with a range of interested parties to enable the Department to benefit from feedback. Once this draft has been through the initial consultation, it will be considered within Government and if approved, it will be formally released as a Green Paper. Formal consultation will then be conducted on the Green Paper and on conclusion of the process, Government will consider the matter further and any approved policy will be published in the form of a White Paper, either for consultation or for implementation.

### **Estimated Size of the Social Economy**

3. There is no single measure of the size of the Social Economy. Preliminary indications are that the Social Economy, narrowly defined, accounts for approximately 250 000 jobs; about 1.5% of total jobs - given the labour intensity of the sector, its contribution to GDP is likely to be slightly less, in the absence of the adjustments discussed.
4. Consideration should be given in the Green Paper to have a broader definition and thus to estimate the range of employment and GDP that is accounted for by activities that fall within the social economy.

Proposals from affected constituencies on the estimated size of the social economy, using a narrow and a broad definition, are invited.

### **PROPOSED OFFICIAL POLICY DESCRIPTION**

5. This Draft Green Paper proposes the following working definition:

*The Social Economy is a people-centred approach to economic development based on the principles of sustainable economic activity that stimulates socially and environmentally responsible growth by leveraging and simultaneously building solidarity and social inclusion*

### **PROPOSED OVERALL POLICY POSITION**

6. This Draft Green Paper proposes the following overall policy position for consideration:

While facilitating the growth of the Social Economy, its characteristics of solidarity, social cohesion, social inclusion, self-organisation and self-sustainability should be nurtured. Regulation and financial incentives should be focused, supportive and incisive.

## KEY POLICY AREAS

### Support framework

7. The rationale for a dedicated support framework relates to the benefits that the social economy provides in the achievement of national development goals. To the extent that general business activities, including those of SMEs provide support for national development goals (e.g. employment, growth of the economy, transformation of ownership structures to enable broad-based empowerment, providing access for excluded communities to goods or services, etc.), the Green paper will spell out succinctly how the social economy differs from these more standard types of enterprises and economic activities, in order to justify additional public support measures.
8. The ILO Recommendation on the Promotion of Cooperatives and the background documents of the Discussion leading to the adoption of the Recommendation, provides one source for setting out the rationale.

Constituents are invited to provide inputs on this specific area.

9. The range of measures to be considered for the support framework by the public and private sectors can include the following areas:
  - **Legal and Regulatory Environment**

The policy, legal and regulatory framework must stimulate activities in the social economy and reduce barriers to start up and grow social economic entities.
  - **Financial Inclusion**

Access to finance is but one tool in the toolkit. Government should act primarily as an enabler of an inclusive financial environment. In a fiscally-constrained environment, the question to be addressed from a public policy perspective is whether any existing public financial resources should be redirected or reprioritised to the social economy; and if new resources are proposed, how best to take account of the fiscal constraints; and finally, what resources if any may be mobilised on scale outside of the public sector.
  - **Access to markets**

Access to markets in both the private and public sectors is important for the Social Economy. A balanced series of policy measures with adequate support is required.
  - **New Economies**

Measures and policy proposals to enable the Social Economy to benefit from the 4<sup>th</sup> industrial revolution and at the same time to promote employment-creation as a response to potential job losses as a result of the introduction of 4<sup>th</sup> industrial revolution technologies, need to be spelt out clearly in Government's proposed policies.

## **CONCLUSION**

10. Following on from focused consultation and research efforts, this Draft Green Paper represents the start of a wider public consultation process, which will include consideration of the final Green Paper, as set out above.

A White Paper will be finalised at the end of March 2020.

## **1. INTRODUCTION**

11. The Social Economy has the potential to stimulate economic activity while fostering greater social cohesion, inclusion and solidarity. Local South African experience and comparable international experience (Ecuador, Quebec, Mondragon in Spain, Italy, Korea, Costa Rica, Scotland) demonstrate this. The South African government recognises the need to facilitate the growth and development of this sector of the economy; as specifically referred to in the New Growth Path (2011). The social demands of the early 21st century have placed immense pressure on governments to deliver on critical national development goals with diminishing resources (Venter, et al., 2008).

### **OVERALL POLICY POSITION**

12. Public policy should facilitate the growth of the Social Economy to become a larger sector of the economy, drawing on its inherent characteristics of solidarity, social cohesion, social inclusion, self-organisation and self-sustainability.
13. The emphasis is on facilitating the efficient, effective and sustainable functioning of the Social Economy without stifling the very characteristics and spirit that define it and in a context of limited resources and limits to what regulation can achieve.

### **POLICY ENVIRONMENT**

14. The South African environment has a number of public and private sector policies, frameworks and interventions that directly and indirectly impact the Social Economy (NGP, NDP, NPO Act, Cooperatives Act, Companies Act, Income Tax Act, B-BBEE etc.). This Draft Green Paper is not intended to add to these; but rather to create a clear national view of the Social Economy, which forms the basis of how government will support the Social Economy. The aim is to facilitate the Social Economy to becoming a more consistent economic driver.

### **STRUCTURE OF THE DRAFT GREEN PAPER**

15. Having started with a succinct description of the Social Economy, and based on learnings from previous research and consultations, the Draft Green Paper outlines an approach in five sections:
  1. Quantifying the size of the Social Economy
  2. Legal and Regulatory Environment
  3. Inclusive Financing
  4. Value Chain Development
  5. New Economies

## 2. SUMMARY OF PROPOSED POLICY FOCUS AREAS

Focus Areas	Policy Position	Interventions
<b>Description and Characteristics</b>	It is not necessary to have a tight closed definition. The focus is rather on describing in order to identify a starting point to provide support.	Description <i>The Social Economy is a people-centred approach to economic development based on the principles of sustainable economic activity that stimulates socially and environmentally responsible growth by leveraging and simultaneously building solidarity and social inclusion</i>
<b>Legal and Regulatory Environment</b>	The policy, legal and regulatory framework must stimulate activities in the social economy and reduce barriers to start up and grow social economic entities.	Streamlined Regulations Formulate and integrate relevant indicators into national frameworks
<b>Inclusive Financing</b>	Government should act primarily as the enabler of an inclusive financial environment where social economy entities are able to access commercial finance on sustainable terms.	Focus on Triple Bottom Line: financial, social and environmental returns Promote patient long-term venture capital investment Appropriate tax structure Promote Outcomes Based Public Investment Facilitate Appropriate-to-Context funding mechanisms by banks
<b>Access to markets</b>	Access to markets by Social Economy entities through participation in sustainable value chains as well as capacity building should be facilitated.	Integration into value-chains Encourage franchising – document local successes Build a National Database Fit-for-Purpose business development support Encourage collaboration Promote competitiveness “Buy Social” branding mark
<b>New Economies</b>	The Social Economy should be positioned to pilot test, scale, and swiftly adopt technology; while building the skills required in the 4th Industrial Revolution.	Promote innovation – particularly for common social goods Implement e-Social Economy Learn from the Social Economy to adapt to the new world of work

### 3. DESCRIPTION & CHARACTERISTICS

16. There is no common definition for the Social Economy, locally or internationally. Key definitions and characteristics are set out below.

The New Growth Path defines the Social Economy in the following way:

*“The social economy includes myriad not-for-profit institutions that provide goods and services, including co-operatives, non-governmental organisations (NGOs) and stokvels.”* (New Growth Path, November 2011)

The International Labour Organisation states:

*“a concept designating enterprises and organizations, in particular cooperatives, mutual benefit societies, associations, foundations and social enterprises, which have the specific feature of producing goods, services and knowledge while pursuing both economic and social aims and fostering solidarity”* (International Labour Organization. 2009. *Plan of Action for the Promotion of Social Economy Organisations and Enterprises in Africa*. Johannesburg, South Africa)

The Industrial Development Corporation’s Social Enterprise Fund outlines characteristics:

- *Places social and environmental issues and job creation of social value as its primary focus;*
- *Uses business principles to create, build and maintain social value;*
- *Has a long-term strategy towards a degree of self-sustainability (with at least 50 percent of operating costs recovered from revenue generated through its own trading); and*
- *Re-invests a majority of its revenue back into the business to ensure a larger social impact*

#### **Policy Position**

17. It is not necessary to have a detailed, closed definition, at least at this stage of policy-development. Efforts in achieving that detract from a sector that currently exists, and is robust and functional. The focus is rather on describing the range of activities that provide above-average developmental outcomes as its core purpose, in order to allow a starting point to provide policy and other support.
18. Given this policy position, namely to describe and not define, a useful starting point is the mission of the activity. The pursuit of social objectives for the benefit of its members or the community is, broadly, the mission of all social economy activity. Because positioning as a viable consistent economic driver is key to the aims of this policy, the description of the Social Economy should include the characteristics of a transformative and sustainable economic system.
19. Two elements therefore emerge: describe the spirit while factoring in the characteristics of a transformative and sustainable economic system. The description should not focus on social enterprises only though, to the exclusion of all other forms of social economy entities.

20. A third indispensable characteristic is to locate the description of the Social Economy firmly in the South African context. The South African Social Economy sector also has a long history, with successful examples in the past in sectors such as dairy, wine-distribution, wool-grading and sales, finance services and others.
21. Not all social economy activities are formal – stokvels and some burial societies are in the informal economy. A final key characteristic is also the variety within the Social Economy. It can be broken down into sub-sections: providing services and goods in different environments.

### **Proposed Official Policy Description**

22. The proposed description is therefore:

*The Social Economy is a people-centred sector of the economy, which uses principles of sustainable economic activity to stimulate socially and environmentally responsible growth by leveraging, and simultaneously building social solidarity, social inclusion and cohesion.*

### **Key Forms in the Social Economy**

23. These entities could take different forms, formal and informal, for-profit and not-for-profit and some legally registered, and operate in a variety of sectors. Such as:
- Co-operatives;
  - Community-based enterprises;
  - Trade union owned enterprises;
  - Informal enterprises with specific social objectives;
  - Non-Government Organisations (NGOs);
  - Non-Profit Organisations (NPOs);
  - Social Enterprises
  - Philanthropy (private, international, government);
  - Social financing organisations
  - Cooperative Finance Institutions
  - Cooperative Banks
  - Stokvels
  - Voluntary associations
  - Non-profit Trust or charitable trust
  - Non-profit companies
  - Public Benefit Organisations (PBO)
  - Foundations
  - Publicly-funded programmes aimed at social objectives but outside the traditional public sector (such as community works programs, youth brigades and arguably, the Expanded Public Works Programmes or EPWPs)
24. The principles of Sustainable Economic Activity are:
- Participation in a viable supply and demand value-chain, formal and informal
  - Rational and transparent decision-making
  - System efficiency

- Posterity over profit
- Sustainability - % of income is earned
- Income earned is used to achieve social and environmentally responsible goals.

## 4. SIZE OF THE SOCIAL ECONOMY: ECONOMIC CONTRIBUTION

25. Given that there is currently no commonly agreed to definition of the Social Economy, there is no consistent measure of the size of activities in what we would describe as the social economy in South Africa.
26. In this Draft Green Paper, we limit our estimate of 'economic contribution' to the social economy's part in GDP and in employment. We also provide estimates of the number of social economy entities operating in South Africa.
27. Social economy entities and activities run across conventional national accounts and labour force instruments. Statistical agencies are not yet geared towards generating regular estimates of the size of the social economy.
28. Other challenges also exist:
- Firstly, the need for a fairly fluid description, instead of a definition, of the Social Economy in framing a supportive policy may, on the other hand, render quantitative estimates contestable depending on which description is eventually settled on.
  - Secondly, the Social Economy's contribution to GDP is conceptually challenging given the current national accounts building blocks. Much of what the Social Economy 'produces' is produced not for profit, and a substantial part of this production is not monetised or has substantial non-monetised social benefits; such as work in the households as well as a volunteerism.
29. For the purposes of the South African Green and White Papers, an effort must be made to locate the social economy within conventional GDP and labour market structures. It is unavoidable, though, that assumptions on which there is not full consensus, may form part of this effort and this should be transparently indicated as such.

### **What We Know Quantitatively about the Social Economy Contribution to Jobs**

30. The Quarterly Labour Force Survey (QLFS) gives, for each job in the economy, the nature of the enterprise or organisation it is held in as well as the sub-industry.
31. In this Draft Green Paper, we estimate a total number of social economy jobs based on data on employment in NPOs and selected other private enterprise, government and government controlled businesses. These use the categories currently available in official statistics.
32. This is likely to be a very conservative estimate, since many not-for-profit jobs will not be included because the definition of an NPO is quite restrictive. For example, an enterprise owned by a trade union investment company (for example, a factory or financial services company) may not be reflected in the current definitions,

though the objectives for setting up the enterprise may fully meet the description of a social economy.

### **What We Know About the Social Economy Contribution to GDP**

33. In a 2017 study, Stats SA found that, in 2014, non-profit institutions serving households (NPISHs) made up about 1 % of output and 1% of value add. This estimate is very low, and the following adjustments will need to be considered in producing a more credible figure.
- Firstly, it is an estimate only for non-profit institutions serving households, what might be called 'pure' non-profits from an establishment perspective. As such, it does not capture the many non-profit operations in the other four institutional sectors (government, households and financial and non-financial corporations). Consequently, it also does not include social enterprises, i.e. for-profits with a primary social purpose.
  - Secondly, it measures the value of production at cost of producing it: this is a problem for 2 main reasons: externalities are not captured, and costs are rendered artificially low because volunteerism is not captured as a cost: i.e. it is assumed to be provided 'for free'.

#### **International Case: Portugal's Social Economy Satellite Account**

Measurement is a common challenge in the Social Economy. An integrated approach seems well-suited to handling this challenge.

The European Commission, in 2006, used the European System of National and Regional Accounts to identify the main variables in national accounts to measure the Social Economy. Portugal carried out an incremental longitudinal study involving: Non-profit institutions serving households in 2006, Cooperatives and Mutuals in 2010, and volunteer work in 2012 - resulting in a first edition Satellite Account in 2016; which suggested that the Social Economy represented 2.8% of national GVA (Gross Value Added), 5.2% of total employment and 6.0% of paid employment.

### **Indicative Size of the Social Economy**

34. Subject to the caveat above, we initially estimate approximately 250 000 jobs; about 1.5% of total jobs - given the labour intensity of the sector, its contribution to GDP is likely to slightly less, in the absence of the adjustments discussed.
35. Once the publicly-funded work programmes are added to the description, such as the Community Works and Public Works Programmes as well as various youth-based work programs (like NARYSEC), the size of the social economy expands significantly.
36. Consideration should be given in the Green Paper to have a broader definition and thus to estimate the range of employment and GDP that is accounted for by activities that fall within the social economy. Proposals from affected constituencies on the estimated size of the social economy, using a narrow and a broad definition, is invited.

### **Proposed Policy approach on numbers**

37. The indicative share of the GDP calculation needs to be improved. Schematically, it has been proposed that the White Paper will determine a size contribution that adjusts as follows: NPISH Output + 1) NPISH re-classification adjustment + 2) For Profit Social Benefit Enterprise Adjustment + 3) Volunteerism Adjustment

- The necessary raw data exists, for example in the Department of Social Development's NPO register for VAT purposes
- There is also an opportunity for South Africa to be a thought leader in the debate on measuring the social economy and getting 'beyond GDP.'
- Work towards longitudinal assessment of the Social Economy, and enabling South Africa to develop country level measures that report on success, other than GDP.
- Consideration should be given to adding the employment and deemed GDP contribution of a range of public employment initiatives that do not fall within the traditional public sector, such as the Community Works Programme, the Expanded Public Works Programme, youth programmes such as NARYSEC and others, as well as the various 'working for' programs aimed at environmental support (working for water; working on fire).
- Better quantification should be undertaken of enterprises owned by social organisations such as trade union and community investment vehicles and trusts.

38. Affected constituencies are encouraged to make representations towards a final Green Paper, setting out their views and offering proposed approaches to deal with the issues set out above.

## 5. LEGAL AND REGULATORY ENVIRONMENT

39. A key lesson that has emerged is the diverse regulatory environment in South Africa. It has the following key frameworks:

- National Development Plan: Presidency
- The New Growth Path: Economic Development Department
- Income Tax Act: South African Revenue Services
- Tax provisions: South African Revenue Services
- Companies Act: Companies and Intellectual Property Commission – Department of Trade and Industry
- Cooperatives Act: Department of Small Business Development
- B-BBEE provisions and procurement policies: National Treasury
- The Cooperative Bank Development Agency (CBDA): National Treasury
- Cooperative Incentive Scheme: Department of Small Business Development
- Industrial Policy Action Plan (IPAP): Department of Trade and Industry
- Innovation Towards and Knowledge Based Economy (2008-2018): Department of Science and Technology
- White Paper on Science, Technology and Innovation: Department of Science and Technology
- Register of Non-profit Organisations: Department of Social Development
- The Green Fund: Department of Environmental Affairs and the Development Bank of Southern Africa (DBSA)
- Community Enterprise Support Programme: Independent Development Trust (IDT) – Department of Public Works
- The Social Enterprise Fund: Industrial Development Corporation (IDC)

40. Government interacts with the Social Economy in two ways mainly – as illustrated by the various frameworks, regulations and legislative prescripts:

1. As a participant in the Social Economy – operating a programme
2. As an enabler of the Social Economy – through regulations

41. The first area – government as a participant – is a function of a developmental state, where the state acts to achieve specific national development goals. Public Employment Programmes (PEPs), which are intended to directly support job creation and by extension social inclusion, are one example.

42. The second area – government as an enabler – is where government puts regulations that encourage communities to participate and lead interventions. The various Funds, such as the IDCs Social Enterprise Fund and the Department of Environmental Affairs' Green Fund, are examples.

43. This Draft Green Paper primarily focuses on the second area – by simplifying the activities of the state as enabler, government will also benefit when it participates in the sector. International experience has shown that solidarity, self-determination, social cohesion, in many instances accompanied by limited or no government intervention, can deliver significant value.

### **International Case: Mondragon Corporation, Spain**

Initiated with no government support, Mondragon has contributed to the Alto Deba County, in Spain, having impressive welfare indicators.

- € 11.936 million in total revenue
- € 451 million in investments
- € 25.1 million allocated to social actions
- 98 Co-operatives
- 143 Subsidiary Companies
- 7 Foundations
- 1 Benefit society
- 10 Umbrella organisations
- 7 International services
- Over 80,000 workers, almost 74% of whom are members of the co-operatives, 825 sit on management committees
- 1,928 researchers
- Over 11,000 students registered at their education centers.

It is also a global actor:

- 9 international Corporate Offices in Brazil, Russia, India, China, Taiwan, Vietnam, Mexico and USA
- 125 production plants abroad

### **Policy Position**

44. The policy, legal and regulatory framework must stimulate activities in the social economy and reduce barriers to start up and grow social economic entities.

### **Proposed Policy Interventions**

45.

- Streamlined Regulations for the Social Economy – a coordinating Task Team would be recommended.
- Formulate and integrate Social Economy indicators into national frameworks and key governance reporting standards. In particular three are identified:
  - National Development Plan – as a national document
  - King Reports on Corporate Governance – as a private sector guide
  - Codes of Good Practice for South African Non-profit Organisations (NPOs: Department of Social Development) as well as the Expanded Public Works Programme: Department of Public Works – as a significant public sector guides

## 6. FINANCIAL INCLUSION

46. Access to finance is repeatedly cited as an area of constraint for the social economy. The focus on finance and access to finance in this Draft Green Paper is on:

- Ensuring that financial access is inclusive and open to the variety of organisations that exist in the Social Economy
- Prioritising streamlining and creating of efficiencies
- Distributing and accounting for effectiveness of investment into social economy in a transparent manner
- Supporting social economy organisations to accurately report financial and impact performance data.
- Ensuring that the use of finance as a policy intervention where necessary is always well considered, incisive and clear about its intended impact

### **International Case: Labour Solidarity Funds**

Labour Solidarity Funds are worker savings schemes with the dual goal of encouraging workers to put aside money for retirement, while channeling those savings into employment-generating initiatives. Examples are funds created on the back of a Quebec, Canada, government tax credit, and managed by labour unions: the Fédération des travailleurs et travailleuses du Québec/Québec Federation of Labour (FTQ) and the Fondation CSN pour la coopération et l'emploi/CSN ActionFund for Cooperation and Employment.

### **Policy Position**

47. Government should act primarily as the enabler of an inclusive financial environment where social economy entities are able to access commercial finance on market terms.

### **48. Proposed Policy Interventions**

- Focus on the Triple Bottom Line: financial, social and environmental returns:
  - Determining impact and using it to market Social Economy entities.
  - Promote patient venture capital with its longer lead times on returns and measurement of social and environmental returns.
    - Establish mechanisms that increase supply of patient, flexible capital for early stage and growth enterprises. Promote the use of this type of capital in the private sector.
- Incentivise investment into the social economy through appropriate well-defined tax structures.
- Strengthen impact measurement and reporting by improving standardisation of reporting on financial and impact performance of public investments.
- Develop a practice note with National Treasury to help to guide national outcomes-based public investment; in order to help guide the use of performance-based contracts, impact bonds and outcomes funds.

- Facilitating engagements with the banking sector to open up Appropriate-to-Context funding mechanisms. Early stage asset backed lending, and quick access to small funds, are particular potential mechanisms.

## 7. ACCESS TO MARKETS

49. Access to markets in both the private and public sectors is important for the Social Economy. A balanced series of policy measures with adequate support is required.
50. Analysis of value chains is one form of identifying opportunities in markets that are under serviced or not serviced. Other mechanisms to support access to markets could be physical location and capacity building.
51. An economic value chain is understood to be a series of processes that progressively transform raw material inputs into products or services that are ultimately purchased by consumers in the market. It describes the activities required to bring a product or service from conception, through phases of production, delivery, onto consumers, and finally disposal and recycling after use. Within such production chain, some stages will have barriers to entry.
52. Value chains differ, both within and between sectors; as do local contexts. Each value chain has particular characteristics, whose distinctiveness and relevance can only be understood through value chain research and analyse of the broader issues which are involved.
53. At the early stages government and the private sector, through collaboration with Social Economy entities, need to put interventions in place that will allow for:
1. Practical integration of Social Economy entities into existing value-chains, and
  2. In the medium to long-term, position the Social Economy to create sustainable value-chains.
54. There is, though, the experience that organisations may not always have the required capacity to deliver. The power of collaborative advantage as well as building capacity become important.

### **South African Case: greenAble, South Africa**

Co-funded by the Government of Flanders and supported by the Industrial Development Corporation, greenAble is a registered non-profit company created in 2012 by for-profit company GreenOffice. greenAble diverts printer cartridges from landfills and recycles them. It reports that it has diverted over 800 000 kilograms of recyclable plastic and metals from landfills, whilst providing people with disabilities access to learnerships and work opportunities.

### **Policy Position**

55. Access to markets by Social Economy entities through participation in sustainable value chains as well as capacity building should be facilitated.

### **56. Proposed Policy Interventions**

- Identification of existing, and potential, value-chains with clear indication of gaps and opportunities.

- This could include a National Value-Chain Depository, open to the public, with specific opportunities pointed out.
- Strengthen intermediary organisations that offer support to the social economy. This aims to create a support system for the Social Economy, outside of government.
- Encourage the franchising of successful Social Economy models by creating a Social Economy Franchising Framework, in partnership with the private sector.
  - Document local models that have worked in different local settings, historically and currently.
- National database of Social Economy entities, based on the Proposed Policy Description and Characteristics – this database will help regularly measure the pulse of the sector and support where required. The Register of Non-profit Organisations of the Department of Social Development could act as learning points.
- Practice-led Training facilitation for Social Economy entities in collaboration with training institutions.
  - Create a formalised accreditation or certification for social enterprises - eventually across all levels (Primary, Secondary, Vocational, University and Post-graduate)
  - Encourage collaboration and cross-learning; for instance by stimulating the formation of Communities of Practice.
  - Use the principle of Outside World-In: bring outside know-how and knowledge into the organisation rather than building capacity
- Fit-for-Purpose business development support. This should include practical mentoring, problem-solving as well as Managing-to-Sustain and Grow approaches.
- Encourage collaboration.
- Encourage competition among Social Economy entities
- Introduce a Social Economy mark “*Buy Social*” branding on Social Economy produced products. Use the Viral Effect – the perceived value of a product goes up the more it is used – to ignite use of Social Economy products.

## 8. NEW ECONOMIES

57. The Social Economy is uniquely positioned to lead economic growth driven by organic innovation in the 4<sup>th</sup> Industrial Revolution. There is an opportunity to encourage the development of innovative solutions, disrupt and reform existing economic structures, as well as leverage and demonstrate the value of social and environmental returns. This requires foresight.

### **Policy Position**

58. The Social Economy should be positioned to pilot test, scale, and swiftly adopt technology; while building the skills required in the 4<sup>th</sup> Industrial Revolution.

### **59. Proposed Policy Interventions**

- Promote social innovation; leveraging established public and private sector networks; by:
  - Providing seed-funding, showcasing and pilot testing innovative Social Economy solutions
  - Establishing a network of innovation hubs and using them, for instance, to host Ideas Festivals particularly for young people.
- Implement a e-Social Economy strategy:
  - Use technology in government systems that affect the work of Social Economy entrepreneurs, lessening red tape through online platforms, encouraging e-access to information, and implementing simplified yet secure e-processes for establishing businesses and reporting.
  - Document lessons the Social Economy presents from informal working approaches. This holds some promise in helping develop strategies on handling the growing precariousness of traditional work models. Informal and non-traditional approaches to work evident in the Social Economy could aid quicker adaptation to new the World of Work.
- Integrate the Social Economy national level country input on the Sustainable Development Goals – this supports legitimisation.

## 9. CONCLUSION

60. The Social Economy is increasingly being regarded as the economy of the future; with its focus on inclusivity, social cohesion, and active citizenship alongside sustainable economic, environmental and social returns.

Government has articulated the need to build inclusivity in the South African economy (NDP; NGP), tackling growing inequality, poverty and unemployment.

Weaknesses and gaps could be solved by advanced research covering the realities that have come about because of new societal and economic complexities (Davis and Cobb, 2010; Drees & Heugens, 2013; Hillman, et al., 2009).

A considered approach is necessary. The value of the Social Economy model to address these challenges is well documented (ILO, 2018).

This Draft Green Paper summarises various focused consultation sessions and research efforts, and signals the start of a wider public consultation process.

Following the initial National Consultation on 27<sup>th</sup> and 28<sup>th</sup> February 2019, it is envisaged that some provincial consultation sessions will be held.

These learnings will then be incorporated in the Green Paper, which will form the basis of a final set of consultations and refinements, leading to the adoption of a White Paper, which it is intended will be finalised at the end of March 2020.

## SOURCES ON THE SOCIAL ECONOMY

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## GLOSSARY

<b>Co-operatives</b>	An autonomous association of persons united voluntarily to meet their common economic, social or cultural needs and aspirations through a jointly owned and democratically controlled enterprise organised and operated on co-operative principles.
<b>Community-based organisation (CBO)</b>	Informal non-profit organisations, typically based in the townships or rural areas and very close to beneficiary communities.
<b>Credit Unions</b>	A non-profit-making money cooperative whose members can borrow from pooled deposits at low interest rates.
<b>Foundation</b>	A loose descriptive term for a non-profit organisation set up specifically to give philanthropic donations to other organisations and causes. Not a type of legal form in South Africa. Usually established because of bequests.
<b>Non-government organisation (NGO)</b>	A term that was popular pre-year 2000 to describe non-profit organisations, especially those organisations that were more established and based in urban or metro areas. NGOs were seen to differ from community-based organisations (CBOs).
<b>Non-profit company (NPC)</b>	One of the legal forms that can be selected by non-profit organisations in South Africa. It's founding document is a Memorandum of Incorporation (MOI) and it is governed by a Board of Directors. It is incorporated under the Companies Act and registered with CIPC. It is possible to have a NPC either with members or without members.
<b>Non-profit organisation (NPO)</b>	Loosely used for all organisations that have adopted one of the non-profit legal forms (e.g. voluntary association, non-profit company, non-profit trust). Legally, it refers to a voluntary accreditation given to these organisations by the Directorate of Non-Profit Organisations in the Department of Social Development.
<b>Non-profit Trust or Charitable Trust</b>	Non-profit trusts are often referred to as charitable trusts. The key distinction between a business trust and a charitable trust is the trust's object. A trust is created through written agreement. The founder of the trust, known as the 'settlor', hands over control of assets to another person known as the 'trustee'. The trustee administers those assets for his/her beneficiaries, who are identified in the written agreement.

	Trusts have been used to preserve wealth and to protect assets from the claims of creditors.
<b>Philanthropy</b>	Philanthropy is the strategic approach to solve a social or environmental problem. It strives to get to the root of the problem and create a better equilibrium. Philanthropy requires time and complex skills to bring about the necessary social and environmental changes. (This term can also be used to describe wealthy individuals setting up foundations and “giving back to society”).
<b>Public benefit organisation (PBO) status</b>	An accreditation provided by the South African Revenue Services to qualifying non-profit organisations. Defined in S30 of the Income Tax Act. Enables non-profit organisations to derive various tax benefits. Also precondition for donor deductible status.
<b>Social enterprise</b>	A social business or business venture that exists to fix a social or environmental problem, earns a significant proportion of its income through the sale of goods and services, and uses its profits to fulfill its purpose. Social enterprise is a descriptor or type of organisation; it is not a legal form.
<b>Stokvels</b>	Stokvels are typically made up of 5-20 people who contribute an agreed periodic amount to a central ‘collective savings vehicle’. Each member gets to receive a lump sum of the combined contributions at least once during the lifetime of the Stokvel, or members are allowed and allocated the collective savings only at the end of the year.
<b>Voluntary association (VA)</b>	One of the legal forms that can be selected by non-profit organisations in South Africa. Its founding document is a Constitution. No registration is required. It is "easiest" legal form to establish in South Africa but is suitable only for membership-based, democratic structures. Governance is provided by a committee, elected by members.

## **ANNEXURE. Note on the Size of the Social Economy: The Economic Contribution of the Social Economy**

### **Measuring the Social Economy's Economic Contribution**

61. We limit our understanding of 'economic contribution' to the Social Economy's part in GDP and in employment. We provide an approximation of the size of the Social Economy in South Africa.
62. We aim, in the White Paper, to be able to provide, with some certainty, estimates of the Social Economy percentage share of GDP and its contribution to GDP growth over the last decade, and similarly its share of total jobs and its contribution to job creation.
63. Estimating the economic contribution of the Social Economy is necessary but remains difficult. Clearly, evidence-based policy-making requires a quantitative as well as a qualitative sense of a sector or a challenge in order to draft policy in the first place, and in order to track the impact of policy subsequently. Public debates around the scope and modes of support for the Social Economy also need credible numbers if they are to be concrete.
64. It is difficult, however, for a number of reasons. As a comparatively new concept, Social Economy entities and activities run across conventional national accounts and labour force instruments.
65. Statistical agencies are not geared towards generating regular estimates of the size of the Social Economy, in the way they are geared towards estimating GDP, for example. But it is not only about where focus falls and where statistical resource are currently allocated. The measurement of the Social Economy is conceptually complicated by a number of factors.
66. Firstly, there is the absence of an agreed upon definition and, equally importantly, the need to retain a fairly fluid definition when it comes to policy support. The need for a fairly fluid definition on the one hand may, on the other hand, render quantitative estimates contestable depending on which definition is selected.
67. Secondly, whilst estimates of the number of jobs in the Social Economy may not present fundamental problems (assuming datasets are available that allow a plausible 'construction' of the Social Economy) the matter of the Social Economy's contribution to GDP is more problematic.
68. A core building block notion in the national accounts is that of monetised valued add - what gets counted is; precisely what is countable: at a core conceptual level, the money difference between what a firm purchases by way of inputs and the value of its sales is what GDP is from the production side. Clearly, this excludes much of what is economically important, let alone what matters to broader wellbeing. Here, the Social Economy debate intersects with the broader 'beyond GDP' <sup>1</sup> debate, and

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<sup>1</sup> Cf Sarkozy panel for a key summary of issues.

problems that have increasingly been raised around the suitability of GDP as a measure of economic and social performance are very relevant.

69. Much of what the Social Economy 'produces' is produced not for profit, and a substantial part of this production is not monetised at all or has substantial non-monetised social benefits. Like work in the household, like volunteerism; it is hard to estimate, in monetary terms, what the value of this output is.
70. The general solution for such production, which makes up a large part of any economy, has been two-fold: on the one hand, to equate the value of what is produced with the cost of producing it; secondly, particularly in cost-benefit analyses, to estimate so-called shadow prices: prices that would plausibly prevail had a competitive, monetised market existed.
71. Not surprisingly, both approaches come with their own problems, and both require going beyond national accounts categories to making interpretive, and hence contestable, assumptions. It is not that guiding assumptions are not integral to the national accounts process, but that a fairly solid consensus exists on how and why to make such assumptions. This is not yet the case for measuring the Social Economy.
72. It may well be that GDP is supplemented with another measure or series of measures over the next decade if current shortcomings are deemed intractable and if a strong alternative emerges. For the purposes of the South African Social Economy Green and White Papers, however, the effort is made to locate the Social Economy within conventional GDP and labour market structures. It is unavoidable, though, that contestable assumptions form part of this effort.

### **What We Know About the Number of Social Economy Entities**

73. South Africa has used both satellite accounts and an analysis of nationally representative surveys to quantify the Social Economy. <sup>2</sup>
74. In national accounts satellite data, non-profit institutions (NPIs) comprise the activities of the set of entities known variously as 'non-profit', 'voluntary' or 'non-government' organisations and are distinguished from financial and non-financial corporations, government institutional units, and households.
75. The South African non-profit institutional classification (SANPIC) allows further categorisation of NPIs into three distinct sub-groups, namely, voluntary associations, not-for-profit trusts (based on data held by the Department of Social Development), and not-for-profit companies registered with the Companies and Intellectual Property Commission as per the Companies Act of 2008. The NPO Act allows a registration facility for these three distinct types of NPIs. Whilst this definition provides a way to measure activities in the Social Economy, it is likely to

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<sup>2</sup> The U.N.'s *Handbook on Non-Profit Institutions in the System of National Accounts* provides a useful definition of NPI as (a) organisations that (b) are not-for-profit and, by law or custom, do not distribute any surplus they may generate to those who own or control them, (c) are institutionally separate from government, (d) are self-governing, and (e) are non-compulsory.

be an underestimate since it excludes the informal sector, volunteer activities, as well as for-profit organisations that have a very clear social, environmental or public benefit mission (i.e. social enterprises).

76. Nevertheless, based on these classifications, Statistics South Africa (2017) reports that the number of registered NPI nearly doubled between 2010 and 2014, growing from 70,315 in 2010 to 120,227 entities in 2014, with the majority of NPIs being registered as “voluntary associations”. In 2014, the sector comprised 114,103 voluntary associations, 3,865 non-profit companies and 2,250 not-for-profit trusts.

77. This composition ranking accords with the data collected in the GIBS-UCT (2018) study of 453 representative social enterprises, in which 52% described themselves as non-profit organisations, and a third as social enterprises or not-for-profit companies.

### **What We Know Quantitatively about the Social Economy Contribution to Jobs**

78. The GIBS-UCT (2018) study showed average social enterprise employment at 30 individuals (with a median estimate of 8). If we were to apply this to the above estimate of 120,227 NPIs, this would suggest the sector may provide as many as 3.6 million employment opportunities (or roughly 20% of all jobs).

79. This, on reflection, is likely to be too high an estimate: the GBS study may give too much weight to larger organisations; certainly the share of voluntary associations (which are likely to be smaller) is very different from that of the StatsSA report.

80. Alternatively, and as a point of departure, the QLFS data can be used for a rough initial approximation. The QLFS gives, for each job, the nature of the enterprise or organisation it is held in as well as the sub-industry.

81. We assign to the Social Economy the following jobs:
- All NPO jobs
  - Private enterprise jobs in recycling and Trade Union jobs

82. Subject to the caveat discussed, we initially estimate approximately 250 000 jobs; about 1.5% of total jobs - given the labour intensity of the sector, its contribution to GDP is likely to slightly less, in the absence of the adjustments discussed.

#### **Estimate of Total Social Economy Jobs, Using QLFS 2018 Data**

	Total	%
Private Enterprise	25 725	0.18
NPO	215 856	1.32
<b>Social Economy Approximate</b>	<b>241 581</b>	<b>1.46</b>
<b>TOTAL</b>	<b>16 529 000</b>	<b>100.00</b>

83. This, on the other hand, is likely to be a very conservative estimate, since many not-for-profit jobs will not be included because the definition of an NPO is quite

restrictive: not-for-profit activities in private enterprises, even if they are substantial, would be assigned to private enterprises, for example.

### **What We Know About the Social Economy Contribution to GDP**

84. In a 2017 study, Stats SA looked at NPI statistics for NPIs from 2010 to 2014. It found that, in 2014, Non-Profit Institutions Serving Households (NPISHs) made up about 1 % of output and 1% of value add.
85. This estimate appears, once again, to be low, and the following adjustments should be considered in producing a more credible figure.
- Firstly, it is an estimate only for non-profit institutions serving households, what might be called 'pure' non-profits from an establishment perspective. As such, it does not capture the many non-profit operations in the other four institutional sectors (government, households as well as financial and non-financial corporations). Consequently, it does not include social enterprises, which is to say-for-profits with a primary social purpose.
  - Secondly, it measures the value of production at cost of producing it: this is a problem for 2 main reasons: externalities are not captured, and costs are rendered artificially low because volunteerism is not captured as a cost: it is assumed to be provided 'for free'.
86. Schematically, the aim will be to present, after national conference deliberations, a Green Paper conclusion that adjusts as follows:
- NPISH Output + 1) NPISH re-classification adjustment + 2) For Profit Social Benefit Enterprise Adjustment + 3) Volunteerism Adjustment
87. By way of eliciting debate, we provisionally present an estimate which derives in fact from the jobs number as discussed; and which we have emphasised is likely to be conservative.

## ANNEXURE: LEGAL FORMS

88. South Africa does not have a single consolidated legal structure for social enterprises. A good legal form for a social enterprise is generally one that allows it to combine multiple sources of capital, private and public, philanthropic and commercial, in order to advance and scale the impact of the enterprise. While South Africa does not have a dedicated legal structure for social enterprises, the current structures allow for flexibility, however, this flexibility should be made explicit and more clarity should be available to social financiers, SEOs, etc.

For-profit legal forms		Non-profit legal forms	
Sole Proprietorship / Partnership		Voluntary association	
Private company		Non-profit company	
Business trust		Non-profit or charitable trust	
Co-operatives			
Potential advantages	Potential disadvantages	Potential advantages	Potential disadvantages
<p>Can potentially access capital via traditional markets such as debt and equity</p> <p>Can rely on internal funding from profit-making activities to finance business operation and expansion</p> <p>Can access Enterprise and Supplier Development (ESD) funding via B-BBEE, provided the social enterprise is majority black owned.</p>	<p>Limited access to tax benefits (compared to non-profit entities with PBO accreditation)</p> <p>Does not have easy access to donations/grants or state subsidies</p> <p>May need additional branding / certifications to be perceived as a social enterprise</p>	<p>Can access donor funding such as grants, Corporate Social Investment and government subsidies</p> <p>Will (often) align with donor objectives and stakeholder expectations</p> <p>Can receive tax exemptions if accredited as PBO with Donor Deductible Status (DDS) status.</p>	<p>(Often) depends on grants/donations</p> <p>Limited access to traditional, commercial sources of capital</p> <p>More restrictive governance and ownership regulations</p>