Five insights to developing a Social Economy Policy in South Africa.

South Africa's Economic Development Department, with technical assistance from the ILO took steps in 2017 to develop the social economy in South Africa, recognising the value of co-operatives, social enterprises and non-profits that trade in building an economy for all, in our country. The social economy has been globally credited for its inclusive entrepreneurial approach, in often deprived and under-served communities. In Europe there are over 2 million social economy enterprises, making up 10% of all businesses and employing over 11 million people.[1] In the United Kingdom social enterprises make up over 9% of small businesses, with 20% operating in some of the country's most deprived areas.[2] The country's co-operative sector gives further insight into its potential, with a turnover of GBP33billion in 2011 and employment figures of above 230,000[3]. These organisations range in size from small to large, with the international footprint of Spanish co-operative Mondragon has a presence in 97 countries, being best known for its global reach[4]

For South Africa, which is working to catalyse employment amongst young people, whilst growing the breadth and depth of services and opportunity to communities, the social economy brings enormous advantage by stimulating socio-economic activity particularly outside of the urban centres. We see organisations thriving, delivering goods and services that add value to society – low cost, high quality clinics such as that run by Dulcy Rakamakoe at U-Care, or Muthi Futhi, a community business in Zululand that grows medicinal plants, or the re-imagination of housing by the team at Hustlenomics.

The Economic Development Department (EDD), together with the International Labour Organisation (ILO), Industrial Development Corporation (IDC) and the Government of Flanders have held a series of discussions, consultations and focus groups over the past 18 months to understand what it is that is needed to stimulate the social economy eco-system. In each of our consultations we asked participants different questions around the same topic: what questions do they have, what would they like the policy to achieve? Where did they identify gaps? Each question gives us insights into what is and isn't working in the social economy in South Africa, with the top five insights summarised below.

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[1] https://ec.europa.eu/growth/sectors/social-economy_en

[2] Social Enterprise, *Market Trends*, 2017. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/644266/MarketTrends2017report_final_sept2017.pdf

[3] *The Social Economy in the UK, Roger Spear (n.d)* http://www.ess-europe.eu/sites/default/files/publications/files/ariadne-social-economy-in-the-uk.pdf

[4] https://www.mondragon-corporation.com/en/about-us/

1. **The need for clarity. What is the social economy and why is it important?**

Our analysis shows that there is a strong call to have an agreed definition on what the social economy is, and to use this as the springboard to the broader national conversation on why it is important, and the value it brings. In the National Consultation in February 2019, a definition was put forward which has been included in the draft Green Paper which will be the foundation of consultations from mid-2019. It is a reminder that the policy development process is as important as the final policy recommendation, as it is through these discussions that consensus is created, and with it legitimacy. The policy process is an opportunity to bring clarity – to understand what we mean when we use the phrase social economy, its partnership with the green economy, and how we can incentivise and stimulate these new sectors of growth.

2. **Policy Cohesion – to regulate or not to regulate?**

There has been an interesting response to regulation, which was assumed to be needed for the new hybrid business models that generate both social and economic value, such as social enterprises. But our research shows a growing call for policy cohesion, recognising that South Africa has great frameworks that focus on social change, transformation and upliftment. Practitioners are frustrated by the need to work across policies that at are contradictory to each other, each requiring different sets of paperwork and institutional requirements. Examples given include the contradictions in South Africa's industrialisation versus its green-growth goals, or the burden for small enterprises of complying with B-BBEE, and non-profit and public benefit requirements. The social economy is a highly inclusive concept because it operates across social and economic spheres. The policy development process is an opportunity to integrate existing policies, aligning the country's inclusive and transformation agenda.

3. **More funding? No thanks, we would rather have packages of support that stimulate the eco-system.**

Our analysis shows that there is not a singular focus on funding – instead, there is a call for sector stimulation, and a broad series of recommendations on how this can happen.
This tackles the long held assumption that more funding equal's growth, which minimises the package of support that is required to support individual businesses to be sustainable. The calls from the consultation sessions are for stimulation and support. Yes, some of these are financial – such as incentive schemes, subsidies, tax breaks, and additional resources within the support agencies – but

these are put forward together with recommendations for capacity building and training and, interestingly networks. The call for partnerships and networks dominates, giving insight into the entrepreneurial nature of the social economy, and its need to create an identity through togetherness. This could also be a sign of one of the strengths of the social economy, with its inherent focus on collaboration over competition.

4. Access to markets and Impact Investing

Following on from the above is the call to strengthen access to markets – making it easier for smaller players to participate and collaborate equally in the procurement systems of the bigger organisations. This call must be seen against the growing conversation in impact investing which is re-shaping how investors invest: shifting the focus from financial returns to include social and environmental returns. These shifts have profound consequences, as they reshape and revalue our concept of what a successful business looks like. South Africa has a good track record here, with a number of companies listing Green Bonds, and the launch of the first social impact bond in 2018.[5]

This shows that there is a growing movement away from traditional models of funding social services, which is typically done through subsidy, grants, gifts and philanthropy. We are starting to see innovation in the system, patient capital and a change in what constitutes risk. In the long term it allows our organisations which focus on doing good to access funds that are suited to both their impact and income needs.

5. Framework: guiding document and principles

Almost returning full circle to the call for clarity, is the most prominent call which is for a framework, a set of guiding principles which maps out the social economy in South Africa, its principles, goals and values. By naming it, we legitimise it, bringing normality to the model that social and economic value can be created simultaneously, rather than being different functions of for profit and not for profit companies. The framework also allows us to measure – a notoriously difficult exercise when our concept of what is good? Is so individually recognised and defined. By creating the conversation, and agreeing simple measures that allow us to frame and name social development and its purpose, we can track and measure our progress, deepening our understanding of our context. By measuring success we allow our social economy organisations to move from the frontier to mainstream models within the broader system.

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[5] https://www.gsb.uct.ac.za/po-bc-first-social-impact-bond

By enabling the social economy, understanding how to stimulate and support it, we see a long term picture where businesses exist to deliver high social value, together with financial returns – a vital step in our goal of achieving an inclusive society, and an economy for all.

With technical assistance from the ILO, the Social Economy Policy project is committed to the conversation on what the sector could and should look like. From mid 2019 the Green Paper will be widely shared, and forms the heart of consultations across the country, where we hope for rich discussion, debate, disagreement and consensus.

If you'd like to know more, or would like a copy of the Green Paper please get in touch with the social economy policy team at:

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