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**AN ASSESSMENT OF THE EFFICACY OF PUBLIC POLICY FRAMEWORKS ON
SOCIAL ENTERPRISES IN KENYA: CHALLENGES AND OPPORTUNITIES FOR
GROWTH**

PADWA DAMAR AKINYI

007995

Submitted in partial fulfilment of the requirements for the degree of Master in Public Policy and
Management of Strathmore University

Strathmore University Business School



Nairobi, Kenya.

DECEMBER 2021

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Approval

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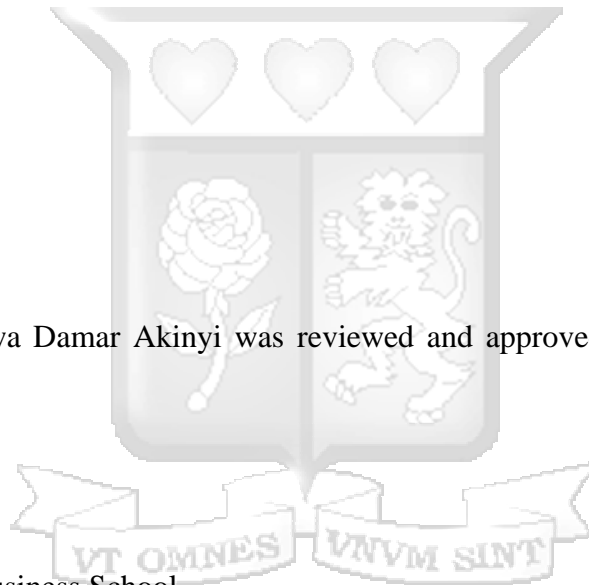
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Abstract

The social enterprise phenomenon has become notable in stature as a public policy agenda globally and nationally as a new model for responding to failures in market and public service delivery. Kenya and South Africa are at the forefront of this phenomenon in Africa but little is known on the influence of policy frameworks on the growth of social enterprises in Kenya. The study considers policy frameworks as the current legal forms and structures in which social enterprises operate. The main objective of this study is to assess the efficacy of public policy frameworks on social enterprises in Kenya. The specific objectives are to examine how the current policy frameworks influence the growth of social enterprises in Kenya; assess the challenges affecting the growth of social enterprises in Kenya; and explore the policy interventions that could provide opportunities for growth of social enterprises in Kenya. This study adopted a qualitative approach as it focused on selecting information rich cases who gave in-depth insights on the subject at hand. The study used an interview guide for data collection. Content and thematic analysis was used to analyze the data collected, with the results being presented in a narrative report with context description and themes taken from the respondents. The findings from this study show that the current policy frameworks do not have specific social enterprise policy domains that would promote the growth of social enterprises in Kenya. The study found a myriad of challenges affecting the growth of social enterprises, notably: lack of awareness and availability of public funding opportunities, lack of access to private investment funds, inappropriate taxation mechanisms, inadequate business support and knowledge share, and limited access to markets. The study recommends that the existing frameworks and structures should be expanded to define social enterprises and strengthened with policy domains that would promote the growth of social enterprises. The study also recommends that within the existing frameworks, a social enterprise entity under the auspices of a coordinating ministry, with actors drawn from intersecting government agencies and the social enterprise sector would adequately support the growth of social enterprises.

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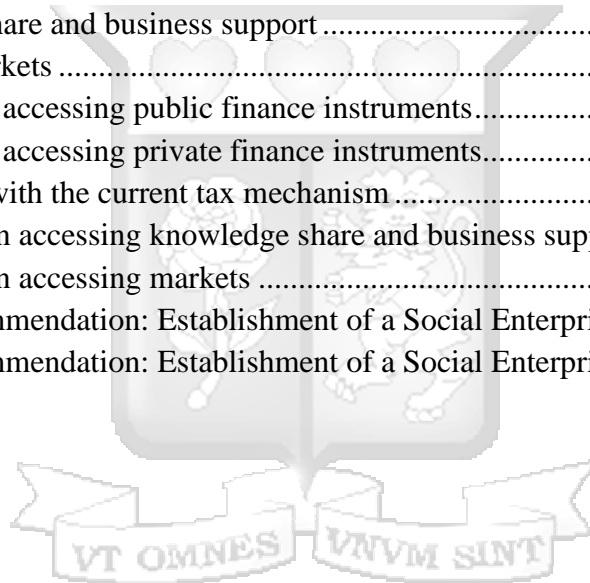
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List of Abbreviations

AGOA	-	African Growth and Opportunity Act
AGPO	-	Access to Government Procurement Opportunities
BoP	-	Bottom of Pyramid
CIC	-	Community Interest Company
CSR	-	Corporate Social Responsibility
EPZ	-	Export Processing Zone
SEZ	-	Special Economic Zone
EU	-	European Union
Eur.1	-	movement certificate form used in international commodity traffic
GDP	-	Gross Domestic Product
GSP	-	Generalized System of Preferences (US trade preference program for poor countries)
ICDC	-	Industrial and Commercial Development Corporation
KENSUP	-	Kenya Slum Upgrading Programme
KRA	-	Kenya Revenue Authority
L3C	-	Low-profit Limited Liability Company
LDC	-	Least Developed Country
MSMEs	-	Micro, Small and Medium Enterprises
NGOs	-	Non Governmental Organizations
NPO	-	Non Profit Organizations
PAYE	-	Pay As You Earn
PBO	-	Public Benefit Organizations
PPPs	-	Public Private Partnerships
SDGs	-	Sustainable Development Goals
SEs	-	Social Enterprises
SMEs	-	Small and Medium Enterprises
SPVs	-	Special Purpose Vehicles
TSEO	-	Thai Social Enterprise Office
UN	-	United Nations
US	-	United States
USD	-	United States Dollar
VAT	-	Value Added Tax

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Dedication

To my mother, Jenipher Milka Awuor for her endless sacrifices and teaching me that one is never too late or too old for academic pursuits.

To my late father Paul Padwa, who loved books and laid a firm foundation in my education.

Chubba!

“Deo, non Fortuna.”

(unknown)



CHAPTER 1

INTRODUCTION

1.1 Introduction to the Study

Chapter one introduces the concept and definition of social enterprise, including its intersection with policy frameworks and the sector in Kenya; the rest of the chapters include: the problem definition; research purpose; research objectives; the scope and significance of the study.

1.2 Background of the Study

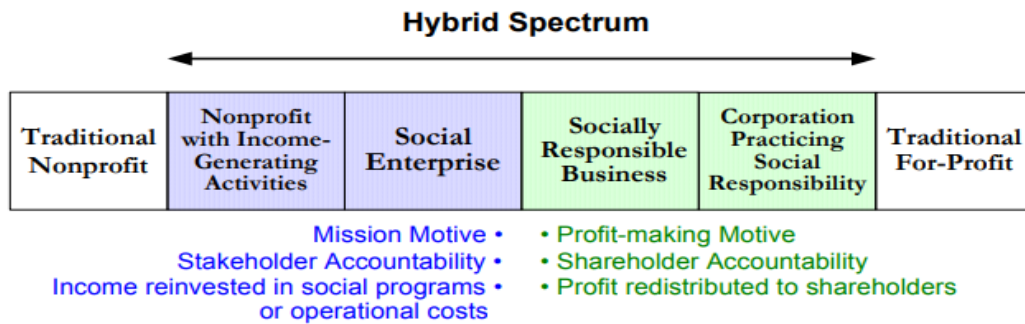
Social enterprises play a fundamental role in inclusive economic growth and development as they implement new ideas or adopt existing ideas to local contexts (Hein and Kappel, 2015). Chung (2015) advances that the social economy started as an anti-poverty and co-operative movement to solve the problems of housing, education, unemployment and welfare. Santos (2012) finds that social enterprises start with small initiatives which target problems with local expressions but global relevance. Popoviciu and Popoviciu (2011) observe that social enterprise lies at the center of traditional non-profits and traditional market economy continuum. The concept is a rapidly emerging and complex phenomenon faced with literature in its infancy making it difficult to specify its conceptual boundaries.

According to the World Bank Group (2017) social enterprises are privately owned organizations which play a special role in helping developing countries achieve the Sustainable Development Goals (SDGs). Agapitova, Sanchez and Tinsley (2017) define social enterprises as private for profit, non-profit or hybrid organizations with a social mission that serves the Bottom of the Pyramid (BoP) using business approaches to provide life changing services in a cost efficient manner.

Dees (1994) defines social enterprise as organizations that are private in nature and are dedicated to solving social problems, serving the disadvantaged and providing social goods that are not adequately provided by public agencies or private markets. Yunus (2008) describes a social enterprise as an organization that is similar to a profit maximizing business as it employs workers, creates goods or services and provides these services at a price that is consistent with its social objective while recovering its full costs. The entity may earn profits, but the investors do not earn

dividends except to recoup the original investment over a period of time making it cause-driven rather than profit-driven.

Community Action Partnership (2011) asserts that social enterprises are hybrid models that encompass diverse players such as socially responsible investors, for-benefit ventures, corporate social responsibility efforts, social innovators and others leading to value accruing to society as a whole rather than private individuals. Figure 1.1 highlights the spectrum of activities and players within the social enterprise sector.

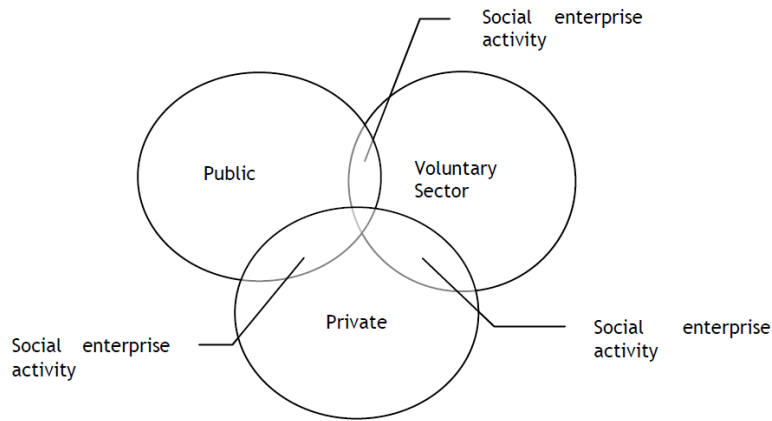


Source: Alter (2007: 14)

Figure 1. 1: Hybrid spectrum of activities within the social enterprise sector.

According to World Bank (2017) traditional actors such as governments, civil society and the private sector have been unable to fully resolve the challenges of providing quality services to essential social amenities. Tilakasiri (2012) posits that the divide between public sector and private sector has increasingly become blurred as a result of interruption of the classical divisions between their responsibilities. Hein and Kappel (2015) further extend this argument that traditionally the task of the state has been to pursue social and environmental goals. They assert that social enterprise has led to the rise of the Third Sector, a new model which is neither public nor private sector and applies business efficiency to social welfare.

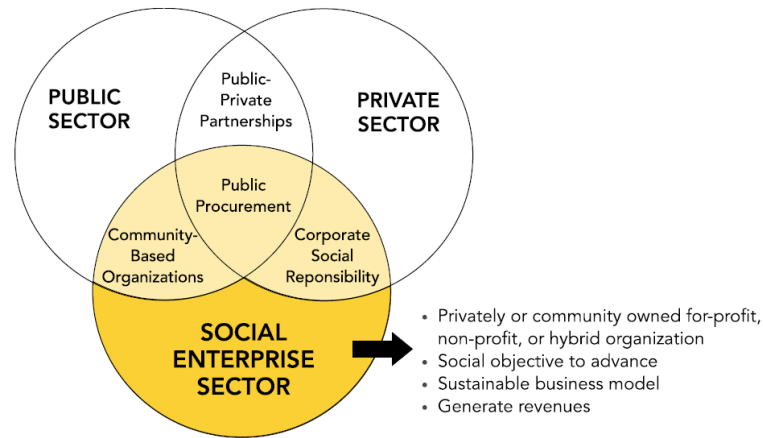
Figure 1.2 illustrates a cross-sectional view of social enterprises and how the responsibilities between the public and private sectors intersect.



Source: Seanor, Bull, and Ridley-Duff (2007: 4)

Figure 1. 2: Cross-Sectional view of social enterprise

Figure 1.3 illustrates the criteria for social enterprises and how it fits into the public and private spheres.



Source: World Bank Group (2017: 8)

Figure 1. 3: Social enterprise sector space

Agapitova, Sanchez and Tinsley (2017) find that different levels of government develop context-specific rationales for engaging with the sector for instance: at the national level the rationale for social enterprise is supported by the highest level of leadership and is expressed in cross-cutting strategic documents; at sub-national levels the rationale is linked to the decentralization or devolution agenda and the integration of lagging or conflict prone parts of the country; and, at the sectoral levels the rationale is linked to specific development challenges.

Santos (2012) posits that the growth of social enterprises is defined by financial sustainability, the ability for social enterprises to maintain its operations for society's welfare. He further proposes the Social Entrepreneurship Theory that proposes economic activity cannot operate in an institutional vacuum and hence legal and regulatory frameworks are created to ensure that competitive market conditions are maintained through mechanisms such as regulation, taxation and market creation. According to OECD (2010) a sound policy framework covers the legal, regulatory and market incentive aspects which provides the basis for an efficient and effective sector.

1.3 Social enterprise sector in Kenya

The British Council (2017) found that the economic restructuring program in the 1980s reduced government expenditure on social services leading to the growth of non-state and commercial actors in social service provision. Kenya has been termed as the powerhouse of East Africa demonstrating a promising 4.4%-5.8% GDP growth translating to USD 55.24 billion. It also has relatively functional business support institutions and a dynamic private sector with many entrepreneurial firms. An increasing number of these firms self-define as social enterprises stretching across sectors like innovative agriculture, education, health and technology (Panum & Hansen, 2014; Hanley, Wachner & Weiss 2015).

Despite this economic growth, The World Bank Group (2017) report states that 388 million people in Sub-Saharan Africa live below the poverty line on less than USD 1.90. In Kenya, one out of three of people lives below the international poverty line without access to amenities such as quality health care, quality education, clean water, sanitation and decent employment opportunities (World Bank Group, 2018).

The United Nations Development Programme (2014) reported that rebasing the Kenyan economy sought to provide more accurate data on the size and structure of the economy for informed policy decisions and to attract foreign investments. However, with the new low-middle income status, the perception was that the country was wealthier and organizations within the hybrid spectrum had to adopt a revenue generating model (British Council, 2017).

Kanyinga and Mitullah (2007) observed global growth in number and activities of private non-governmental institutions in a phenomenon described as a 'global associational revolution'. Gatheo (2013) observed that the non-profit sector accounted for 5% of the country's GDP. Kenya has a large non-profit sector at 2.1% of the economically active population in comparison to 1.9% of other developing and transitional countries. This compares to 43% of the size of the public sector providing essential services focused on economic empowerment, social development and societal needs to the Kenyan population.

The World Bank Group (2017) found that social enterprises had emerged to address service delivery gaps for the poor, with Kenya and South Africa leading in the growth of the social enterprise sector. The British Council (2017) estimated that there were 44,000 social enterprises in Kenya with the number expected to increase. The World Bank Group (2017) noted that there was a high number of social enterprises operating in Kenya with at least 136 impact capital vehicles managed by 95 impact investors committing more than USD 240 million. The British Council (2017) study found that in the absence of policy frameworks specific to social enterprises, the *Public Benefit Organizations (PBO) Act of 2013* or *Companies Act of 2015* served as the main frameworks for social enterprises. Other policy frameworks with implications on social enterprises include: *The Business Registration Service Act, No. 15 of 2015; The Small and Micro Enterprises Act, No. 55 of 2012; The Weights and Measures Act, Cap 513; Industrial Training Act, Cap 237; The Standards Act, Cap 496; The Co-operatives Societies Act, No. 12 of 1997; Movable Property Security Rights Act, No. 13 of 2017; Trustees Act, Cap 167 and Trustees (Perpetual Succession) Act, Cap 164; Technical, Vocation Education and Training Act, No. 29 of 2013; The Small and Micro Enterprises policy, 2005; The Kenya Vision 2030; The National Trade Policy, 2016; and The National Industrialization Policy, No.9 of 2012.*

While social enterprises in Africa are able to reach underserved populations due to their strong presence and understanding of local communities, they are yet to fully realize their potential as they struggle to scale and develop sustainable models (World Bank, 2017; Smith and Darko, 2014).

1.4 Problem Statement

The British Council (2017) found no separate legal category existed for social enterprises in Kenya therefore social enterprises registered as either non-profit organizations, companies or both. The

characteristics and impact of social enterprises are not taken into account by existing policy frameworks, meaning social enterprises do not effectively benefit from business support providers for instance financiers who are unsure of the risk and appropriateness of lending to the sector. These include: lack of access to financing solutions, legal status, weak infrastructure, difficult markets, human capital, lack of information, low perception and understanding of social enterprises among policy makers, social enterprise stakeholders and the public who equate them with charitable organizations and networks (Smith and Darko, 2014). Similarly, the World Bank Group (2017) observed that un conducive policy and loose regulatory framework had led to social enterprises not being recognized as a sector making it difficult to align with nationally identified priorities, plan and provide appropriate government support for the growth of the sector.

There is limited research on how the *PBO Act of 2013* and the *Companies Act of 2015* may or may not impact the growth of social enterprises in Kenya. In response to the dearth of information on the sector, the Social Enterprise World Forum (2019) initiated a global mapping information project that will report on the recognition of social enterprise, popular terms for social enterprise, number of social enterprises, and the formal networks, legal structures, and strategies that exist to support social enterprises around the world.

The World Bank Group (2017) reported that where a mature policy framework specific to social enterprises existed, social enterprises were more established, achieved more growth in number, quality and impact of activities, as well as experienced fewer challenges in comparison to those with policy frameworks in the early and emerging stages.

In summary, the absence of social enterprises specific policy in Kenya portends that social enterprises face unique challenges linked to their model. Additionally, limited research on the existing supporting factors, challenges and opportunities for social enterprises to grow presented a gap that the study sought to address.

1.5 Research Purpose

This study sought to assess the efficacy of the current public policy frameworks on social enterprises, the challenges affecting the growth of social enterprises in Kenya, and opportunities that could lead to possible policy interventions.

1.6 Research Objectives

- i. To assess how the current policy frameworks influence the growth of social enterprises in Kenya.
- ii. To examine the challenges affecting the growth of social enterprises in Kenya.
- iii. To explore the policy interventions that provide opportunities for growth of social enterprises in Kenya.

1.7 Research Questions

- i. How have the current policy frameworks influenced the growth of social enterprises in Kenya?
- ii. What are the challenges affecting the growth of social enterprises in Kenya?
- iii. What are the policy interventions that provide opportunities for growth of social enterprises in Kenya?

1.8 Scope of the Study

Pearl (2013) acknowledges the paucity of studies specific to social enterprises. Given the wide range of activities and concept of social enterprise, this study limited its scope to two activities, that is, the non-profit with income-generating activities, and the social enterprises as illustrated by Alter's Hybrid spectrum in figure 1.1.

Adapting from the World Bank Group (2017), the criteria for inclusion in the study included: organizations with a social mission of providing goods and services and reinvesting their profits in the community or organization's own growth; organizations which operate under business principles with sound and sustainable financial model; organizations which generate revenues through provision of goods and services at a fee; and organizations which are privately or community owned. British Council (2017) found that sixty percent of social enterprises are headquartered in Nairobi County, Kenya making the geographical scope to Nairobi sufficient for this study. The study was limited to organizations with income generating activities as defined by *Public Benefit Organizations Act of 2013* and the *Company Act of 2015*, and registered by the Public Benefit Organizations Regulatory Authority and/or the Registrar of Companies. It,

however, excluded corporate business organizations or entities whose primary focus is profit even though it creates social value.

1.9 Significance of the Study

The linkage between social enterprise and public policy has significance to the following spheres:

To the body of knowledge, the current literature on social enterprise is mostly centered on the business perspective which is more concerned with advocating the model of social enterprise as a business. This study will contribute to research on the public policy perspective with implications of policy frameworks on the social enterprises (Popoviciu and Popoviciu 2011; Newis and Hamlin 2008).

To policy makers, as social enterprises gain traction in scope and breadth, the study of social enterprise and public policy within the Kenyan context will provide important insights for developing social enterprise specific policy frameworks. This will create an enabling environment to enhance the growth of social enterprises and “*end poverty in all its forms everywhere*” as envisioned in the United Nations 2030 Global Goals framework.

To agents of change, poverty remains one of the most pressing social and moral challenge of our time and its alleviation has become a key sustainable development goal. Coupled with shifts in the external environments such as changing external funding priorities and government policy, there is need to examine this new field that seeks innovative solutions to poverty alleviation through enterprise. The study of social enterprise and public policy within the Kenyan context will provide important insights for practitioners to exploit the policy domains which will contribute to the growth of social enterprises.

To the general public, the study will contribute to the awareness of the important role that the sector plays in social welfare and economic development. This should spur public participation in the formulation of social enterprise specific policy, as well as inspire well-intentioned citizens into providing innovative solutions to social problems using the social enterprise model that is recognized and supported by policy.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter introduces theoretical insights into the concept of social enterprises. The chapter examines literature to provide linkages to this study's research objectives and highlights the gaps from the literature review. The chapter concludes by illustrating the conceptual framework and the variables of the study.

2.2 Theoretical Review

The Social Entrepreneurship Theory provides an understanding of the convergence between social enterprise and public policy as it links the growth of social enterprises and the current policy frameworks.

2.2.1 Social Entrepreneurship Theory

Santos (2012) puts forth a positive theory of social entrepreneurship which suggested that, "*social entrepreneurship is the pursuit of sustainable solutions to neglected problems with positive externalities.*" The theory propositions that: one, the distinctive domain of social entrepreneurship is in addressing neglected problems involving positive externalities in society. Positive externalities are the consequences that result from under provision of goods and services that create value for society much more than the recipient of those goods; two, social enterprises are likely to operate in areas with localized positive externalities that benefit powerless segments of the population; three, social entrepreneurs aim to achieve sustainable solutions to the problems they address; and four, social entrepreneurs seek solutions built on empowerment of others within and out of the organization.

Ebrashi (2013) also noted that the social entrepreneurship theory introduces new typologies for social enterprises as it focuses on the conditions, motivations and contexts that bring about and create sustainable social change. In contextualizing the architecture of the economic system in which social enterprises operate and grow, Santos (2012) argued that economic activity cannot operate in an institutional vacuum and hence legal and regulatory frameworks are created to ensure that competitive market conditions are maintained through mechanisms such as regulation,

taxation and market creation. These government mechanisms created a system of incentives for private economic actors to achieve the propositions of the social entrepreneurship theory. The theory on the other hand rejects the social and economic value dichotomy as it holds that economic value creation is inherently social as it improves society's welfare via better allocation of resources, that is, social value and outcomes are the intangible benefits of economic value.

Santos (2012) holds that social enterprises focus on value creation in order to create economic and social impact as an outcome. Santos borrows the World Bank (2009) definition which states that empowerment is *“increasing the assets and capabilities of individuals or groups to make purposive choices and to transform those choices into desired actions and outcomes.”* Growth thus occurs at the point of empowerment of actors. Drawing from the social entrepreneurship theory, Ebrashi (2013) further argues that social impact is *“the process of assessing or estimating in advance the social consequences likely to follow from specific policy actions or project development...and these include any public or private actions that alter the way people live, and cope as members of society.”*

In relation to this study, the social entrepreneurship theory contributed in not only understanding the why but also how social enterprises grow. The theory enabled the study assess the extent to which policy frameworks enabled social enterprises to address neglected problems in society; how policy frameworks enabled social enterprises to benefit the powerless populations; how policy frameworks enabled social enterprises to provide sustainable solutions by creating value; and, how policy frameworks enabled social enterprises to identify opportunities that can empower society, translating to growth using various policy mechanisms and domains as incentives.

2.3 Empirical Review

The empirical literature was based on the study's research objectives: to examine how the current policy frameworks influenced the growth of social enterprises in Kenya; to assess the challenges affecting the growth of social enterprises in Kenya; and, to determine the policy interventions that provided opportunities for growth of social enterprises in Kenya.

2.3.1 Policy frameworks for social enterprises

This section highlights the policy frameworks created to support the growth of social enterprises in various geographies. For the purposes of this study, the policy frameworks adopted from the

World Bank Group (2017) report illustrated how the salient policy features at every stage influenced the growth of the social enterprises. Within the early-mature stage continuum, the literature showed that in countries where a robust policy framework specific to social enterprises existed, social enterprises were more established, achieved more growth in number, quality and impact of activities, as well as experienced fewer challenges in comparison to those with policy frameworks in the early and emerging stages.

2.3.1.1 Early-Stage Policy Frameworks

According to Agapitova, Sanchez, and Tinsley (2017) the level of social enterprise activity within this stage was indicated by presence of social enterprise as NGOs or companies in some locations or sectors. Early Stage frameworks were characterized by: absence of a specific legal form to recognize social enterprises as distinct entities as they register as either NPOs or for-profit companies; absence of specific policies or regulations to support social enterprises; presence of small and medium-sized enterprise (SMEs) policies; and, presence of enabling private organizations which were mostly foreign-owned and self-identify as social enterprises providing services and goods to BoP populations. Examples of countries within this stage were found to be Kenya, Rwanda and South Africa.

The World Bank Group (2017) found that in Rwanda, the 2015 Law on Investment Promotion and Facilitation improved business conditions, regulations and policies but did not have specific social enterprise policies. The private sector was considered as important for development with the government being open to civil society engagement. Social enterprises in Rwanda registered as foreign and rights-based NGOs permitted to conduct commercial activities, however the investment law does not apply to social enterprises registered as NGOs.

Within the South African context, Steinman (2010) found that South Africa does not have a law or policy on social enterprises and thus the framework was fragmented with a complex registration process. The study highlighted several laws based on the Bill of Rights which created an enabling environment for social enterprises and sought to: enable organizations to establish themselves as legal structures; regulate the way in which the legal structures operate; and provide for the sector tax and other incentives towards sustainability. Social enterprises operated under fragmented legal and regulatory instruments each with its own requirements for registration and compliance, for

instance a section 21 company was required to register three times under the Registrar of Companies, NPO Directorate and Tax Exemption as well as comply with the requirements of three different regulatory entities. Stakeholders within the South African social enterprise space suggested for the social enterprise specific framework to be formalized. The empirical literature thus seemed to suggest that social enterprises within the early-stage policy frameworks faced more growth challenges as a result of lack of social enterprise specific policy.

2.3.1.2 Emerging Stage Policy Frameworks

According to Agapitova, Sanchez, and Tinsley (2017) the level of social enterprise activity within this stage was indicated by the presence of social enterprises as NGOs or companies in multiple sectors and locations. Emerging Stage frameworks were characterized by: absence of a specific legal form to recognize social enterprises as distinct entities therefore social enterprises registered as either non-profit organizations or for-profit companies; presence of political will to support social enterprises or social innovation; presence of small and medium-sized enterprise policies; and, growing number and variety of organizations supporting and enabling social enterprises. Geographies within this category had initiated a policy dialogue around the social enterprise sector or adopted sections of policy that were providing platforms for engaging with social entrepreneurs. Examples of countries within this stage were found to be India and Egypt.

The British Council (2016) study found that while holistic insights into government policies that sought to support the social enterprise sector in India was lacking, thirty nine central government policies relevant to social enterprises had been framed with the National Skill and Entrepreneurship Policy specifically aimed at fostering social entrepreneurship. The report found that India had witnessed notable growth in the number and quality of social enterprise activity, however quantitative data on its contribution to the country's GDP and workforce was not clear. Social enterprises in India were largely registered as private limited companies, NGOs (society or trust) or sole ventures deeply rooted in Indian ethos. 58% of social enterprises were registered as private limited companies whereas the number of social enterprises operating as NGOs had declined. This was attributed to greater autonomy on the use of profits/surpluses for private limited companies as compared to the NGO model which required donation of surpluses to charity. The social enterprise ecosystem in India was found to be the most developed within the early and

emerging stages having evolved with support from domestic and international organizations providing capacity development, financial and advisory assistance to support seed-stage and early-stage social entrepreneurs looking to develop and pilot their social impact ideas.

Agapitova, Sanchez and Tinsley (2017) found that there was no specific legal form in Egypt for social enterprises and they could register as non-profit organizations, private companies under the NGO or company law respectively. The social enterprise ecosystem in Egypt operated within a restrictive policy framework as the current capital market laws needed to be amended to encourage investments into the sector. NGOs on the other hand were not allowed to engage in commercial activities and therefore remained donor dependent. However, recent positive trends had emerged with organizations seeking to enable and support the sector for example civil society mobilizing the social enterprise sector, incubators, angel investor networks and replication funds that facilitate social enterprises to develop and scale (World Bank, 2011). The Sustainable Development Strategy is Egypt's Vision 2030 aimed at creating a modern, open, democratic, productive and happy society. Social enterprises were not explicitly recognized as key actors or partners but the strategy presented an opportunity for collaboration. Through the ICT 2020 strategy, social enterprises have been recognized as a relevant actor. The empirical literature pointed that social enterprises operating within the emerging stage frameworks also faced restrictive or inadequate policy affecting their growth.

2.3.1.3 Growing Stage Policy Frameworks

The level of social enterprise activity within this stage was indicated by widespread presence of social enterprises within the existent legal forms as NGOs or Companies in multiple sectors and locations. Growing policy frameworks had the following distinctive features: 1). There was recognition for the sector as the legal forms for social enterprises had been created or were in the process of creation; 2). Presence of supporting policies for social enterprises; and 3). Supporting organizations formed enabling networks for the sector to grow. Examples of countries within this stage were Canada, Thailand and Italy (Agapitova, Sanchez and Tinsley, 2017).

Alexander (2016) found that distinct hybrid forms of social enterprise had not yet been established at the national level in Canada. However, provincial governments were moving towards entrenching social enterprises as distinct ventures for instance British Columbia had effected the

Community Contribution Company (C3) with an asset lock of 40% cap on dividends. Nova Scotia had also enacted the Community Interest Company (CIC) model of the UK, while Ontario had opened consultation on adopting a hybrid form. The legal forms currently in use for social enterprises included for profit entities registered as sole proprietorships, partnerships, corporations or business trusts; registered charities, NPOs and cooperatives.

Agapitova, Sanchez, and Tinsley (2017) observed that Thailand's social enterprise ecosystem was one of the most active in South East Asia. The National Social Enterprise Committee was created to facilitate access to finance and increase awareness of the sector. The Social Enterprise Master Plan Act 2555 for 2010 – 2014 defined the policy guidelines to include regulations, social and environmental indicators, intermediary organizations such as incubators, social enterprise educational curriculum, access to capital and markets. While there was no specific legal form for social enterprises in Thailand, the National Social Enterprise Act 2554 modelled after the CIC in the UK and L3C in the United States defined social enterprise as, "*a private individual, group or community with the goal to address social issues and community development by following social or environmental principles and where the revenues are not aimed at maximizing the profit of the shareholders or owners*". The Thai Social Enterprise Office (TSEO) is an independent agency under the Prime Minister's Office designated to formulate strategic policies and programs for the sector. The framework stated that profit sharing or dividends to shareholders must not exceed 20% of annual net profits and provided guidelines for the de-commission of assets when the social enterprise closed down. The social enterprise accreditation journey consisted of the label "Thai SE Good" similar to Fair Trade which ensured that the goods and services are sold better as well as state enterprises and government agencies giving priority to purchase goods with the Thai SE Good label. Finally, the Thai government further implemented the 2 Billion Euros Village Fund Program to encourage local communities create enterprises for public goods and community interest such as community banks, rice mills and pharmacies. The TSEO partnered with the Thai Stock Exchange and a socially enterprising university to create awareness and deliver capacity building programs on social impact investment.

Alexander (2016) portended that the Italian Act on Social Cooperatives was passed in 1991 with the model allowing for entities to pursue profits alongside the mutual benefits defined by the company by-laws. The Law on Social Enterprises adopted in 2006 allowed for any legal form of

organizations meeting certain criterias to be considered as social enterprises known as *social enterprise et lege*. These requirements were: 1). An entity must be a private legal entity; 2). The entity must engage in the exchange of goods and services that have a social utility and seek to achieve a public benefit purpose rather than generate profits; and 3). The entity could make a profit but could not distribute profits and had to either re-invest those profits in public benefit or use them to increase assets. The social enterprise status subjected entities to an asset lock which limited claims on company assets and upon dissolution had to be transferred to a non profit entity. *Social enterprises et lege* had been less successful as the administrative process was lengthier, social reporting requirements and minimum capital requirements were burdensome and fiscal benefits available to social cooperatives were not extended to social enterprises.

The literature indicated that social enterprises operating within policy frameworks at the growing stage were formally recognized and the presence of social enterprise specific policy structures had enabled more opportunities for growth.

2.3.1.4 Mature Stage Policy Frameworks

According to Agapitova, Sanchez, and Tinsley (2017) the level of social enterprise activity operating within mature regulatory frameworks was extensive and organized. World Bank Group (2017) portended that mature frameworks which supported and promoted the growth of the social enterprises sector had two distinct features: one, through well-implemented policy frameworks the government recognized and promoted the special role of social enterprises, with sector-specific policies promoting social enterprise; and two, through regulatory frameworks, social enterprises benefitted from legal incentives such as tax waivers and preferential public procurement opportunities. They further observed distinctive features of mature regulatory frameworks as consisting of: the presence of legal forms specific to social enterprises provided formal recognition of the sector; national policy or strategy with large range of tools and programs supported the sector; and, the presence of enabling organizations such as public agencies formed ecosystems which supported the growth of the sector. Examples of countries with mature regulatory frameworks included United Kingdom, United States and South Korea.

The United Kingdom provided an international benchmark for policy frameworks which had supported the emergence and maturity of the social enterprise sector. Seanor, Bull and Ridley-Duff

(2007) observed that the UK government promoted social enterprise as a means for delivering public goods using business solutions. Borzaga and Galera (2016) observed that recognition of social enterprises had taken place through: legislation designed specifically for social enterprises; creation of specific structures in charge of promoting social enterprises; reforms leading to direct or indirect recognition of the role of social enterprises as providers of specific types of essential services; adoption of specific national, regional or local policy strategies focused on the social economy or social enterprise; and explicit references to social enterprises made by official policy documents and operational programs.

According to the Department of Trade and Industry (2002) the government set up the Social Enterprise Unit within the auspices of the Department of Trade and Industry to provide a coordinated point for strategic decision making across all departments. This entity built a culture of social enterprises and disseminated evidence based knowledge, enabled access to appropriate finance, supported social enterprises to grow and participated in government procurement options. The British Council (2015) further illustrated that a dedicated Office of the Third Sector with ministerial status and authority to work across departments raised the importance and influence of social enterprise and the social economy within and outside the government.

The British Council (2015) report highlighted that the UK Social Value Act supported the social enterprise space by providing a range of options for legal registration of social enterprises. The Act built in social impact components which offered opportunities for social enterprises to access government contracts, and deliver goods and services to the public sector. The Community Interest Company (CIC) model featured an asset lock limiting the amount of dividend distribution to encourage a wide range of finance into social ventures without the risk of drifting social mission was significant in developing the social enterprise sector.

The UK government consistently reviewed the Social Enterprise Action Plans in order to create an enabling environment for social enterprises, make social enterprises better businesses and establish the value of social enterprise. For instance, the government having identified lack of access to appropriate finance as a barrier to the growth and scaling up of social enterprises adopted a number of policy options such as the risk capital fund with 50% government equity and 50% private sources; Community Investment Tax Relief of 5% p.a. of the amount invested available over five

years to individuals and corporate bodies investing in accredited Community Development Finance Institutions provided finance to qualifying profit-distributing enterprises, social enterprises or community projects (McNeil, 2008) and (Department of Trade and Industry, 2002).

The British Council (2015) report stated that the social enterprise sector grew in the last ten years, with nearly a third of all social enterprises launched in the last three years of the study. The sector continued to grow rapidly with estimates showing 70,000 social enterprises in the UK contributed over £24 billion to the UK economy and employed over two million people, a phenomenon that was largely attributed to government policy which acted as a catalyst and facilitator. The report however contrasted that while the United Kingdom had a mature framework and had made great leaps in supporting the growth of the sector, it continued to grapple with balancing legislation to promote social investment to safeguard impact while at the same time attract investors. The report further found that the focus on public service delivery skewed the development of the social enterprise sector towards delivering services for government and not private businesses or the general public. The coalition government extended the social enterprise strategy to grow and take over government in running of public services through investments rather than grants.

In comparison, Tremblay (2010) portended that in the United States the Low-profit Limited Liability Company (L3C) was a for-profit company organized to engage in socially beneficial activities. The L3C structure enabled social enterprises gain access to capital and was neither tax exempt nor registered as a charity. She further highlighted that the United States created a New Market Tax credit providing up to USD 15 billion worth of credit for community investments over a five year period. The *Community Renewal Tax Relief Act of 2000* created pools of capital by way of obliging banks to invest in community initiatives and created tax incentives for private investors. The creation of loan guarantee programs, grants or fiscal measures enabled social enterprises and non-profits to access capital which would otherwise be inaccessible.

Agapitova, Sanchez and Tinsley (2017) illustrated that South Korea passed the Law on the Promotion of Social Enterprises in 2006 seeking to contribute to its citizens' quality of life by expanding social services, social integration and creating jobs. The law enabled cooperatives, public corporations, NPOs and social welfare corporations to be certified as social enterprises according to the definition provided in law. This certification provided benefits such as preferential

treatment on public procurement, payroll subsidies and tax exemptions. The Korean Social Enterprise Promotion Agency (KoSEA) supported the social enterprise ecosystem.

Overall, these examples of policy frameworks for the social enterprise sector suggested that where a mature policy framework exists, there were greater opportunities for employment, social investments, tangible ways of measuring social impact and better government oversight.

Table 2. 1 : A summary of Early Policy Stage and Emerging Policy stages showing the salient features, growth indicators and social enterprise outcomes

Policy Stage	Salient Features	Growth Indicators	Outcome (successes and challenges)
Early Stage (Kenya, Rwanda and South Africa)	<ul style="list-style-type: none"> • Absence of a social enterprise specific policy to support social enterprises. • Absence of social enterprise specific legal form. • Operate under small and medium-sized enterprise (SMEs) policies. 	<ul style="list-style-type: none"> • Presence of social enterprise as NGOs or companies in some locations or sectors. • Presence of enabling private organizations mostly foreign-owned • Social enterprises providing services and goods to BoP populations. 	<ul style="list-style-type: none"> • Social enterprises operate under fragmented legal and regulatory instruments each with its own requirements for registration and compliance.
Emerging Stage (India and Egypt)	<ul style="list-style-type: none"> • Absence of a specific legal form to recognize social enterprises. • Operate under small or medium-sized enterprise policies. 	<ul style="list-style-type: none"> • Presence of social enterprises as NGOs or companies in multiple sectors and locations. • Presence of political will to support social enterprises or social innovation. • Growing number and variety of organizations supporting and enabling social enterprises (hubs, incubators). • Policy dialogue initiated around the social enterprise sector 	<ul style="list-style-type: none"> • Social enterprises register as either non-profit organizations or for-profit companies. • Notable growth in number and quality of social enterprise activity. • Social enterprises operate within a restrictive policy framework in need of amendment. • Sections of policy have been adopted providing platforms for engaging with social entrepreneurs. • Social enterprises are supported by domestic or international organizations at the seed and scale stage.

Source: Researcher (2020)

Table 2. 2: A summary of Growing Policy Stage and Mature Policy stages showing the salient features, growth indicators and social enterprise outcomes

Policy Stage	Salient Features	Growth Indicators	Outcome (successes and challenges)
Growing Stage (Canada, Thailand and Italy)	<ul style="list-style-type: none"> • Recognition for the sector as the legal forms for social enterprises have been created or are in the process of creation. • Policy framework define social enterprises and the policy mechanisms for social enterprises to grow. 	<ul style="list-style-type: none"> • Widespread presence of social enterprises within the existent legal forms as NGOs or Companies in multiple sectors and locations. • Presence of supporting entities for social enterprises • Supporting organizations form enabling networks for the sector to grow. 	<ul style="list-style-type: none"> • Adequate awareness of social enterprises. • Hybrid models with asset and dividend locks. • Administrative compliance is lengthy because of social reporting requirements. • Limited fiscal benefits
Mature Stage (United Kingdom, United States, South Korea)	<ul style="list-style-type: none"> • Well-implemented policy frameworks that recognizes and promotes the special role of social enterprises. • Sector-specific policies promote social enterprises. • Regulatory frameworks benefitting social enterprises. • Presence of legal forms specific to social enterprises provide formal recognition of the sector. • National policy or strategy with large range of tools and programs to support the sector. 	<ul style="list-style-type: none"> • Level of social enterprise activity is extensive and organized. • Social enterprises benefit from legal incentives such as tax waivers and preferential public procurement opportunities. • Presence of enabling organizations such as public agencies form ecosystems which support the growth of the sector. 	<ul style="list-style-type: none"> • Exponential growth of number of social enterprises. • Measurable social and economic impact • Extensive fiscal benefits to social enterprises

Source: Researcher (2020)

2.3.2 Challenges facing Social Enterprises

Alexander (2016) portended that the lack of legal frameworks in most countries contributed to the inability to fully grasp the notion of social enterprise. Smith and Darko (2014) argued that the lack of definition and familiarity with the term social enterprise acted as a constraint to social enterprise development. They found evidence that the impact of legal status on the growth of social enterprises varied. For instance in Vietnam, while the NGO status was conducive as accounting requirements were straightforward and they were not subject to VAT or income tax, social enterprises were not able to bid for government opportunities. In addition, the confusion in legal status exposed social enterprises to constant harassment by tax officials who expected charities but found paying customers as the mainstay of social enterprise operations. Vietnamese social enterprises however felt that a new legal framework carried risk and uncertainty and thus preferred operating within the existing legal inconsistencies. Some divergent views in Kenya held that the legal blur allowed enterprise flexibility while others held that a new category specific to social enterprises would lead to recognition and preferential policies that would facilitate the growth of social enterprises (Smith & Darko, 2014).

Without a social enterprise sector specific policy, Pearl (2013) found that the sector in Canada experienced significant challenges as the nature of non-profits revenue streams typically involved three primary sources, that is, government funding, charitable donations and earned income. The frameworks were not designed for organizations obtaining revenue from all three sources resulting to 'regulation stranglehold' which reduced the operating efficiency of non-profit entities. The complex set of regulations related to managing, reporting and accounting for the varied revenue streams led to over-burdened organizations being required to navigate complicated accountability policies, administrative procedures and regulations.

The Department of Trade and Industry (2002) highlighted that the social enterprise sector in the UK faced challenges such as: poor understanding of the values and abilities of social enterprise; inadequate evidence on the impact and value of social enterprise; limited and fragmented access to advice and support; difficulty in accessing funding opportunities; limited understanding of the characteristics, needs and enabling environment for social enterprises; and, complexity and lack of coherence within the sector.

The World Bank Group (2017) report found that while social enterprises in Africa cut across various sectors and are on a positive trajectory, the main challenge was found to be in the high barriers, difficult markets, uncondusive regulation and policy, poor and inadequate financing solutions, lack of access to information and networks, weak infrastructure and human capital. This meant that social enterprises struggled to realize their potential to scale and develop sustainable models. The report further revealed that social enterprises were not formalized as a sector as they tended to be a hybrid of public and private organizations. Additionally, the public sector in many of the developing countries under study did not create a conducive or have enabling regulatory environment to encourage the growth of social enterprises. Littlewood and Holt (2018) study found institutional imperfections were a recurrent problem in South Africa, as the implementation of existing government policy and legislation was weak in addressing social enterprise development. In contrast, various sources in this study have alluded that social enterprises in developed countries especially those in the European Union consisted of an intricate ecosystem of actors, institutions and networks that enabled social enterprises to contribute towards service delivery and the SDGs.

Smith and Darko (2014) revealed that social enterprises in Kenya and Vietnam faced difficulties in accessing finance. The study found social enterprises in Kenya had limited access to commercial financing especially those registered as NGOs. Access to social forms of finance such as government funding, impact investments or donor finances was also a challenge. In Vietnam, access to social forms of financing was largely an issue of enterprise size and absorptive capacity. Challenges to access in finance was further attributed to lack of intermediaries between social investors and social enterprises, amplified by lack of skills and capacity of social enterprises to develop and present compelling business cases. Where impact investors existed, start-ups and smaller enterprises had difficulties in accessing capital. Likewise, social enterprises at the middle stage but not yet profitable faced similar challenges as there was preference for enterprises that were already established and commercially viable. The study further stated that lack of access to financing was as a result of information assymetry that would bring social enterprises and potential investors together. Other challenges included lack of skilled capacity as social enterprises were largely run by founders, lacked personnel with technical capacities in both social impact and business skills; limited access to markets since social enterprises focused on niche markets particularly BoP markets or where customers were not customed to paying for goods or services that were previously free or subsidized by government; lack of a centralized organization to

promote the needs of social enterprises was also found to be a constraint; and, sector specific constraints that tended to be more severe to social enterprises in general.

The literature aforementioned suggests that lack of familiarity with social enterprises was a constraint to the growth of social enterprises as it inhibited access to government, private and public support.

2.3.3 Policy Incentives for social enterprises

Tremblay (2010) observed that the policy domains for social enterprises presented tools for the growth of social enterprises, namely: financial policies, investment funds, taxation policies, knowledge sharing and business support, and access to markets and social procurement.

2.3.3.1 Financial policies

Karaphilis, Asimakos, and Moore (2012) illustrated that enabling government financial policies such as creation of patient capital instruments which include direct government grants or subsidies; or indirect involvement attracted investment through financial institutions including conventional banks, credit unions, financial co-operatives and mutual societies as well as individual investors. Social impact investment programs provided capital and increased liquidity for intermediary social enterprises thus encouraging investments in the sector.

Tremblay (2010) found that the public sector in Canada provided systematic financial support to address specific policy priorities for example, the co-operatives in Québec and Saskatchewan managed medical care, community health care and ambulance services; the social economy investment funds in Québec enabled The Investissement Québec to offer financing and support to all Social Economy enterprises and non-profits; and, in British Columbia, the Enterprising Non-Profits Program provided matching grants to non-profit organizations interested in starting or expanding revenue-generating enterprises as a means of diversifying their funding base, creating employment or training.

The British Council (2012) reported that the British government had created opportunities for social enterprises to access capital and diversify forms of investments. Through the Social Enterprise Action Plan approximately £315 million was mobilized to support the sector of which

£215 million was used to build capacity for social enterprises to provide public services, and £10 million was used to establish venture capital funds.

2.3.3.2 Investments funds

The International Labour Organization (2016) asserted that there had been a global increase in impact investing, for instance in South Africa funds that specifically target financial and social returns had emerged. In addition, intermediary organizations like business incubators and accelerators sought innovative social enterprises with the potential to scale and provide technical assistance and appropriate investments. The report however stated that these efforts were mainly sporadic and unable to attract sustainable investment.

Tremblay (2010) noted that the *Community Reinvestment Act, 1977* (CRA) obliged banks in the United States by way of enforcement to invest in community initiatives, and the New Markets Tax Credit Program launched in 2000 created tax incentives for private investors thus providing significant capital for social enterprises.

2.3.3.3 Taxation policies

Tremblay (2010) observed that social enterprises in the Western European Union enjoyed specific tax treatment through the four main legal forms taken, for instance the Community Investment Tax Relief was a tax credit available to a company or individual investing for at least five years in an accredited Community Development Finance Institution. Countries which passed new legislation or modified existing laws to strengthen social enterprises included: Spain with its NPO taxation system, Italy with the ONLUS act, Germany with the Social Law Code; Act of 2003 in Finland, Act of 2004 in Lithuania and Act 118/2005 in Italy specific to social enterprises facilitated the emerging 'New Social Economy'. In Canada, the Quebec government recognized social enterprise in policy through provision of tax credits to investments in agricultural and employee-owned co-operatives.

2.3.3.4 Knowledge share and business support

British Council (2012) report found that the social enterprises sector in the UK was promoted and supported in scaling up its activities through capacity building, strengthening networks and

expanding their model using the licensing approach. The government set up mediums to promote research on the impact of social enterprises, this continued to strengthen the social enterprise culture and subsequently the establishment and development of social enterprises. Through enterprise mapping, the government identified sectors that social enterprises could best contribute to, for example the health sector, business development in disadvantaged areas, community development and prisoner rehabilitation. The government-led action plan provided for financial management courses and facilitated opportunities for cooperation between itself and social enterprises. The report further noted that the British government committed £6 million to business development, £6 million to building consultative skills and providing intensive support and £8 million to support modernization of social enterprises in times of crisis.

Tremblay (2010) noted that the Québec government established an agency Comité sectoriel de la main-d'oeuvre de l'économie which provided training and needs analysis for the social enterprise sector in addition to tracking the employment creation progress and enterprise development.

Everett (2009) found that through institutions, there was increased recognition of social enterprises which increased their value to the local economy. An enabling and supportive environment created a strong social enterprise culture, for instance in the UK the Social Economy Network with a growing membership of over one hundred members became a key institution in driving the implementation of the social enterprise strategy. It provided a united and representative voice for the sector as it engaged with government in policy development and other stakeholders in contributing to socio-economic development.

2.3.3.5 Access to markets and social procurement

Tremblay (2010) found that procurement also known as purchasing, public service delivery and frontline services referred to the ways in which the public sector obtains goods and services. Within the context of social enterprises, Tremblay observed that there is an emerging model in purchasing and procurement which blended the financial return on investment and social impact decisions traditionally held as separate and non-intersecting. For instance, in the EU the National Procurement Strategy called on the use of procurement to deliver socio-economic and environmental objectives set out in the community plan; encouraged existing and new suppliers to enter a new market by working with the voluntary or community sector; and, diversified

competitive sources of supply from small businesses, ethnic minority businesses, social enterprises and community organizations.

The International Labour Organization (2016) reported that access to markets was a far more pressing concern than access to finance as it guaranteed growth of enterprises. The lack of access to markets was a major constraint to the growth of social enterprises, provincial governments in South Africa established targets for a certain level of procurement spending to be directed to SMEs. Everett (2009) portended that the importance of public procurement was greater than direct funding through grants. Tremblay (2010) found that the incubation project by Genesis Social Enterprise Center invested £160,000 to set up five social enterprises which secured £1.6 million contracts from the public sector while operating in diverse fields and creating quality inclusive employment. In Canada, the Social Purchasing Portal, a web-based information resource promoted and expanded sales opportunities for social enterprises and social purchasing.

In Germany, there was concern by policy makers who held the view that social public procurement was not an appropriate instrument due to the threat to transparency and corruption. To overcome this possibility, public procurement was promoted through the splitting of contracts into lots allowing social enterprises to bid fairly and, contract conditions requiring main contractors to include social enterprises as sub-contractors. Similarly, in Australia, the Finance and Administration's Commonwealth Guidelines enabled SMEs to engage in fair competition for government business. Social coalitions enabled enterprises to partner with government thus providing opportunities for socio-economic participation by diverse minorities and communities (Tremblay, 2010).

2.3.4 Measures of Growth of social enterprises

The measures of growth of social enterprises detailed social enterprises engaging in production and/or provision of welfare goods and services at a fee; limited in profit distribution; adopting a financial model that was sustainable as resources were dependent on a significant level of economic risk from the efforts of its members; and, enterprise turnover and surplus (OECD, Undated; British Council, 2017).

British Council (2017) report found that 85% of social enterprises in Kenya made a financial surplus, with 69% of the surplus being ploughed back for growth and development activities, 13% was spent towards financing third party social and environmental activities, 7% was set aside for emergency reserves, 6% rewarded staff and beneficiaries, and 5% was shared as profits among shareholders and owners.

2.3.5 Social Enterprises: The Kenyan context

World Bank Group (2017) observed that there was generally a hands-off policy with no specific registration category for social enterprises in Kenya. In the absence of a social enterprise specific policy framework, social enterprises operate under the provisions of the *Public Benefits Organizations Act, 2013* or *The Company's Act, 2015*.

2.3.5.1 Public Benefits Organizations Act, 2013

Social enterprises registered as not for profits as per the *Public Benefits Organizations Act, 2013*. The provisions of the PBO Act provided for a legal, regulatory and institutional framework for non-profits. The Act focuses on issues of registration, governance, revenue generation, self-regulation, access to information and training for PBOs to contribute to the policy processes and coordination mechanisms including hybrid forms of organizations. The Act enabled PBOs to engage in issues of public interest including the formulation of policies or activities of the state and/or its officers.

PBOs derived benefits and incentives such as: tax exemption on donations or grants, income received from the active conduct of legal income-generating activities and wholly dedicated to support the public benefit purposes for which the organization was established; tax exemptions on interest and dividends on investments and gains earned on assets, stamp duty and court fees; preferential treatment for VAT and custom duties for certain imported goods or services used to further public benefit; exemption from employment tax, preferences and special tax incentives for donations to form endowments; government financing for PBOs through budget subsidies, grants for specific purposes and contracts to perform certain works; preferential treatment in public procurement procedures and contract bidding. The rules on registering as a not-for-profit entity were increasingly tightened, which partially explains the low rate of 14% of social enterprises

registered as non-profits under the *Public Benefits Organizations Act, 2013*. In addition, registering as a non-profit undermined the commercial viability and financial sustainability of social enterprises (British Council, 2017).

2.3.5.2 The Company's Act, 2015

The *Company's Act, 2015* is the main legal instrument set for doing business in Kenya by ensuring that processes are not only efficient and effective but also corporate governance principles are instituted. The British Council (2017) report suggested that 23% of social enterprises preferred the Limited Liability Company (LLC) structure. This legal form enabled enterprises to scale their activities as opposed to Non-Profits, for example an LLC structure enabled social enterprises to list on the Nairobi Stock Exchange through the Growth Enterprise Market Segment (GEMS) tailored for smaller companies. An LLC structure enabled an enterprise to live beyond its owners, founders and allowed for social enterprises to be passed down the family line given that 80% of Kenyan businesses are family-owned. However, the process of registering an LLC was complex not mentioning the burdensome double taxation that demanded an obligation of 30% corporate income tax as well as a 5% dividend tax. Given the social or environmental mission of social enterprises, double tax obligations impeded the growth of social enterprises.

Sole proprietorships accounted for 20% of social enterprises as they tended to be entities with permanent staff of more than one and less than ten. Other legal forms used by social enterprises were: unspecified legal forms at 14%, Not yet registered or in the process of registration at 10%, partnerships at 9%, Low Profit Limited Liability Companies at 2%, Flexible or Social Purpose Corporations at 2%; Corporations at 2%, Trustees at 1% and Benefit Corporations at 1% (British Council, 2017).

2.3.5.3 Other Policy Frameworks

Kenya Vision 2030 is a government strategy currently being implemented by the Vision 2030 secretariat. It was founded on three key principles, that is, Economic, Social and Political Governance to ensure the country maintains 10% growth rate per year. Social enterprises via their potential to create jobs and resolve social challenges were considered critical to attaining this vision (British Council, 2017).

The Cooperative Societies Act, 1968 was an enterprise and NGO legislation which stipulated that any society which has the objective of promoting the economic interest of its members in accordance with cooperative principles may be registered with or without limited liability. Five percent of the social enterprises that were surveyed by the British Council (2017) study were registered as societies or cooperative societies.

According to British Council (2017) Access to Government Procurement Opportunities (AGPO) policy came up as a presidential directive in 2013 to ensure that 30% of all government contracts were earmarked for youth (aged 18 to 35), women and those with disabilities. The report found that youth led social enterprises accounted for 37% of overall social enterprises in the country which portends that the AGPO policy directive had significant impact on the growth of social enterprises.

The Kenya Slum Upgrading Program (KENSUP) was a government strategy which sought to improve the living standards of Kenyans by 2020. KENSUP was a mega USD 13 billion project consisting of community projects, town planning, housing, waste management, peace-building and HIV/AIDS care. KENSUP presented opportunities for social enterprises operating within the health and social care space (British Council, 2017).

Under the Big 4 Agenda, the Biashara Fund was a newly enacted fund instituted in 2018 under the Public Finance Management (Biashara Kenya Fund) Regulations, 2018 that merged the Uwezo Fund, Youth Enterprise Development Fund, Women Enterprise Development Fund, and Micro and Small Enterprise Authority. The purpose of the merger was to streamline financing for sufficient scale, scope and resources for Kenya's economic development. Biashara fund has the potential for social enterprises especially those that suffer from insufficient financial capacity, to emerge, scale and grow (Office of the President, Republic of Kenya, 2018). However, the disbursement of funds separately to the Uwezo Fund, Youth Enterprise Development Fund and Women Enterprise Development Fund in the 2019/20 Financial Year (Kenya National Bureau of Statistics, 2020) suggested that the Biashara Fund is yet to be created.

To conclude, the current frameworks described policy for economic investments, regulation and governance mechanisms under the *Company's Act, 2015* and regulatory frameworks for NPO's under the *Public Benefits Organization's Act, 2013*. Other instruments intended to provide an

enabling environment for social enterprises were also discussed, they are however not social enterprise sector specific and their efficacy on the growth of social enterprises remains largely unknown.

2.4 Research Gap

Despite the rapid growth of the sector in Kenya estimated at 44,000 by the British Council (2017), the literature review revealed that there was no specific policy framework relating to social enterprises in Kenya. Given this absence, it was not known how the current policy structures impact the growth of social enterprises. Studies by British Council (2015) showed that in countries with social enterprise specific legislation such as The United Kingdom, the sector grew and numerous benefits accrued to the enterprises. Such benefits included: access to public financing and private investment funds, availability and access to knowledge share and business support opportunities, access to markets, preferential taxation and fiscal mechanisms that enabled social enterprises to grow. In Kenya where such a policy framework did not exist, the challenges that affected the growth of social enterprises and the opportunities available to spur the growth of social enterprises from a policy perspective remained largely unexplored.

As an important and growing sector of the economy, there was value in establishing the extent to which the current policy frameworks provided an enabling environment for social enterprise growth. The findings were useful in making policy recommendations aimed at establishing sector-specific policies for social enterprises. The study also sought to advance the academic debate on social entrepreneurship within the Kenyan and African context.

2.5 Conceptual Framework

Adom, Joe and Hussein (2018) found that a conceptual framework enabled researchers to specify and define concepts of a study, the key variables and presumed relationships between them. Based on the literature reviewed, the following propositions were made:

1. *Policy frameworks provide an enabling environment for the growth of social enterprises.*
The study considered policy frameworks as current legal forms and structures in which social enterprises operate. The structures were evaluated to determine if the following domains enabled the growth of social enterprises: public financial policies, private

investment funds, taxation mechanisms, knowledge share and business support, and, access to markets.

2. *Social enterprises face policy challenges that affect their growth.*

The study considered the challenges social enterprises face in relation to the policy domains under study.

3. *Changes in the policy framework provide opportunities for social enterprises to grow.*

Growth in this study was limited to the financial sustainability of social enterprises based on an enabling policy framework.



2.5.1 Measurement of the Study Variables

From the literature review and conceptual framework, the study variables were operationalized in Table 2.3.

Table 2. 3: Operationalization of the study variables

Proposition	Variable	How it will be measured	Supporting sources	Measurement Questions
i. <i>Policy frameworks provide an enabling environment for the growth of social enterprises.</i>	i. Policy frameworks	<ul style="list-style-type: none"> • Identify the support structures under the current frameworks on social enterprises: <ul style="list-style-type: none"> ○ Public Finance instruments ○ Private Investments funds ○ Taxation mechanism ○ Knowledge share and business support ○ Access to markets 	(World Bank Group, 2017)	<ol style="list-style-type: none"> 1. How does the legal structure your organization is registered under enable access to public finance instruments? 2. How does the legal structure your organization is registered under enable access to private investment funds? 3. How does the legal structure your organization is registered under enable tax exemptions or breaks? 4. How does your organization receive support in accessing knowledge share and business support 5. How does your organization receive support in accessing markets

Source: Researcher (2020)

Table 2. 3 (contd): Operationalization of the study variables

Proposition	Variable	How it will be measured	Supporting sources	Measurement Questions
ii. <i>Social enterprises face policy challenges that affect their growth</i>	ii. Policy domains	<ul style="list-style-type: none"> • Discuss the challenges affecting the growth of social enterprises: <ul style="list-style-type: none"> ○ Public Finance instruments ○ Private Investments funds ○ Taxation mechanism ○ Knowledge share and business support ○ Access to markets 	(British Council, 2015)	<ol style="list-style-type: none"> 1. Describe the challenges your organization faces in accessing public finance instruments 2. Describe the challenges your organization faces in accessing private investment funds 3. Describe the challenges your organization faces with the current tax mechanism 4. Describe the challenges your organization faces in accessing knowledge share and business support 5. Describe the challenges your organization faces in accessing markets

Source: Researcher (2020)

Table 2. 3 (contd): Operationalization of the study variables

Proposition	Variable	How it will be measured	Supporting sources	Measurement Questions
iii. <i>Changes in the policy framework provide opportunities for social enterprises to grow</i>	iii. Opportunities for policy frameworks	<ul style="list-style-type: none"> • Discuss the policy interventions that encourage: <ul style="list-style-type: none"> ○ Public Finance instruments ○ Private Investments funds ○ Taxation mechanism ○ Knowledge share and business support ○ Access to markets 	(British Council, 2015) (Steinman, 2010)	1. Describe the policy interventions that you would recommend for the growth of social enterprises in Kenya
	iv. Growth	<ul style="list-style-type: none"> • Ability for social enterprises to cover its operational costs and/or generate surplus/profits 	(British Council, 2017)	How are you able to generate surplus/profits to cover your operational costs?

Source: Researcher (2020)

CHAPTER 3

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research design, population and sampling techniques, data collection methods, data analysis approaches, research qualities and ethical issues considered in the study.

3.2 Research Design

Mohajan (2017) posited that research design constituted the conceptual structure within which research is conducted that is the blueprint for the collection, measurement and analysis of data to answer the research questions.

The research design for this study adopts the social constructionism paradigm, which proposes that society is to be viewed as a product made by humans and humans by society (Steinman, 2010). Social reality is a product of the perceptions and consequent actions of people built up over time through shared history, experiences and communication. The study sought to understand the point of view of those who lived it (Holtze, 2014; Saunders, Lewis, & Thornhill, 2016). Data was therefore collected from these categories of respondents: social enterprise founders, investors, senior and mid-level executives, academia, and representatives of social enterprise associations

An exploratory research design was adopted for this study. According to Gentles, et al (2015) an exploratory design is qualitative in nature and lies in selecting information-rich cases which yield in-depth understanding of the inquiry at hand. The qualitative research design was considered as the most appropriate one for answering ‘how’ questions (Saunders, Lewis, & Thornhill, 2016). The study sought to explain *how* existing policy frameworks influenced the growth of social enterprises, *how* policy challenges affected the growth of social enterprises, and *how* policy interventions could provide opportunities for growth of social enterprises in Kenya.

3.3 Population and Sampling

3.3.1 Population

Kumar (2011) found that population was defined as a group of individuals, objects or items that share similarities. The British Council (2017) study estimated that there were 44,000 social enterprises in Kenya, constituting the population of this study. The study found that 60% of

social enterprises were headquartered in Nairobi making the geographical scope to Nairobi sufficient for this study.

3.3.2 Sampling

According to Gentles, et al (2015) sampling broadly refers to the selection of data to address research objectives. Purposive sampling technique (non-probability sampling) was used to focus on information rich respondents who provided deeper insights to the study (Palys, 2008). This technique was preferred as it was convenient and best answered the questions of this study.

Gentles, et al (2015) posited that qualitative samples were generally impossible to specify in advance of a study. Saunders, Lewis, and Thornhill (2016) further asserted that the issue of sample size for non-probability sampling was ambiguous. To address this issue, Saunders (2012) suggested a minimum sample size for qualitative studies that this study’s researcher adopted for the in-depth interviews as shown in Table 3.1.

Table 3. 1: Minimum non-probability sample size

Nature of Study	Minimum Sample Size
Semi-structured/In-depth interviews	5-25
Ethnographic	35-36
Grounded Theory	20-35
Considering a homogeneous population	4-12
Considering a heterogeneous population	12-30

Source: Saunders (2012)

The study purposefully identified nine key organizations who had an impact as social enterprises. They constituted the categories of respondents which included social enterprise forums and networks; tertiary education, research and ecosystem support organizations; incubators, accelerators and workspaces; impact investors and financiers; and, chamber of commerce, industry associations and business advisory.

3.4 Data Collection Methods

The semi-structured interview guide on *Appendix IV* was administered in person to the key informants. The interview themes relating to the variables under study were derived from the literature review. Responses were recorded as notes and with the consent of respondents, audio-recorded (Saunders, Lewis, & Thornhill, 2016).

In order to collect primary data for the first objective, the key informants were asked to describe how the current frameworks enabled social enterprises to access public finance instruments, private investment funds, taxation mechanism, knowledge share and business support, and markets.

In order to collect primary data for the second objective, the key informants were asked to describe the challenges social enterprises faced with the public finance instruments, private investment funds, taxation mechanism, business support and knowledge share, and access to markets.

In order to collect data for the third objective, the key informants were asked to suggest the financial and non-financial policy interventions that would provide opportunities for growth of social enterprises.

In order to measure the growth of social enterprises, the key informants were asked questions relating to their financial sustainability.

Data was collected until the saturation point was reached where there were no new perspectives emerging (Gentles et al, 2015; Mohajan, 2017). This point was reached with nine respondents as detailed on Chapter 4.

According to Kawulich (2015) triangulation may be achieved by using a variety of data collection methods and sources, this study achieved this by using primary data and literature review sources.

3.5 Data Analysis

Mohajan (2017) posited that data without being organized, processed or analysed were raw facts without meaning. Kawulich (2015) found that data analysis is the process a researcher uses to reduce and interpret data to a story.

According to Saunders, Lewis and Thornhill (2016) content analysis is a technique that pre-determines codes before data collection begins, this was achieved by creating anchor codes from the study objectives. Kawulich (2015) further described content analysis as a technique that entailed data transcription, coding (the creation and application of codes to text), creating a table of analysis by variables, conducting non-statistical analysis of the matrix and using inductive reasoning to draw results and conclusions from the emerging patterns.

Saunders, Lewis and Thornhill (2016) described thematic analysis as a process of searching for themes or patterns related to the research question. It entailed a systematic and flexible approach to analyze large or small data sets leading to rich theories, descriptions and explanations. Thematic analysis entailed data familiarization through transcription to identify recurring themes and meanings; and, coding data with similar meanings.

In the context of this study, content analysis was conducted by first transcribing data from the raw data collected from participants responses. Secondly, a table matrix was organized and labelled into seven columns: anchor code, data transcriptions, code, frequency of codes, group codes, code category and generated themes. The columns were then sectioned into three rows, each with the research propositions as the anchor codes (piori code). The second columns had the transcribed data following the responses as per the research propositions; while the third column had induction (researcher's) codes extracted from the transcribed data.

Using thematic analysis, the frequency of similar codes were classified into the fourth column, then further grouped together into the fifth column labelled as group code. The group codes were then categorized into a sixth column labelled as code category; using inductive reasoning, the relationship between these codes was further examined to generate themes which addressed the research questions. This process was iterative until sufficient themes and patterns emerged from the data.

3.6 Research Quality

Research quality was achieved through three criteria: reliability, validity and practicality. Reliability relates to the extent to which the measures are consistent, credible, trustworthy and reproducible (Pearl, 2013). This study achieved this by utilizing the research questions derived from previous studies by Steinman (2010), British Council (2017) and UNCTAD (2012).

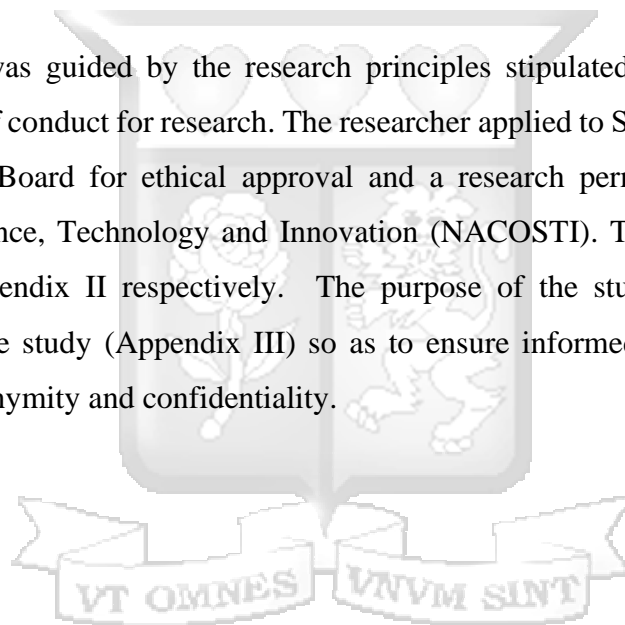
Internal validity refers to the extent to which research instruments measure what it intends to measure. The use of the interview guide enhanced the internal validity through triangulation (Eller, Gerber, & Robinson, 2018), probing meanings and exploring responses from various angles (Saunders, Lewis, & Thornhill, 2016). External validity refers to the extent to which research findings can be generalized to other similar contexts, this was enhanced through the literature review sources referenced in this study and the adoption of research instruments from similar contexts (Steinman, 2010).

Practicality relates to the economy, convenience and interpretability of measurements by the respondents (Cooper & Schindler, 2013). The length of the data collection instruments, ease of administration and clarity was pre-determined via pilot test. Useful feedback from the proposal examination panel was incorporated in the interview guide, this facilitated interpretation from the respondents.

Finally, the researcher purposefully selected one pilot respondent to test the clarity of the interview guide. Upon completion, the interview guide was updated with feedback on language clarity and question flow, the respondent organization represented in the pilot was not included in the final study.

3.7 Ethical Considerations

The research study was guided by the research principles stipulated under the University guidelines and code of conduct for research. The researcher applied to Strathmore University's Institutional Review Board for ethical approval and a research permit from the National Commission for Science, Technology and Innovation (NACOSTI). These may be found in Appendix I and Appendix II respectively. The purpose of the study was articulated to participants before the study (Appendix III) so as to ensure informed consent, the right to decline response, anonymity and confidentiality.



CHAPTER 4

PRESENTATION OF RESEARCH FINDINGS

4.1 Introduction

This chapter systematically presents the data analysis, results and discusses the findings of this study which sort to assess the efficacy of the public policy frameworks on the growth of social enterprises in Kenya.

4.2 Data Analysis

In order to analyze the data, the research propositions were first summarized and labelled as the anchor code (piori code). Thereafter, codes emanating from the respondents (in vivo codes) and researcher's induction codes were extracted from the transcribed data. The codes were grouped and compiled into code categories which were further examined to generate themes which addressed the research questions.

Content analysis was conducted by first transcribing data from the raw data collected from participants responses. Secondly, a table matrix was organized and labelled into seven columns: anchor code, data transcription, induction codes, frequency of codes, group codes, code category and generated themes. The columns were then sectioned into three rows, each with the research propositions as the anchor codes (piori code). The second column had the transcribed data following the responses as per the research questions; while the third column had induction (researcher's) codes extracted from the transcribed data.

Using thematic analysis, the similar codes were tabulated to generate their frequency into the fourth column, then further grouped together into the fifth column labelled as group code. The group codes were then categorized into a sixth column labelled as code category; using inductive reasoning, the relationship between these codes was further examined to generate themes which addressed the research questions. This process was iterative until sufficient themes and patterns emerged from the data.

4.3 Response Rate

The researcher purposefully considered a sample size that met the qualitative methodology sample size threshold proposed by Saunders (2012). Data was collected from nine key informants yielding a saturation point deemed sufficient to achieve the objectives of this study. The nine organizations consisted of two social enterprise associations' bodies and seven social

enterprises. The key informant interviews took place via one-on-one interviews at the respondents preferred location or on phone, averaging forty five minutes to one hour per interview.

4.4 Demographic Characteristics of Respondents

In analyzing the demographic data collected from the respondents, the data revealed that seven organizations were registered under the provisions of the Companies Act, 2015 and two were registered under the PBO Act, 2013. The findings revealed that all the respondent organizations identified as micro or small enterprises with four registered as companies limited by guarantee; two registered as limited companies; two registered under the Cooperatives Act as societies and one registered as an NGO.

Key informant interviews were conducted amongst the social enterprise founders, board members, senior management and mid-level management of the participating organizations. The study revealed the social enterprises have been in operation for not more than ten years. The primary area of business for the participating organizations was found to be in education and training, waste management and recycling, manufacturing, business advisory and advocacy. Table 4.1 provides a summary of the demographic data.



Table 4. 1: Summary of the demographic data

Organization	Duration of Existence (Years)	Size (No. of employees)	Sector/Area	Geographical scope
R001	3	8	Industry associations and business advisory	Kenya
R002	8	Undisclosed	Waste Management and Recycling	Nairobi
R003	6	8	Industry associations and business advisory	Kenya
R004	10	5	Business advisory	East Africa
R005	2	4	Waste Management and Manufacturing	Kenya
R006	7	12	Waste Management and Manufacturing	Kenya
R007	8	4	Education	Kenya and Ivory Coast
R008	2	12	Industry associations and business advisory	Kenya
R009	3	Undisclosed	Manufacturing	Global

Source: Researcher, 2020

4.5 Analysis of the growth of social enterprises

In analyzing the growth of social enterprises, their ability to cover their costs and/or generate surplus through provision of a good or service at a fee was considered. Table 4.2 presents the emerging themes from the respondents' feedback.

Table 4. 2: Growth of social enterprises

Theme	Respondent	Examples of respondents' comments
<p>Financial sustainability: Defined as the ability to sustain sufficient cash flow to maintain a core operational capacity, implement strategic plans in a reasonably timely manner and invest sufficiently in opening up new revenue streams to be resilient to the loss of one or several revenue streams (Parker, Undated).</p>	R002, R007, R008, R009	<p><i>“Yes, we have been profitable for the last two years but it took us six years to attain profitability.”</i></p> <p><i>“Our model is financially stable, we are able to charge fees and partner with other businesses on a Business to Business (B2B) model”</i></p> <p><i>“Yes. At the startup phase we crowd funded through private sources but now we are able to sustain our operations through sale of our products”</i></p> <p><i>“We have won foreign grants to run our projects, which we also complement with projects consultancies and membership fees to cover our operational costs and generate surplus”</i></p>
<p>Not financially sustainable</p>	R001, R003, R004, R005, R006	<p><i>“It is our goal in the next three years to be financially sustainable. It seems to be taking a while.”</i></p> <p><i>“we highly rely on grants to supplement our revenues; our services are not yet financially self-sustaining”</i></p> <p><i>“We are yet to break even. We have a parent holding company that is funding our activities”</i></p> <p><i>“No, we subsidize our income from out of country donations. Our business provides trainings at subsidized costs”</i></p> <p><i>“we sustain our enterprise via grants, our funding has come from competitions, convertible loans from foundations and embassies that support social enterprises”</i></p> <p><i>“Let me start by saying that in terms of the growth of our members, business has not been easy in the past few years, like last year. It has been very tough. We have members who almost closed down business. And this is not only limited to social enterprises, it is general”</i></p>

Source: Researcher, 2020

The study found that social enterprises engaged in exchange of goods or services at a fee but struggled with financial sustainability in the formative years to cover their operational costs or generate surplus. It revealed that social enterprises were dependent on foreign grant funding and donations to supplement their income during the formative years which were considered to be up to five years. In addition, it found that the business environment in general had been difficult as a result of macro-economic challenges which also affected the growth of social enterprises.

4.6 Current policy frameworks and growth of social enterprises

Efficient policy frameworks provide an enabling environment for the growth of social enterprises. The first objective of the study was to examine the influence of the current policy frameworks on the growth of social enterprises in Kenya. In order to assess this objective, the analysis was applied on the five measures that were considered during the study that is access to: public finance instruments, private investment funds, taxation mechanisms, knowledge share and business support, and access to markets.

4.6.1 Access to public finance instruments

In analyzing how the current policy frameworks provide public finance instruments that support the growth of social enterprises, seven codes were extracted from the transcribed data presented on Table 4.3.



Table 4. 3 : Access to public finance instruments

Proposition: <i>Policy frameworks provide an enabling environment for the growth of social enterprises.</i>		
Theme	Codes	Examples
1. Availability of public finance instruments	1. Not received public funding 2. There are no specific instruments from local or national governments	<i>“No, we have not received any funding from the public sector”</i> <i>“There are no specific funding instruments from local or national governments”</i>
2. Access to public finance instruments	1. Access to government funding 2. Access funds from external government agencies	<i>“We haven’t tried getting funding from the government because, why waste your energy if you know you are not going to get the funding”</i> <i>“Our co-founder is not a Kenyan citizen, which made our enterprise while majority Kenyan-owned unable to access public finance instruments”</i> <i>“We were invited to bid under the Ministry of Trade and Industry, we were eligible to receive funds from government...we worked directly with an official from government”</i> <i>“We have collaborated and received funds from embassies”</i>
3. Awareness on existing public finance instruments	1. Lack of awareness on the existence of finance instruments	<i>“We are neither aware nor is it easy for us to access public finance instruments”</i> <i>“I am not even aware of what public finance instruments are...I am aware there is some level of funding for these youth and women groups. For improved government procurement you need to have like 30% youth but I’m not aware of any direct funding from government to businesses”</i> <i>“We do not know whether our organization qualifies”</i> <i>“I am not aware of government giving any grants to businesses”</i>
4. Appropriateness of public finance instruments	1. Complex public finance process 2. Inappropriate public finance structures	<i>“It is difficult to get public funding because the process is tedious and the organization is registered abroad”</i> <i>“It was difficult to align with the requirement of forming groups to apply for funding, in addition the tickets are pretty small for our business.”</i>

Source: Researcher, 2020

From the themes generated on Table 4.3, it emerged that neither the Company Act, 2015 nor the PBO Act, 2013 have public financing mechanisms to support social enterprises. Lack of availability, awareness, access and appropriateness of public finance instruments were common themes that emerged from the data. The data revealed that there were general

invitations to bid which some social enterprises and start-ups had considered, for instance R007 was able to apply for such opportunities by working directly with an official from government. Interestingly, funding support for social enterprises was largely sourced from foreign government agencies.

4.6.2 Access to private investment funds

In analyzing how the current policy frameworks provide support for social enterprises to access private investment funds, ten codes were extracted from the transcribed data as summarized on Table 4.4:

Table 4. 4: Access to private investment funds

Proposition: <i>Policy frameworks provide an enabling environment for the growth of social enterprises.</i>		
Theme	Codes	Examples
1. Availability of private investment funds	1. Availability of impact Investment Funds 2. Equity, stock options 3. Personal savings 4. Informal sources 5. Design competitions and pitch prize money 6. Grants 7. Convertible loans 8. Fundraising	<i>“Private investors and grant funds prefer to put their money in something that is already functioning”</i> <i>“We obtained private investments from mixed sources such as our own savings, angel investors, online crowd funding, equity investors and an informal network of friends”</i> <i>“We accessed funds from design competition and pitch prize money. We also sourced grants that became convertible loans derived partly from government (foreign) money (lottery) that supports social enterprises.”</i> <i>“Our funding is through out of country sources”</i>
2. Access to private investment funds	1. Access to private investment funds 2. Access to grants	<i>“We accessed our financing from a varied pool of investors such as venture capitalists, grant funding, equity, stock options, debt capital and long-term debt”</i> <i>“Yes, we are able to access that but we are structured in such a way that we have partnerships so we have actually never had to go by credit or venture capital”</i> <i>“We access foreign investments grants to run our activities within a bid consortium.”</i>

Source: Researcher, 2020

From the themes generated on Table 4.4, it was found that social enterprises could access private investment funds from mixed sources. These sources included: impact investment funds, equity and stock options, personal savings, loans, informal networks, grants and design competitions. Through the PBO framework, social enterprises registered as NGOs obtained funding from private individuals and fundraising. Through the Company’s Act framework, social enterprises registered as companies accessed the varied private investment funds.

Respondent R008 revealed that, “*we access private investment funds from design competition and pitch prize money. We also sourced grants that became convertible loans derived partly from government (foreign) money (lottery) that supports social enterprises.*” R008 reiterated that, “*we access foreign investments grants to run our activities within a bid consortium.*”

4.6.3 Current Tax Mechanism

In analyzing how the current tax mechanism provided support or undermined the growth of social enterprises, four codes were extracted from the transcribed data presented on Table 4.5.



Table 4. 5: Current tax mechanisms

Proposition: <i>Policy frameworks provide an enabling environment for the growth of social enterprises.</i>		
Theme	Codes	Examples
1. Tax breaks or exemptions.	<p>1. Compliance to multi-level taxes</p> <p>2. Tax breaks on grants</p> <p>3. New tax breaks for start ups</p>	<p><i>“We comply with all tax obligations as a company like corporate tax, all taxes are payable”</i></p> <p><i>“Currently we are just paying tax like any other. Because we give consultancies and when we pay we have to pay VAT”</i></p> <p><i>“On the grants we receive, we don’t pay taxes”</i></p> <p><i>“Tax ecosystem is friendly for start-ups, no need to pay City Council of Nairobi fees for first two years as at 2020”</i></p>
2. Tax breaks available for special economic zones	1. Tax breaks in special economic zones	<p><i>“There is only one tax break that was introduced last year when they read the budget. Tax break on importing recycling machinery”</i></p> <p><i>“Our business is in the Export Processing Zone and so we are able to get a lot of tax breaks. The zone is incentivized by the government so we don’t have any VAT, we don’t have import duty on anything. There is also supposed to be an electricity rebate but we don’t how to access it as it has not been implemented yet. They have also gazetted payment of experts work license within that zone especially within textile industry to be 10,000 shillings but this has not been implemented yet. This was done two years ago.”</i></p> <p><i>“I’m aware if you invest a certain amount of money outside Nairobi or Mombasa you get a tax shield equivalent to the money you have invested. Now the one that is new although no one knows how it’s measured is if you have a recycling business you pay half the taxes on your profits. That’s in the current finance bill but those are all tax incentives”</i></p>

Source: Researcher, 2020

From the themes generated on Table 4.5, a common view among the respondents was that social enterprises that were registered under the Company Act complied with various tax instruments notably VAT, Corporate Taxes, Small Business Taxes, local government and sectoral level business licensing, PAYE, and income taxes. The study found a recent directive from the Office of the Governor of City Council of Nairobi had waived the single business permit for two years for new businesses founded and run by youth and people with disabilities. The findings revealed that social enterprises nested within the EPZ area enjoyed significant tax exemptions as part of the EPZ Act framework. Social enterprises operating as NGOs or under

the Limited by Guarantee frameworks received tax waivers on grants. There were no provisions under the current Company Act framework for any preferential tax breaks or exemptions.

4.6.4 Knowledge share and business support

In analyzing how the current policy frameworks provide knowledge share and business support for social enterprises, seven codes were extracted from the transcribed data presented on Table 4.6:

Table 4. 6: Knowledge share and business support

Proposition: <i>Policy frameworks provide an enabling environment for the growth of social enterprises.</i>		
Theme	Codes	Examples
1. Emergence of positive engagement and networking with government ministry	1. Engagement with government is positive 2. Government or Ministerial networking exists	<i>“Government seems interested as engagement is positive. There is a good level of engagement...government is very positive about social enterprises in Kenya”</i> <i>“Government engagement and consultative workshops towards knowledge share is gradually emerging”</i>
2. Technical support is currently unstructured	1. Unstructured knowledge share and business support for social enterprises 2. Support based on individual networks	<i>“In terms of technical support...it is still not very structured whereby maybe government experts come to give us capacity”</i> <i>“We get a lot of support but is largely dependent with our relationship with individuals so sometimes you have to build trusting relationships from scratch if there is reshuffling in a particular institution”</i>
3. Knowledge share and business support is private led	1. Business support and knowledge share is private led	<i>“We received support from growth Africa incubator and acceleration mentorship program and E for Impact supported us in terms of space, legal and financial advisory”</i> <i>“Support is mostly private and external. We have been supported by SheTrades, METTA and SHONA, none from government”</i> <i>“I would say there is a lot of support but not from government. Kenya has a lot of incubators and office spaces that call themselves incubators so that they get more funding”</i> <i>“We have to pay for individual trainings”</i>

Source: Researcher, 2020

Table 4.6 (contd): Knowledge share and business support

Proposition: <i>Policy frameworks provide an enabling environment for the growth of social enterprises.</i>		
Theme	Codes	Examples
4. Awareness on available business support and knowledge share opportunities	1. No awareness on available opportunities	<i>“The organization has not sourced for this support as we are not aware of any available support from government or the public space”</i>
5. Availability of business support and knowledge share in special economic zones	1. Business support and knowledge share available in special economic zones	<i>“The EPZ has been really supportive. They have all the departments there it’s like a one-stop shop making it really easy for an investor to set up a business. Rent is like 6000 dollars per year which is really cheap compared to other industrial zones. They help a business to register, get VAT exemptions, legal support, import export license etc. They have their own power substation which ensures no power cuts. This is really important because even the smallest power cuts have serious implications for a business like ours. They are now allowing businesses to drill boreholes to avoid water shortages. Cheaper permits for experts, for a business like ours there is no expert in Kenya, we have to employ one for like 3 years then enhance knowledge transfer to Kenyans to also have local experts”</i> <i>“The government has been supportive with communication, they do newspaper adverts for us through ministry of environment and forestry, and they also do free radio communication even with vernacular radio stations”</i>

Source: Researcher, 2020

From the themes generated on Table 4.6, it was found that there was no policy provision for government-initiated knowledge share and business support for social enterprises under the current frameworks. Social enterprises within specialized economic zones like the EPZ were able to access varied knowledge share and business support opportunities from government for instance lower electricity costs, centralized licensing, reduced rental costs to mention a few.

While there was an emergence of positive engagement and networking with government ministries notably the Ministry of Trade and Industrialization, the knowledge share and business support for social enterprises came from private sources like incubators and acceleration mentorship programs who provided start-up social enterprises with space, legal and financial advisory during the formative phases.

4.6.5 Access to markets

In analyzing how the current policy frameworks support social enterprises to access markets, three codes were extracted from the transcribed data presented on Table 4.7:

Table 4. 7: Access to markets

Proposition: <i>Policy frameworks provide an enabling environment for the growth of social enterprises.</i>		
Theme	Codes	Examples
1. Priority procurement	1. No priority government procurement for social enterprises 2. Access to markets 3. Public service contracts is currently undocumented	<i>"We are not given any preference for procurement"</i> <i>"We have not dealt directly with government or any other government agencies to access markets. We deal with private partnerships"</i> <i>"We applied for the Kenya Industrial and Entrepreneurship Project (KIEPs), a Ksh. 50 million-tiered bid, and while we did not qualify on technical grounds, we had access"</i> <i>"We tried Access to Government Procurement Opportunities but we were not successful because of one foreign director. We are looking at how to get around it"</i> <i>"Small scale enterprises and women have benefitted from Access to Government Procurement Opportunities but not us. Access to markets from government is not something we are actively pursuing"</i> <i>"We don't have anything documented but there are people who get contracts with government, supplies etc.."</i>

Source: Researcher, 2020

From the themes generated on Table 4.7, the current frameworks did not have specific provisions for social enterprises to access public service contracts. Majority of the respondents cited that they were not aware of any opportunities for social enterprises to access public procurement. The opportunities available for public procurement were general under AGPO and cut across all sectors as some social enterprises were able to make bids for them. The data revealed that while AGPO had benefitted the youth, women and people living with disabilities, the program had locked out one social enterprise that had a foreign minority directorship. The data revealed that government procurement opportunities were not actively pursued by a majority of the social enterprises under the Company's Act or Public Benefits Organization's Act.

4.7 Challenges affecting the growth of social enterprises in Kenya

The second objective of the study was to assess the challenges affecting the growth of social enterprises in Kenya. In order to address this objective, the analysis was applied on the five

measures considered for this study that is: public finance instruments, private investments funds, taxation mechanisms, knowledge share and business support, and access to markets.

4.7.1 Challenges in accessing public finance instruments

In analyzing the challenges that social enterprises face in accessing public finance instruments, eight codes were extracted from the transcribed data presented on Table 4.8:



Table 4. 8: Challenges in accessing public finance instruments

Proposition: <i>Social enterprises faced policy challenges that affected their growth.</i>		
Theme	Codes	Examples
1. Lack of availability of public finance instruments	<p>1. Lack of public finances and funds</p> <p>2. Gap between financiers and social entrepreneurs</p> <p>3. Skepticism to funding start-up social enterprises</p>	<p><i>“If you ask about challenges for social enterprises, for me funding is one of the biggest, there is no impact investment fund created by government purposely for social enterprises”</i></p> <p><i>“We have entrepreneurs sitting in this corner with their hands open, where is the money?”</i></p> <p><i>“I know there are like three government financial institutions that occasionally do investment banking, but I don’t think they have invested in social businesses”</i></p> <p><i>“We have government, impact investors, banks, all these funders also saying, “where are the entrepreneurs?” so there is a big gap that exists between the funders/investors and entrepreneurs”</i></p> <p><i>“Government prefer to work with well-established entities or persons. They prefer proven business models, if you are a young or new company this is impossible to navigate”</i></p>
2. Lack of access to public finance instruments	<p>1. No access to available funds</p> <p>2. The process is bureaucratic and time consuming</p>	<p><i>“There a few who access these funds, Uwezo, the Youth Fund, but I can tell you many businesses are closing because those funds are not accessible”</i></p> <p><i>“We never received any response even after making inquiries within the government agency”</i></p> <p><i>“Government processes are long and should be simplified, payment processes are equally tedious”</i></p> <p><i>“Our co-founder is not a Kenyan citizen, which made our enterprise while majority Kenyan-owned unable to secure Access to Government Procurement Opportunities (AGPO). Public funding does not apply to foreign partnerships. The Industrial and Commercial Development Corporation never responded to our queries, it was not worth the effort”</i></p>
3. Lack of awareness on available public finance instruments	<p>1. Lack of awareness on the available public funds</p>	<p><i>“I am not aware of government giving any grants to businesses”</i></p> <p><i>“I am not even aware of what public finance instruments are. I am aware there is some level of funding for these youth and women groups and I think those ones are rightfully targeted at women and men...I’m not aware of any direct funding from government to businesses”</i></p>

Source: Researcher, 2020

Table 4.8 (contd): Challenges in accessing public finance instruments

Proposition: <i>Social enterprises faced policy challenges that affected their growth.</i>		
Theme	Codes	Examples
4. Lack of appropriate funding mechanisms	1. Inappropriate government financing mechanism	<i>“It was difficult to align with the funding structure which required that applicants form groups or associations that would guarantee access to the women and youth fund”</i>
	2. Ticket sizes are small	<i>“The ticket sizes are pretty small for our business and it was not worth the effort”</i>

Source: Researcher, 2020

From the themes generated on Table 4.8, social enterprises faced challenges of availability of public funds, awareness of the available funding opportunities, access to public financing and appropriateness of the funding opportunities to grow their organizations. For social enterprises which tried to access other specialized funds like Women Enterprise Fund, Youth Enterprise Fund or Uwezo Fund, these instruments were neither accessible nor appropriate given the design and structure of the fund which required formation of groups, group guarantees and inadequate funding amounts that did not have appropriate economic value. As respondent R002 stated, *“I would say the social enterprises have developed independent of government, not because of government.”* Respondents cited that government processes were bureaucratic, long and the payment processes equally tedious.

The findings further revealed that skepticism towards the organization model especially start-ups inhibited social enterprises in considering public finance instruments. The data further revealed that Kenyan companies with foreign co-founders were automatically disqualified from accessing any public finance instruments like AGPO.

4.7.2 Challenges in accessing private investment funds

To assess the challenges that social enterprises face in accessing private investments funds, thirteen codes were extracted from the transcribed data which generated the emerging themes on Table 4.9:

Table 4. 9: Challenges in accessing private finance instruments

Proposition: <i>Social enterprises faced policy challenges that affected their growth.</i>		
Theme	Codes	Examples
1. Lack of access to private finance	<p>1. Gap between financiers and social entrepreneurs</p> <p>2. High competition for funding towards similar objectives</p> <p>3. Consortium bidding is still unstructured</p>	<p><i>“We have entrepreneurs sitting in this corner with their hands open, where is the money? We have government, impact investors, banks, all these funders, also saying, “where are the entrepreneurs?””</i></p> <p><i>“There is a lot of competition, many people [social enterprises] trying to apply for financing from the same fund and yet working towards a similar goal”</i></p> <p><i>“People also are not willing to partner to combine expertise, and networks, to increase success in accessing funds”</i></p>
2. Lack of appropriate private finance	<p>1. Lack of absorption capacity</p> <p>2. Unfavorable terms from private financing sources</p>	<p><i>“It’s been really difficult to get a private fund because what they fund is a huge amount like 50 million dollars upwards. Such funds give the money to the banks to give to SMEs and startups. The ticket size is too big for us, so as a startup we have to get the funds from the bank.”</i></p> <p><i>“A loan from the bank where they want so much collateral is not an option for us. It’s really hard to get funding right now from a venture capitalist or private equity because you have to sell a big chunk of your share.”</i></p>

Source: Researcher, 2020

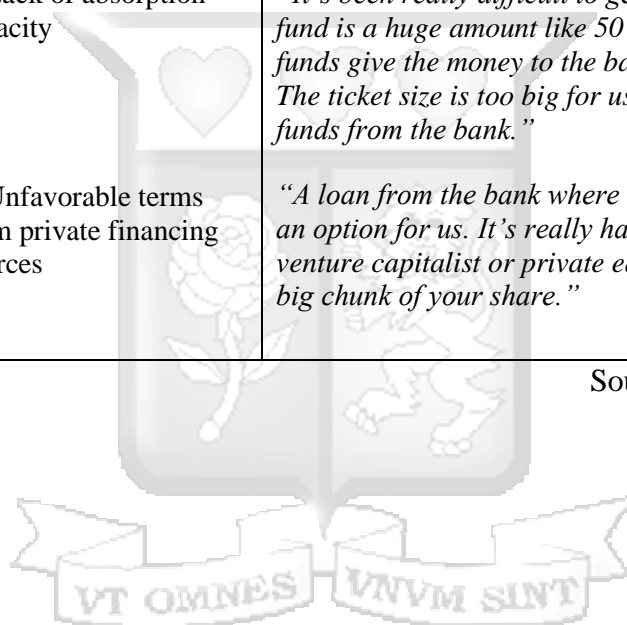


Table 4. 9 (contd): Challenges in accessing private finance instruments

Proposition: <i>Social enterprises faced policy challenges that affected their growth.</i>		
Theme	Codes	Examples
3. Lack of availability of private finance	1. Problem of definition and recognition impacts private financing	<i>“You see, like Small and Medium Enterprises (SMEs) are recognized by the MSE Act 2012. But social enterprises don’t have an Act. It is just a buzz word. It is not recognized or defined in law. A bank will not work with something that is not recognized or defined. You are either a company, an NGO etc...”</i>
	2. Preference to fund established enterprises	<i>“Walk into even some of these banks, tell them you are a social enterprise...you will not get money. First of all, this social entrepreneurship concept, it is a new concept. People don’t really know what it is. They will ask, is it an NGO, is it an SME?”</i>
		<i>“Private financiers fund proven business models which is hard if you are a start-up or new in the market. Financiers are not on the same page with social enterprises focusing on Bottom of Pyramids (BoPs) since the focus is more on impact rather than revenue.”</i>
	4. Funding based on referral networks	<i>“The focus is not on start-ups asking for high-risk investments. Early start-ups are not trusted. Private investors are non-committal to ideas from this side, they need to fund proof of concept.” “you need to be in the right network”</i>
4. Lack of awareness of private finance opportunities	1. Lack of centralized private investment fund directory	<i>“There can be too many options that do not match, so we end up looking at the wrong spaces for funding”</i>
	2. Lack of understanding of social enterprise model	<i>“First of all, this social entrepreneurship concept, it is a new concept. People don’t really know what it is. They will ask, is it an NGO, is it an SME?”</i>
		<i>“There is a big challenge in accessing funds from financial service providers who do not understand the social enterprise scope” “No they don’t understand what we do and its viability”</i>

Source: Researcher, 2020

The themes generated on Table 4.9 show that while there were a variety of private investments funds readily available for enterprises in general, access to such funds remained a challenge to social enterprises. This was largely attributed to an absence of a centralized private investment fund registry on the available opportunities that exist for social enterprises; also, the large gap between financiers and social enterprises made access a challenge. The study further found that social enterprises were not explicitly defined or recognized by law making it difficult for private sector for instance banks to provide loans or facilities at an affordable rate given the

nature of social enterprises. Respondents largely attributed this skepticism to lack of recognition and definition which impacted social enterprise financing. The findings revealed that private financiers did not understand what social enterprises do or the viability of the model as a business. The study also found that social enterprises especially new entrants struggled to secure private investments as financiers preferred to fund established and functional business models with good cash flow and were not keen on social enterprises that focused on BoP's. The data revealed that inappropriate funding mechanisms from private investment funds like debt financing with unfavorable terms undermined the growth of social enterprises. The respondents largely agreed that private investors were willing to give funds when the social enterprise no longer needed the funding. Increased competition for funding was also cited as a challenge towards accessing private investment funds as social enterprises were not yet structured within a bid consortium. In addition to this, the data revealed that social enterprises were unable to absorb funds from sources offering large funding tickets.

4.7.3 Challenges with the current tax mechanism

In analyzing the challenges that social enterprises face with the current tax mechanism, three codes were extracted from the transcribed data which generated the emerging themes presented on Table 4.10:

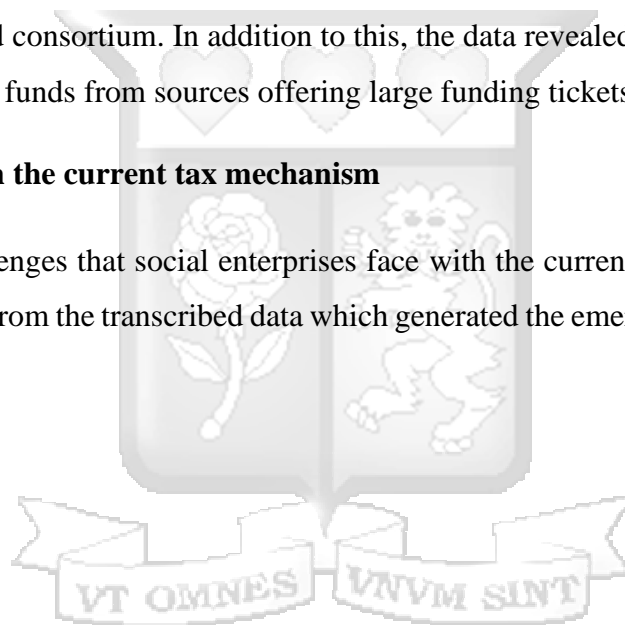


Table 4. 10: Challenges with the current tax mechanism

Proposition: <i>Social enterprises faced policy challenges that affected their growth.</i>		
Theme	Codes	Examples
1. Over taxation	<p>1. Too many tax layers causing businesses to close</p> <p>2. Too many licenses limiting business growth</p> <p>3. Overlapping tax mechanisms within county governments and national governments</p>	<p><i>“Tax is just too much, it is one of the things that is making businesses close – VAT, PAYE etc. By the time you pay taxes all your book is in debt”</i></p> <p><i>“They require so many compliance certificates that take up a lot of money”</i></p> <p><i>“Recycling licenses, license to store waste in your warehouse. There are just so many licenses. There is a license to transport, license to handle, license to recycle waste. And all of this is paid twice because there is one for National Environment Management Authority (NEMA) and from the county government”</i></p> <p><i>“Kenya on paper has a good working environment but the issue is getting operational licenses. For me so many licenses are a complete pain in the general business environment.”</i></p> <p><i>“There are so many costs to cover for the government. Ultimately, the cost of taxes and of transporting is more than the cost of plastic itself”</i></p> <p><i>“Social enterprises registered as companies pay a lot of taxes”</i></p> <p><i>“There are a lot of taxes and levies to transport the waste for recycling inter-county. You are charged a tax when you cross every county like each county says why should we get another county’s waste? We are trying to tell the government that this is not waste but raw materials for us. They should lift that license, its Kshs.20,000 per vehicle per year”</i></p>
2. Lack of tax breaks for social enterprises	1. Lack of tax breaks	<p><i>“Lack of tax breaks are a challenge for social enterprises complementing government roles”</i></p> <p><i>“The main challenge is social enterprises don’t have tax breaks”</i></p> <p><i>“The current tax mechanism punishes local businesses. Foreigners get tax breaks, but local manufacturers don’t get such incentives. It is insane what they are doing in Export Processing Zone (EPZ) when you are a Kenyan owned manufacturer outside of the EPZ and need access to similar provisions like tax breaks there is no access. Why would you not want local Kenyans to access the EPZ? Kenya Revenue Authority (KRA) is focused on the here and now, not the future. Running a clean business in Kenya is a challenge”</i></p>

Source: Researcher, 2020

Table 4. 10 (contd): Challenges with the current tax mechanism

Proposition: <i>Social enterprises faced policy challenges that affected their growth.</i>		
Theme	Codes	Examples
3. Unfavorable tax mechanisms	<p>1. Bureaucratic tax mechanism for businesses</p> <p>2. Lack of returns on taxes</p>	<p><i>“I don’t trust it [exemptions], because sometimes the details of exemption are not clear. I would be afraid filing for it because it is so vaguely defined.... most social businesses lose money anyway so exemptions don’t really matter”</i></p> <p><i>“If you wanted tax credit or VAT refund (you wait two years). For example, if you filed a small amount of money wrongly and wanted a refund it will be a hell of a chase.”</i></p> <p><i>“Paying tax is not the problem, the challenge is there is no return or value on tax for the business”</i></p>

Source: Researcher, 2020

Findings from Table 4.10 show that lack of tax breaks and unfavorable tax mechanisms affected the growth of social enterprises in Kenya. Respondents operating under the Company’s Act, 2015 expressed frustration that too many layers of taxes, vague tax laws, lack of tax breaks and tax exemptions impeded the growth of social enterprises. The findings revealed that the taxation mechanism is highly rigid as it is difficult for businesses in general to obtain tax credit or refunds.

The data revealed that the current tax mechanism was punitive to local businesses as foreign owned businesses easily received tax breaks especially when nested within the Export Processing Zone. The findings revealed that businesses with physical locations within the EPZ area were able to access favorable tax mechanisms and waivers as part of the EPZ Act. Surprisingly, the findings revealed that a section of social enterprises were open to complying with the various tax layers. The challenge with the current tax mechanism was found to not only hinder social enterprises innovation and growth but also there was no value for the taxes paid.

4.7.4 Knowledge share and business support

In analyzing the challenges that social enterprises face in accessing knowledge share and business support, eight codes were extracted from the transcribed data which generated the emerging themes on Table 4.11:

Table 4. 11: Challenges in accessing knowledge share and business support

Proposition: <i>Social enterprises faced policy challenges that affected their growth.</i>		
Theme	Codes	Examples
1. Lack of accessibility to information	<p>1. Lack of a public central registry for information</p> <p>2. Difficulty in accessing business data</p> <p>3. Lack of reliable data</p>	<p><i>“There are various programs like capacity building, incubators, accelerators, entrepreneurship networks etc. and globally Nairobi is one of the best hubs in that sense but I don’t think any of that is related to government policy.”</i></p> <p><i>“For our social enterprise in the education sector, there is difficulty in accessing data to align the decisions of the school. The data is not shared, key learnings would be helpful as we are not aware how Competence Based Curriculum (CBC) is working.”</i></p> <p><i>“The government has a lot of knowledge but it is in silos. It is also highly fragmented so you will find KIPPRA, AGPO, women enterprise fund doing a lot of things to support businesses but the information is not accessible.”</i></p> <p><i>“Access to information for example African Growth and Opportunity Act (AGOA), where do you get AGOA or Generalized System of Preferences (GSP) to export products to the United States? There is no space to get that information easily.”</i></p> <p><i>“Sometimes you get information from government and it is not real. Sometimes there is no data at all.”</i></p>
2. Lack of awareness on business support opportunities	1. Lack of awareness on available opportunities	<p><i>“There is a lack of awareness on the available opportunities”</i></p> <p><i>“KRA had no clue on EUR.1, an importation certification document used in international commodity traffic, yet they are in charge of customs”</i></p> <p><i>“There is no individualized business support initialized to social enterprises”</i></p>

Source: Researcher, 2020

Table 4. 11 (contd): Challenges in accessing knowledge share and business support

Proposition: <i>Social enterprises faced policy challenges that affected their growth.</i>		
Theme	Codes	Examples
3. Poor policy provisions undermine the growth of social enterprises	1. Insecure property rights	<p><i>“You sign a lease you don’t know if that lease is secure.”</i></p> <p><i>“Tech businesses face more challenges and uncertainty with having their licenses revoked”</i></p>
	2. Bureaucratic licensing procedures	<p><i>“Maybe a more specific issue could be that the expat-run social businesses space has a lot of foreigners and Kenya has gotten more restrictive on work permits.”</i></p> <p><i>“Setting up businesses legally is very easy but operating that business and getting licenses is an absolute [redacted]. But it is not more of a [redacted] if you are a social business or not.”</i></p>
	3. Poor capacity building policies	<p><i>“For instance, the EPZ Act is not favorable to local enterprises outside the Export Processing Zone, they provide business support to foreign companies but not local companies.”</i></p> <p><i>“I think that poverty is a government strategy. It is painful to do business in Kenya”</i></p>
	4. Lack of innovation	<p><i>“The government does not focus on innovation or shared economies that would help us”</i></p>

Source: Researcher, 2020

The findings in Table 4.11 reveal that lack of access to information, lack of awareness on business support opportunities and poor policy provisions undermined the growth of social enterprises. Social enterprises struggled to access information, for instance, the lack of a government central knowledge registry where information was needed. Respondent R009 struggled with accessing information and opportunities relating to AGOA and the Generalized System of Preferences (GSP) provisions that would promote the growth of their business. Equally, the respondent found that while Kenya was a signatory to EUR.1 policy, they could not access a government official within KRA, conversant with compliance to the regulatory requirements that would have enabled Kenyan exporters to easily access the European market. The findings further revealed that government data was scarce and where such data was available, it was in silos and unreliable. The study found that poor policy provisions hindered the growth of social enterprises for instance, social enterprises in Kenya tended to be foreign founded or expatriate-run, and thus they suffered additionally high operational costs in terms of affordable work permits and uncertainty with property rights like insecure leases and easy revocation of business licenses. It also emerged that there was no government support for

innovation and shared economies, for instance, provisions within the EPZ Act had requirements that were not conducive to Kenyan owned manufacturers outside of the Export Processing Zone (EPZ). The mandatory requirement for a physical factory inside the EPZ limited access to provisions like knowledge share and subsidized business support inputs like cheaper and reliable electricity supply.

4.7.5 Access to markets

In analyzing the challenges that social enterprises face in accessing markets, six codes were extracted from the transcribed data which generated the emerging themes summarized on Table 4.12:



Table 4. 12: Challenges in accessing markets

Proposition: <i>Social enterprises faced policy challenges that affected their growth.</i>		
Theme	Codes	Examples
1. Lack of market opportunities	<p>1. Lack of awareness on available opportunities</p> <p>2. Difficult economic environment</p> <p>3. Absence of product differentiation</p>	<p><i>“There is a lack of awareness on the available opportunities within the public procurement space”</i></p> <p><i>“Business has not been easy in the past few years, like last year. It has been very tough. We have members who almost closed down business. And this is not only to social enterprises, it is general.”</i></p> <p><i>“Another challenge is market. There is nothing to differentiate a social enterprise product from any other.”</i></p>
2. Lack of access to markets	<p>1. Unsustainable competition</p> <p>2. Trust in public procurement</p> <p>3. Government supply chain bureaucracy</p>	<p><i>“The government in collaboration with NGOs has given many services and goods for free that even at subsidized prices people still won’t pay for social enterprise products in favor of the free products. This limits markets access. By the time the provisions for free services and goods come to an end, the social enterprise has collapsed. For example, it is not reasonable for government to give free sanitary towels for one year, yet a social enterprise can sustainably offer the same in the long term at less than half the price to those at the bottom of the pyramid and vulnerable groups.”</i></p> <p><i>“Most tenders go to foreigners e.g. app developers”</i></p> <p><i>“Unless you are extremely big you would even dare think about public procurement with the government because you are just going to be [redacted]. You partner with the county but businesswise that doesn’t actually mean anything, it is not a financial transaction. If you were to do a financial transaction my sense is that the social business has to be extremely big...you don’t want to be in these small unnecessary corruption deals.”</i></p> <p><i>“We will only consider working with government at a point where we are so big or so unique and we have a model that we may not need the money but that is something we not interested in because it also affects our reputation.”</i></p> <p><i>“The process of government procurement is tedious and not transparent”</i></p> <p><i>“We missed a tender based on technical rules that impacted the application”</i></p>

Source: Researcher (2020)

The findings from Table 4.12 suggest that there was a lack of awareness or information on the available opportunities especially government procurement opportunities. A large number of social enterprises failed in Kenya as a result of the difficult economic conditions that had been

experienced in general. Social enterprises largely lacked product differentiation that would enable easy access to markets.

The study revealed that there was a high level of distrust in public procurement by social enterprises leading to an increase in social enterprise malaise in chasing after public procurement opportunities. The findings further suggested that the procedures, rules and requirements to access government procurement opportunities hindered the growth of social enterprises.

Interestingly, the findings revealed that competition from NGOs and government offering free services and products limited market access for social enterprises, eventually making provision of services at a cost unsustainable for social enterprises as well as government and NGOs once project or program funding was over.

4.8 Policy interventions that provide opportunities for the growth of social enterprises

The third objective of the study was to explore policy interventions that would provide opportunities for the growth of social enterprises in Kenya. In order to assess this objective, the opportunities for social enterprises to grow were assessed. Recommendations on the social enterprise policy framework were extracted from six codes that were analyzed to generate the themes summarized on Table 4.13:

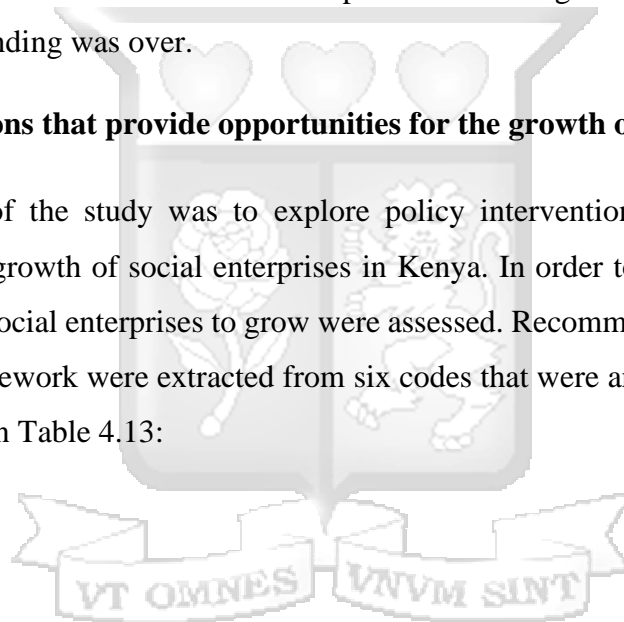


Table 4. 13: Policy recommendation: Establishment of a Social Enterprises Act

Policy Recommendation: Establishment of a Social Enterprises Act.		
Theme	Codes	Examples
1. Social enterprise Act to recognize and define social enterprises	<p>1. A functional social enterprise policy framework</p> <p>2. Social enterprises solve social problems using profitable models</p> <p>3. Social enterprises support bottom of pyramid</p> <p>4. Social enterprises are profit dependent and financially sustainable</p>	<p><i>“If you look at the regulatory environment it’s not like if you are a social enterprise that doesn’t have even a legal status you get any benefit.”</i></p> <p><i>“Social enterprises have a longer time to mature because of new goals or ideas as the model is activism-based. This model seeks to solve problems by setting up a company, a profitable company is good for the world as more problems can then be solved.”</i></p> <p><i>“Social enterprises make impact at the core.”</i></p> <p><i>“Social enterprises should be dependent on financial turnover and not funding for ever.”</i></p> <p><i>“Once we get the seed funding, we upscale and do business independently and sustainably, depending on profits.”</i></p> <p><i>“Of course, they need some seed funding, but after the seed funding, they need to show they can break even and become financially resilient to attract more investors.”</i></p>
2. Strengthen existing frameworks and institutions to support social enterprises	<p>1. Strengthen existing frameworks</p> <p>2. Limited by guarantee or foundations with social impact</p>	<p><i>“The current framework works; there is no point for additional framework unless it is a sub-branch of the current frameworks.”</i></p> <p><i>“I don’t see why you should have a different category for social enterprises, why not improve the existing environmental laws to cover social businesses. In Kenya the big problem is enforcement, it doesn’t need more laws. Maybe a few laws to be improved.”</i></p> <p><i>“There is no need for another structure. Make the current structures work or incentivize the current structure to support local businesses that demonstrate impact at their core.”</i></p> <p><i>“As at now we recommend that they register as companies limited by guarantee, or as foundations with social impact.”</i></p>

Source: Researcher, 2020

The findings from Table 4.13 revealed themes on the possible policy interventions that could spur the growth of social enterprises in Kenya. A majority of respondents expressed strong support to strengthen the existing frameworks instead of formulating a new legal form for social enterprises, the current frameworks were considered as sufficient for social enterprises to grow.

The study revealed that a social enterprise regulatory entity with actors drawn from intersecting government agencies and the social enterprise sector would be critical in coordinating the sector. The themes are summarized on Table 4.14 below:

Table 4. 14: Policy recommendation: Establishment of a Social Enterprises Regulatory Entity

Policy Recommendation: Establishment of a Social Enterprises Regulatory Entity		
Theme	Codes	Examples
1. Regulatory roles	1. Multi-sector agency or entity within an existing ministry to advocate for policies, laws and regulations on behalf of social enterprises	<p><i>“Build capacity within the existing ministry to create a department within existing structures to streamline the needs of social enterprises.”</i></p> <p><i>“The entity would provide advisory to government on the potential of additional revenue for government”.</i></p> <p><i>“One of the top priorities for creating a more enabling environment would be the inclusion of social enterprises during the policy making and decision-making process and move away from decision making in the boardrooms.”</i></p>
2. Financing roles	<p>1. Avail a public grant fund specific to social enterprises</p> <p>2. Funding guarantees</p> <p>3. Review tax mechanisms to support social enterprises</p>	<p><i>“The financial support should support social enterprises at the start-up phase (ideation stage).”</i></p> <p><i>“The government could give guarantees up to a certain volume to banks to give Small and Medium Enterprises as loans.”</i></p> <p><i>“Guarantorship to recover finances for investors via a de-risk fund of say up to 10% would increase investor confidence and growth of social enterprises.”</i></p> <p><i>“Complete tax exemption could help social enterprises stay afloat for at least the first three years.”</i></p> <p><i>“Clear details on tax breaks, removal of presumptive taxes and review of the many business taxes and licensing would support the growth of social enterprises.”</i></p>

Source: Researcher, 2020

Table 4.14 (contd): Policy recommendation: Establishment of a Social Enterprises Regulatory Entity

Policy Recommendation: Establishment of a Social Enterprises Regulatory Entity		
Theme	Codes	Examples
3. Business support roles	1. Knowledge share	<i>“Curriculum or information packs or training within Huduma centers on how to set up social enterprises”</i>
	2. Capacity building	<i>“The entity would build the capacity of social enterprises to be investor ready in addition to promoting social enterprise knowledge exchange.”</i> <i>“When I think of the overall business environment it would be nice to have a Huduma center for social businesses specifically. It would be more meaningful.”</i> <i>“We need to have that certification program”</i>
	3. Create awareness on the sector	<i>“We want very clear government, banks, private sector etc buy in- to really understand the sector. While it is a critical sector, few people know about social entrepreneurship. Ministries of cooperatives, trade, agriculture etc. do not know about it- there is still much to do in terms of awareness creation.”</i> <i>“Create awareness for government to understand social enterprises”</i> <i>“Educate the public on how to run a social enterprise would facilitate the growth of social enterprises”</i>
	4. Centralized data repository	<i>“A strong institution and a database (library). People always have to start from scratch when it comes to data and research that has been done which costs a lot of money”</i>
	5. Collaborate on innovation	<i>“For us it would look like government partnering and forming relationships with other countries so that we share best practices, consultancy and ideas e.g. from India”</i> <i>“For local manufacturers who want to compete effectively, the Export Processing Zone laws don’t work, there is need to remove the physical factories requirement and focus on innovation and shared economies of scale. This is the way of the future. This is how we will easily generate employment”</i>

Source: Researcher, 2020

Table 4. 14 (contd): Policy recommendation: Establishment of a Social Enterprises

Regulatory Entity

Policy Recommendation: Establishment of a Social Enterprises Regulatory Entity		
Theme	Codes	Examples
4. Market Access Roles	<p>1. Provision for preferential procurement for social enterprises</p> <p>2. Enhance Public Private Partnerships with social enterprises</p> <p>4. Import substitution policy</p>	<p><i>“Priority procurement of say 20% should be reserved for social enterprises.”</i></p> <p><i>“We also want social enterprises to be given some percentage when it comes to government procurement.”</i></p> <p><i>“In the UK and Europe, the social enterprises are successful because they innovate around public service delivery and government is open. Here government sees them like a threat...get government procurement in order. Be open to have conversations on PPPs on how things be done e.g. what are the things you are tendering out, sometimes businesses want to tender but they are too scared. Like why can't we help you to improve on how you run your schools, manage your waste etc. This requires transparency and a legal framework.”</i></p> <p><i>“There are other things in public private partnerships that we as social enterprises are interested in short to medium term like in waste management. Today there is no public-private partnership anywhere in this country for waste management. We have to start working with government on some level say managing municipal infrastructure at city level or providing the infrastructure.”</i></p> <p><i>“It is important that the government and NGOs consider sustainable ways of providing these goods and services and perhaps collaborate with social enterprises in the long term.”</i></p> <p><i>“Put up import duty to help the economy. Create an environment where Kenyan businesses can compete...with China. Why should we have fish from China and there are fisheries resources in Kenya that can be obtained cheaply. Support the manufacturing sector.”</i></p>

Source: Researcher, 2020

As part of its critical roles, the entity would advocate for sector relevant policies, laws, regulations and mediate between social enterprises and government agencies. The regulatory entity would in addition provide a centralized information registry for social enterprises that are keen on aligning with national development priorities. The findings further suggested that the entity would be in charge of the social enterprise fund that would issue public grants to social enterprises with bankable projects especially at the seed stage or start-up phase, the grant

would consist of a funding pool derived from government funds, impact investors and private sector financiers. The fund would focus on legitimate, high growth businesses and those that show purpose to become financially sustainable.

The findings showed that availability and access to public grants for social enterprises at the start-up phase was considered a major challenge by majority of respondents. To this end, the respondents suggested that an accessible public grant fund set up and specific to social enterprises at the formative stage would spur the growth of social enterprises. In order to spur private investments into the social enterprise sector, it was suggested that public fund guarantees could incentivize access and availability of private sector funding at a lower rate.

The data showed that the current tax mechanism was found to undermine the growth of social enterprises. On policy recommendations on tax mechanisms, it was suggested that complete tax exemptions especially during the formative years would be beneficial to the growth of social enterprises.

Access to knowledge share and business support from government was one of the key challenges described by social enterprises. In order to address this challenge, part of the Social Enterprise Regulatory Entity's role would be to facilitate knowledge share and business support. From Table 4.14, a transparent and central registry for easier access to information and data would build the capacity of social enterprises to be investor ready. There was also a suggestion to repeal laws like the EPZ Act which was not responsive to today's business needs like innovation and shared economies of scale. In addition, there were suggestions for capacity building to create awareness of social enterprises within government agencies and the public to understand the scope of social enterprises.

Access to markets was cited as a pressing challenge to the growth of social enterprises. In order to address this challenge, Table 4.14 found themes that detailed part of the Social Enterprise Regulatory Entity's role would be to facilitate access to markets. The findings suggested that prioritized procurement or a public private partnership model for social enterprises would spur the growth of social enterprises as they would offer services in an efficient and sustainable manner on behalf of government. Public Private Partnerships would provide opportunities for collaboration that ensure growth by eradicating competition for resources like short term funding over complimentary objectives by government agencies, NGOs and social enterprises

as the eco-system would work towards a common social cause. Finally, an import substitution policy was suggested to protect and support the local economy.



CHAPTER 5

DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter discusses and draws conclusions of the findings presented in chapter four. The chapter provides recommendations for policy and further suggestions to draw scholarly and public interest on the convergence between public policy and social enterprise.

5.2 Discussions

5.2.1 The growth of social enterprises in Kenya

The purpose of this study was to assess the efficacy of public policy frameworks on the growth of social enterprises in Kenya. This study utilized the social entrepreneurship theory by Santos (2012) which posited that growth is about creating surplus that maintains organizational sustainability while serving the triple bottom line that is financial, environmental and social goals. In the context of this study, the growth of social enterprises was assessed in terms of financial sustainability, defined as the ability for social enterprises to sustain sufficient cash flow to cover operational costs and generate surplus through provision of goods or services at a fee.

The study noted that all the social enterprises had been in operation for less than ten years and engaged in provision of goods or services at a fee. The social enterprises were on different stages of financial sustainability: four social enterprises that had been in operation longer than the formative years (more than five years) had been able to attain financial sustainability. This means that they were able to maintain their operational capacity and generate surplus in a timely manner independent of grants or donations. The five social enterprises in the formative years struggled with generating financial surplus and were dependent on foreign grants and donations to supplement their revenues and cover operational costs. From the foregoing discussion, it can be inferred that while there was notable growth of social enterprises beyond the formative years, those at the early years struggled to attain financial sustainability. The findings correlate the British Council (2017) report which found that 85% of established social enterprises in Kenya made a profit or financial surplus through exchange of goods or services at a fee.

5.2.2 The influence of current policy frameworks on the growth of social enterprises in Kenya

The social entrepreneurship theory contextualized by Santos (2012) and Ebrashi (2013) argued that the economic system in which social enterprises operate and grow, cannot operate in an institutional vacuum. They posit that legal and regulatory frameworks are created to ensure that competitive market conditions are maintained through mechanisms such as regulation, taxation and market creation. The theory enabled the study assess the extent to which policy frameworks enabled social enterprises to grow using various policy mechanisms.

On the question of whether the current policy frameworks had public finance mechanisms which enabled the growth of social enterprises, the study found that there were no public financing mechanisms to support the growth of social enterprises. The data revealed that there were general government bids which some social enterprises and start-ups had considered albeit unsuccessfully. The study revealed that the social enterprises that had attained financial sustainability had done so in the absence of public finance instruments whereas those that struggled with financial sustainability had received critical funding support from foreign government agencies. The absence of public finance mechanisms was found to hinder the growth of social enterprises. This is consistent with Steinman (2010) who found that lack of availability and access to finance remained a major constraint to the growth of social enterprises.

On enabling private investments, the current frameworks provided legitimacy and recognition to social enterprises as either a company registered under the *Company's Act, 2015* or a PBO registered under the *PBO Act, 2013*. Registered social enterprises were able to self-finance through access to private investments sources depending on the legal structure that the enterprise was registered under. Organizations registered under the Company's Act had access to a variety of private sources of funding for instance impact investment funds, equity and stock options, personal savings, loans, grants and donations which supported the growth of social enterprises. Unsurprisingly, social enterprises beyond the formative stage had experienced significant degrees of success in accessing a wide range of private financing in comparison to social enterprises at the formative stage. These findings were consistent with the UNDP (2015) study which asserted that new interest and capital from international institutional investors and commercial investors in Africa was driven by opportunities across the enterprise value chain.

On enabling taxation mechanisms, the data revealed that the current policy frameworks that is *Company Act, 2015* had no policy provisions for preferential tax or exemption that would support the growth of social enterprises. Social enterprises registered under the Company Act complied with various tax instruments such as VAT, Corporate Taxes, Small Business Taxes, local government and sectoral level business licensing, PAYE and income taxes. Social enterprises registered under the *PBO Act, 2013* enjoyed tax waivers on grants and donations. Social enterprises in Kenya had experienced growth within limiting taxation mechanisms through navigating various taxation layers. Within the context of this study, it can be inferred that the taxation mechanisms have not explicitly contributed to the growth of social enterprises in Kenya. The findings on taxation mechanisms in Kenya match with Steinman (2010) findings in South Africa, where it was established that the South African Revenue Services was restrictive and had a large contribution to make in adjusting taxation thresholds for individuals, business donations and trading by social enterprises.

On knowledge share and business support, the study found that the current policy frameworks had no explicit knowledge share and business support policy provisions for social enterprises. The study however found provisions outside the scope of this study for knowledge share and business support embedded in legislation supporting enterprises nested within specialized economic zones. It was further found that the existing technical support was at an informal formative stage, largely unstructured and based on personal networks with government officials. Social enterprises derived knowledge share and business support largely from private sources like incubators and acceleration programs which provided start-up social enterprises with space, legal and financial advisory during the formative spaces. From the foregoing, it can be inferred that the growth of social enterprises especially at the formative stage was due to knowledge share and business support outside the public policy space. These findings are consistent with Steinman (2010) who found that business development support was needed by conventional and social entrepreneurs. Unlike in Kenya, this support was also provided by government agencies spread all over South Africa in an effort to stimulate small businesses.

On access to markets, the study found that the current frameworks had generalized policy provisions for priority government procurement opportunities for women, people with disabilities and youth under AGPO. Social enterprises that met these criteria were able to access public service contracts, however the data for social enterprises that had accessed government procurement was unavailable since most of the respondents had not actively pursued any

government procurement opportunities. From the findings above, it can be inferred that the social enterprises in the study experienced growth devoid of access to government market opportunities.

5.2.3 The challenges affecting the growth of social enterprises in Kenya

On the question of challenges affecting the growth of social enterprises in Kenya, the findings on the measures studied are discussed below:

On public finance instruments, the data revealed that lack of awareness, availability, access and appropriateness of public finance instruments hindered the growth of social enterprises. In addition, the data revealed that skepticism towards the organization model inhibited social enterprises in considering public finance instruments. This is in line with the findings of the International Labour Organization (2010) who found that lack of availability and access to finance remained a major constraint to the growth of social enterprises. These findings further corroborate the findings by World Bank (2017) who observed that social enterprises are not aligned with nationally identified priorities and plans that would provide appropriate government support for the growth of the sector.

On private investments funds, the study found that while there were a variety of private investments funds for social enterprises, securing such funds was a challenge to social enterprises. This was largely attributed to lack of legal definition, recognition and a centralized information registry that hindered local financiers like banks as they did not understand the social enterprises model. This aligns with the Open Capital Advisors (2012) study that found there was a large mismatch within the social enterprise sector where capital was deployed relative to where it was needed. The findings further align with World Bank (2017) report which noted that social enterprises do not benefit from business support providers like financiers who are unsure of the risk and appropriateness of financing the sector. These findings were also consistent with the European Commission and OECD (2016) study which revealed that private businesses were largely unaware of the existence or impact of social enterprises, and thus failed to recognize them as legitimate partners. Skepticism towards startups was also a common challenge as private investors preferred established business models with good cash flow and only opted in when the social enterprise was no longer in dire need of funding. The findings also revealed that private financing terms tended to be unfavorable to social enterprises. These findings were similar to International Labour Organization (2016) who

found that debt financing for social enterprises was perceived as a risky venture. The World Bank Group (2017) study as well as the UNDP (2015) study showed that the absence of a social enterprise legal status generated resistance among potential partners like public sector, government or the business sector. Surprisingly, increased competition for funding came up as a challenge towards accessing private investment funds as social enterprises were not yet structured within a bid consortium. The data further revealed that social enterprises tended to be micro and small enterprises and thus were unable to absorb funds from sources offering large funding tickets which was usually the case for private investment funds. This finding was consistent with Open Capital Advisors (2012) who found that while there was growth in number and size of private funds for SME's, there were few seed stage investments to support investment ticket sizes below USD500,000. This was because it was considered to be as expensive to support lower ticket size investments as higher ticket ones.

On taxation mechanisms, the findings revealed the current taxation mechanism was unfavorable and punitive to local social enterprises as they expressed frustration with too many tax levels and lack of tax breaks which hindered the growth of social enterprises. In contrast, the study found that a section of social enterprises were open to complying with the various tax layers if there was value in return, this value would be in form of incentives that would support the growth of social enterprises. These findings are in line with World Bank Group (2017) study that found uncondusive policy and loose regulatory frameworks made it difficult to align the needs and characteristics of social enterprises with nationally identified priorities and government support.

On knowledge share and business support, the findings revealed that there was lack of awareness and availability of government-initiated knowledge share and business support opportunities for social enterprises. It also emerged that ineffective property rights, inability to access information, reliable data and innovation for business support hindered social enterprises to build capacity for growth. These findings were consistent with the Smith and Darko (2014) study which found that social enterprises faced challenges like weak infrastructure, lack of human capital, lack of information, low perception and understanding of social enterprises among policy makers, social enterprise stakeholders and the public who equated them with charitable organizations and networks.

On access to markets, the findings suggested that there was a lack of awareness or information on the available public procurement opportunities. These findings were consistent with

European Commission & OECD (2016) who found that the size of contracts and pre-qualification requirements for public sector procurement hindered social enterprises especially at the formative stage from participating in the process. A large number of social enterprises had failed as a result of the difficult economic conditions that had been experienced in general. Surprisingly, the findings revealed that competition from NGOs and government offering free services and products limited market access eventually making provision of goods and services at a cost unsustainable for social enterprises as well as government and NGOs once project or program funding was over. These results align with the findings from the Open Capital Advisors (2012) study who found that social enterprises cannot grow without non-financial support especially in areas of strategic prioritization, sales development and new market growth.

5.2.4 The policy interventions that provide opportunities for growth of social enterprises in Kenya

On the question of the policy interventions that would provide opportunities for growth of social enterprises in Kenya, the findings revealed possible financial and non-financial policy interventions that could spur the growth of social enterprises in Kenya.

First, on the legal forms that would promote the growth of social enterprises, the data surprisingly revealed that the respondents saw no need for a new legal framework for social enterprises. The findings suggested that the existing frameworks and institutions could be strengthened and expanded to meet the current needs of social enterprises in Kenya. The study indicated that while most social enterprises were registered as limited companies or companies limited by guarantee, there was need for the existing framework to explicitly define and recognize social enterprises as MSMEs, start-ups and profit dependent entities offering services complimentary to those of government at a cost that made social enterprises financially sustainable. This would spur the public policy framework in Kenya from the early stage to growing stage which is indicated by presence of social enterprises within the existent legal forms as NGOs or Companies with supporting policies specific to social enterprises. Social enterprises operating within policy frameworks at the growing stage were formally recognized and the presence of social enterprise specific policy structures had enabled more opportunities for growth.

Second, on creating an entity to streamline and align the needs of social enterprises, the study suggested that a social enterprise entity embedded within the existing frameworks with actors

drawn from intersecting government agencies and the social enterprise sector would be critical in coordinating and giving clear mandate on the role of social enterprises. This was consistent with the Department of Trade and Industry (2002) report which found that the UK government set up the Social Enterprise Unit within the auspices of the Department of Trade and Industry to provide a coordinated point for strategic decision making across all departments. As part of its critical roles, the data revealed that the entity would advocate for sector relevant policies, laws, regulations and mediate between social enterprises and government agencies for instance in the repeal of provisions within the EPZ Act which are rigid, unfavorable to local manufacturers and unresponsive to today's business needs. In addition, it would promote local innovation and shared economies which can easily generate employment.

Third, on the public finance policies that would promote the growth of social enterprises, availability, awareness, access, and appropriateness of funding mechanisms were cited as key challenges to the growth of the sector. The findings suggested that a social enterprise fund under the auspices of the social enterprise entity would design flexible financial structures and tools like public grants to social enterprises with bankable projects especially at the seed stage or start-up phase. The fund would consist of a funding pool derived from government funds, impact investors and private sector financiers. This is in line with the UNDP (2015) study and World Bank Group (2017) report that proposed the concept of blended financing that would bring together public sector and private investors to make investments that would facilitate financial returns as well as social, environmental and economic progress. Steinman (2010) also advocates for public financing especially at the start-up phase and blended financing options at the scaling phase.

Fourth, on the private investments policies that would promote the growth of social enterprises, the findings seemed to suggest that the social enterprise fund under the auspices of the social enterprise entity could incentivize private financiers to provide funding to social enterprises at a lower rate. The fund would offer loan de-risk funds and security guarantees for credit facilities extended to social enterprises. The guarantee funds or financial safety nets extended to financiers would enable lenders to build financial trust with social enterprises. This supports the findings by European Commission (2016) that stated adequate policies to incentivize social enterprise capitalization through innovative tools like small subsidies, matching funds and guarantee funds would safeguard lenders in case of social enterprise defaults.

Fifth, the taxation mechanisms that would promote the growth of social enterprises, were found to undermine the growth of social enterprises. The findings suggested that a favorable tax structure similar to the EPZ or SEZ would promote the growth of social enterprises for instance, a special lower tax band during the formative years. The findings also suggested that complete tax exemption, a graduating tax structure to incentivize scale and impact, and a one stop business license for the many layers of tax would facilitate compliance and manage the incessant harassment from county and national government inspectorate. An interesting recommendation was for special tax breaks to be extended to non-social enterprises when they partner with social enterprises as this would promote the growth of social enterprises. These recommendations are similar to that of Steinman (2010) who suggested that tax legislation similar to the UK's CIC model could encourage financial sustainability for social enterprises.

Sixth, on knowledge share and business support policies that would support social enterprises, the study found that lack of awareness and clear understanding of social enterprises by the public sector and private sector undermined the growth of social enterprises. The study found that the lack of government-initiated knowledge share and access to business support structures was a challenge for social enterprises. The findings suggested that a transparent, user friendly and accessible central information registry that provided easily accessible, reliable and accurate sector data under the auspices of the social enterprise entity would enable social enterprises to align with national development priorities and build the capacity of social enterprises to be investor ready. The findings also suggested that the entity would create awareness of the sector especially for the public sector, private sector and citizens to understand social enterprises and thus provide critical buy in. The findings suggested that the social enterprise entity would facilitate business development support that incubates, accelerates and builds the capacity of social enterprises. These recommendations are consistent with that of Steinman (2010) who suggested that business development support services under government agencies or parastatals would deal with the needs of social enterprises exclusively.

Lastly, with regards to access to markets, the study found that access to public procurement opportunities was a major challenge for social enterprises. The findings suggested that a percentage of preferential procurement lots reserved for social enterprises would spur the growth of social enterprises as they would offer services in an efficient and sustainable manner on behalf of government. The prioritized procurement lots specific to social enterprises through a public private partnership model would further avoid competition for resources like project or program funding by government agencies, NGOs and social enterprises thus ensuring long

term sustainability of mutual social, environmental and economic objectives. The findings further suggested that the social enterprise entity would facilitate access to specialized markets through local and international linkages via trade fairs and exhibitions showcasing social enterprises, this was consistent with the findings of the International Labour Organization (2016) which reported that access to markets was far more pressing for the growth of enterprises. The findings further revealed that the social entity would provide certification, standardization and quality marks that differentiate and give social enterprise products and services an added advantage through priority shelving.

The theory of social entrepreneurship illustrates that the domains of action of social enterprises was in addressing neglected problems in society with positive externalities; social enterprises largely operated within powerless populations with localized positive externalities; social enterprises were driven to provide sustainable solutions rather than sustainable advantages; and, social enterprises sought empowerment rather than control. Using the theory of social entrepreneurship to formulate the conceptual framework and provide the measures of this study variables, the results of this study illustrated the influence of policy frameworks on the ability of social enterprises to meet the propositions of the theory. The conceptual framework was found to be useful in answering the questions of this study as it contextualized the policy domains and frameworks relating to the study. The findings supported the theory of social entrepreneurship which argued that the combinations of market mechanisms, regulatory, fiscal and legal frameworks enabled social enterprises to contribute to social welfare by creating financial sustainability that benefited society.

5.3 Conclusion

The study found that social enterprises in Kenya struggled to attain growth and on average took six years to attain financial sustainability. This phenomenon may be attributed to: first, the absence of policy frameworks specific to social enterprises that undermined the growth of social enterprises. Social enterprises were not formally recognized thus their needs, characteristics and impact were not considered or supported by the existing policy frameworks. Second, the loose regulatory frameworks and lack of recognition portend that social enterprises were unable to align to national development priorities and thus struggled to access various business support opportunities that would spur growth. Third, the lack of policy provisions and access to public finance mechanisms, private investment funds, favorable taxation mechanisms, reliable knowledge share and business support, and access to markets emerged as

challenges affecting the growth of social enterprises. Finally, the study revealed that the absence of policy provisions to support social enterprises was an opportunity to create an enabling environment that would promote the growth of social enterprises.

5.4 Recommendations

This study found that instead of a new legal form for social enterprises, there was need to strengthen and expand the existing frameworks and institutions notably the Limited by Guarantee framework which was found to be the most preferred legal structure for social enterprises. The provisions for this structure would recognize and define social enterprises as social impact MSMEs that offered goods and services for the underserved, support BoP's, were financially sustainable and profit dependent. The needs, characteristics and impact of social enterprises could effectively be supported by a social enterprise entity embedded within the existing frameworks with actors drawn from intersecting government agencies and the social enterprise sector. The entity would be critical in coordinating and supporting the growth of social enterprises. As part of its critical roles, the entity would advocate for relevant policies, laws and regulations which specifically promote the growth of social enterprises.

It is recommended that the social enterprise entity should design flexible financial structures and tools to support social enterprises at the seed stage or start-up phase, incentivize private financiers to provide funding to social enterprises at a lower rate, provide loan de-risk funds and security guarantees for credit facilities extended to social enterprises. The guarantee funds or financial safety nets extended to financiers would enable lenders to build financial trust with social enterprises. Similarly, it is recommended that a favorable tax structure during the formative years, a graduating tax structure to incentivize scale and impact, one stop business licensing and special tax breaks extended during partnerships with non-social enterprises may promote the growth of social enterprises.

It is also recommended that a transparent, user friendly and accessible central information registry that provides easily accessible, reliable and accurate sector data under the auspices of the social enterprise entity would enable social enterprises to align with national development priorities and build the capacity of social enterprises to be investor ready. The entity would create awareness of social enterprises by communicating social enterprise needs and impact. The social entity would facilitate business development support that incubates, accelerates and builds the capacity of social enterprises at the formative stage.

Finally, it is recommended that preferential procurement lots should be transparently reserved for social enterprises to spur the growth of social enterprises. The social enterprise entity would in addition facilitate access to specialized markets through local and international linkages, provide certification, standardization and quality marks that differentiated and gave social enterprise products and services an added advantage for growth.

5.5 Limitations of the study

Although the study successfully demonstrated the influence of policy frameworks on the growth of social enterprises in Kenya, several limitations to this study need to be acknowledged. First, the study was conducted on a small sample size over a limited time period making it difficult to generalize. Second, there was a lack of empirical and secondary data available from institutional reports to complement the interview data. Third, the study attempted to represent various sectors which identify as social enterprises, but this was not possible owing to unavailability of some respondents. In spite of these limitations, sufficient data was gathered to enable data analysis to address the research objectives.

5.6 Suggestions for further research

Overall, this study provided qualitative evidence on the efficacy of policy frameworks on the growth of social enterprises. It highlighted the challenges that social enterprises face in Kenya and pointed to the opportunities that an enabling policy specific to social enterprises would bring. It must be borne in mind that the sample size of this study was small and conducted over a limited time period. Further research is needed to ascertain statistical generalizations on the influence of policy frameworks on social enterprises. Additional research on the specific study measures and social impact will need to be considered for future quantitative or qualitative studies before generalized conclusions can be drawn. Finally, extended studies could be conducted in other counties and sectors to inform a more robust national social enterprise policy for Kenya.

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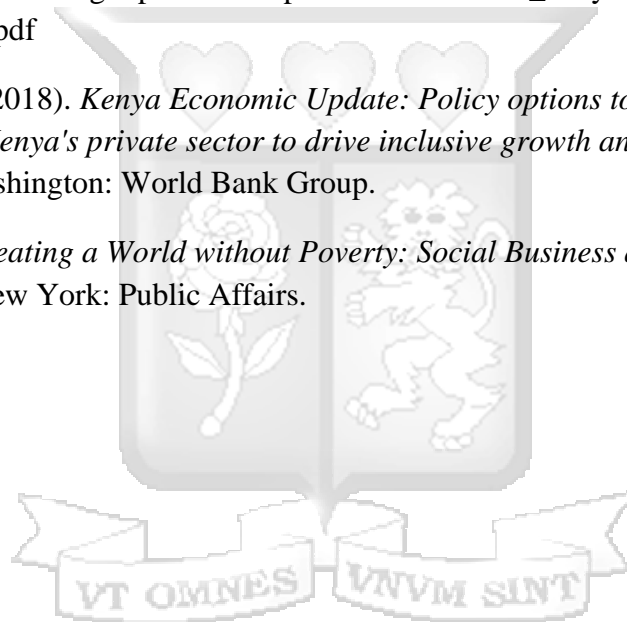
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APPENDICES

Appendix I: Ethical Review Approval letter



Strathmore
UNIVERSITY

27th February 2020

Ms Padwa, Damar
damaroyola@gmail.com

Dear Ms Padwa,

REF: SU-IERC0650/20 (AMENDMENT) PROPOSAL "Towards A Public Policy Framework for Social Enterprises in Kenya: Challenges and Opportunities for Growth."

I make reference to your application for the approval of a proposed amendment submitted on February 3, 2020.

We acknowledge receipt of the following submitted documents for amendment;

- a) Amendment cover letter date 3rd February 2020
- b) Study Proposal version 2 date 3rd February 2020
- c) Participant Information and Consent form version 1
- d) Study Materials- In depth interview guide, Study Questionnaires
- e) Study budget
- f) CV of Investigator

The committee noted the following amendment:


1. *The Title has been changed from "The Influence of Policy Frameworks On the Growth of Social Enterprises in Nairobi, Kenya" to Towards a Public Policy Framework for Social Enterprises in Kenya: Challenges and Opportunities for Growth."*
2. *The following objectives have been added to fit the study and title:*
 - a) To examine how the existing support structures under the current policy frameworks influence the growth and impact of social enterprises.
 - b) To assess how the lack of sector-specific policy framework affects the growth and impact of social enterprises.
 - c) To determine the policy interventions that provide opportunities for growth and impact of social enterprises in Kenya.

The Committee concluded that the suggested amendments are justified and will not result in increased risk to the participants. The proposed changes have therefore been granted **approval** for implementation.

You may continue with your study.

You are required to submit any further changes to this version of the protocol to SU-IERC for review and approval prior to implementing any additional changes.





Sincerely,


for: Dr Virginia Gichuru,
Secretary; SU-IERC.



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Appendix II: NACOSTI License

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Ref No: 680801	Date of Issue: 16/March/2020
RESEARCH LICENSE	
	
This is to Certify that Miss., Damar Oyola Akinyi Padwa of Strathmore University, has been licensed to conduct research in Nairobi on the topic: TOWARDS A PUBLIC POLICY FRAMEWORK FOR SOCIAL ENTERPRISES: CHALLENGES AND OPPORTUNITIES for the period ending : 16/March/2021.	
License No: NACOSTI/P/20/3979	
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Website: www.nacosti.go.ke

Appendix III: Introductory and Consent Letter

Dear Sir/Ma'am,

RE: INTRODUCTORY AND CONSENT LETTER

Thank you for agreeing to meet with me.

This study titled “**An Assessment of the Efficacy of The Public Policy Framework For Social Enterprises in Kenya: Challenges And Opportunities For Growth**” is being undertaken in partial fulfilment of a Master in Public Policy and Management course in Strathmore University Business School. The school requires students to conduct research in an area of public policy interest.

The findings will be useful in informing various government entities and social enterprises on policies that will enable the growth of social enterprises in Kenya. I kindly request if you can take about 45 minutes to answer a few questions to help me carry out this study.

All your responses are private and will be kept confidential. This means that any information that will be included in the report will not identify you as a respondent. Kindly note that you do not need to respond on anything that you do not want to and you may end the interview at any time.

- Are there any questions that you would like clarified? Yes No
- Are you willing to participate in the interview? Yes No

For clarifications regarding the details in this consent form or consent to this study please contact Damar Padwa on 0718 888 051. You may also contact the student's supervisor, Professor Ruth Kiraka on rkiraka@strathmore.edu

Thank you.

Appendix IV: Interview Guide

SECTION I. INCLUSION CRITERIA

1.1 OPTIONAL: What is the name of the organization you represent?

1.2 What is the legal structure your organization is registered under?

1.3 What is your designation?

Founder

Board Member

Senior Management

Mid-Level Management

1.4 What is your primary area of business?

Climate

Housing

Environment

Retail

Legal services

Sports and Leisure

Education and training

Transport

Finance

Arts, music and culture

Health and social care

Fashion and design

Other: _____

1.5 How long has your organization been in operation? _____

SECTION II. OPEN ENDED QUESTIONS

Objective 1: To examine how the current policy frameworks influence the growth of social enterprises

1. Describe the public finance instruments your organization is able to access (loans, grants, subsidies, guarantee funds, stock exchange):
2. Describe the private investment funds your organization is able to access (venture capital, credit, loan facilities)?
3. Describe the tax exemption or tax breaks your organization is able to obtain:
4. Describe the kind of support your organization receives in terms of knowledge share and business support (training, capacity building, mentorship, awareness campaigns, skills development, working spaces, incubators, accelerators):
5. Describe the kind of support your organization receives in order to access markets (public procurement and public service contracts, accreditation schemes):
6. How do you generate revenue (surplus/profits) to cover your operational costs?

Objective 2: To assess the challenges affecting the growth of social enterprises in Kenya

7. Describe the challenges your organization faces in accessing public finance instruments:
8. Describe the challenges your organization faces in accessing private investment funds:
9. Describe the challenges your organization faces with the current tax mechanism:
10. Describe the challenges your organization faces in accessing knowledge share and business support:
11. Describe the challenges your organization faces in accessing markets:

Objective 3: To determine the policy interventions that provide opportunities for growth of social enterprises in Kenya.

12. Describe the specific social enterprise policy frameworks that you would recommend for:
 - a. Legal forms
 - b. Financial policies
 - c. Investment funds
 - d. Taxation mechanism
 - e. Access to markets
 - f. Knowledge share and business support
13. Do you think that creating a new entity to streamline and align social enterprises to the national development priorities would solve the challenges you face as a social enterprise? Yes No
 - a. If yes in your opinion, what would be the critical responsibilities for this entity?
 - b. If no, what would align your social enterprise to national development priorities?
14. Describe your top priorities for creating a more enabling policy for the growth of social enterprises in Kenya: