



SOCIAL ENTREPRENEURSHIP IN PAKISTAN: UNLOCKING INNOVATION THROUGH ENTERPRISE INCUBATION

Priya Shah, Shailabh Shubhisham

December 2012



PREFACE

Pakistan's population of 177 million is facing a demographic youth bulge. This is fertile ground for developing human talent. There is a strong need to build managerial capacity, quality education and skills training.

Under the current circumstances, businesses in urban areas are fraught with contractual obligations, political disputes and corporate governance issues. Religious tensions in rural areas are grounds for political activism, stemming from unemployment and low productivity. Frequent policy changes have contributed to the dampening of ambitions and entrepreneurial visions for success.

The process to re-engage entrepreneurs in Pakistan should begin with harnessing the skill-sets of the youth. Inward investment should be targeted at developing human talent to spearhead the growth of early-stage enterprises in rural and urban areas.

A fifth of global young entrepreneurs see a gap in the market that they think they can fill and a fifth also feel that their knowledge and skills are best suited to being an entrepreneur.

The process to re-engage entrepreneurs in Pakistan should begin with harnessing the skill-sets of the youth

Entrepreneurship involves adaptability through overcoming obstacles, consistently innovating processes, engaging in dialogues and actualising new visions. Mechanisms to finance these entrepreneurs and provide them with non-financial resources are crucial in countries like Pakistan.

In 2011, at the Global Entrepreneurship Summit in Istanbul, Turkey, U.S. Vice-President Joe Biden urged older entrepreneurs to mentor the younger generation by sharing the wisdom gained by their successes and their failures. Universities and corporations were requested to collaborate through research and internships to nurture and develop the entrepreneurial skills of students.

The most valuable resources on the planet are not material but rather individual and collective creativity. New models of social entrepreneurship are fast gaining headway in Pakistan. These models both harness the skills of young entrepreneurs and maximise the available resources (both natural and technical) to create sustainable systems for change. Crucially, funding for small enterprises should meet the specific needs of the entrepreneur from seed financing to venture capital to growth equity.

This funding can be driven by the incorporation of business school incubator hubs and policy frameworks to facilitate social innovation. Social entrepreneurs need mentorship, implementation guidance, and skills training development. The challenge in Pakistan is to drive the social entrepreneurs towards projects that generate both financial return and long-term social impact.

Investment should support the growth of high-potential social enterprises and break the "glass ceiling" that hinders their development. This glass ceiling could include regulatory and tax burdens, as well as employee skills gaps and shortage. Examples of non-financial resources include business development services, financial literacy programmes, technology advice and mentoring, alongside access to networks and markets.

The creation of hubs or space-based support allows for a collaborative engagement on similar models of success. Through value chain analysis, case studies and policy framework tools, this paper explores how incubator hubs can unlock the innovation potential of Pakistan's social entrepreneurs.

CONTENTS

Executive Summary	5
The Business School Incubator Model	7
Public and Private Funding	9
Research and Development	10
Infrastructure and Entrepreneurial Culture	11
Indian Case Study: IIMA	14
A comparative Value Chain Analysis	16
Policy Frameworks	18
Conclusion	22
References	23
About the authors	25
Recent thought leadership	26

About the Economic Policy Group

The Economic Policy Group ("EPG") is an economic and strategy consulting firm based in London. We offer economic and regulatory policy advice, social investment impact analysis, litigation support and business management expertise to corporations, governments and the third sector around the world. More information can be found at www.economicpolicygroup.com.

EXECUTIVE SUMMARY

In the context of the accelerating pace of globalisation, the stiffening of competition and financial instabilities in the West, the focus is shifting from developed markets towards emerging markets.

Policymakers, educational heads and social entrepreneurs are paramount to building a sustainable and stable knowledge-driven economy.

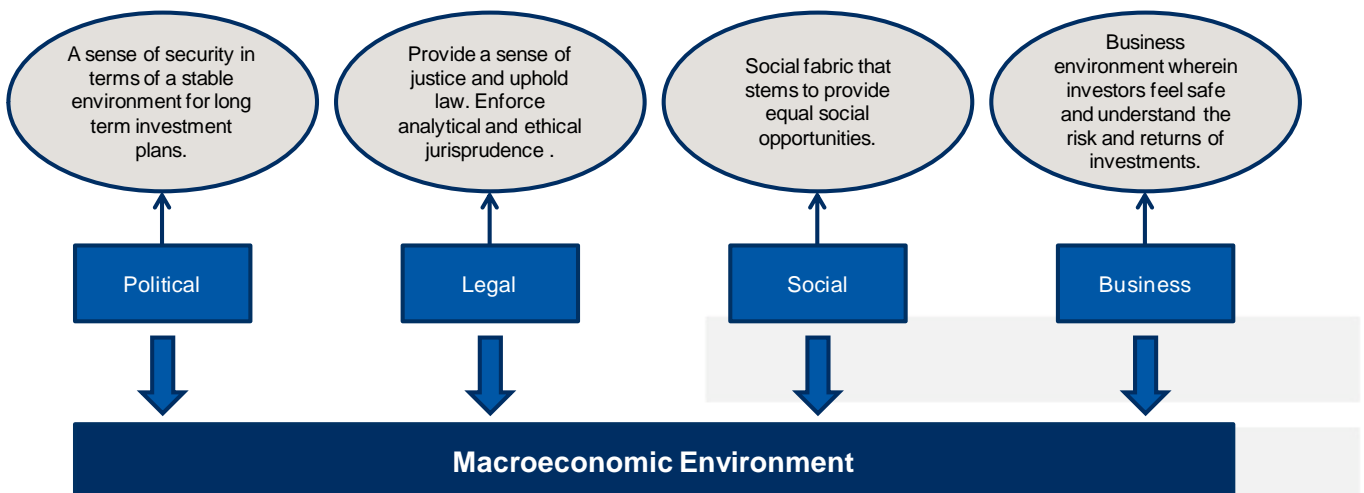
The next decade will be the first time since the Industrial Revolution when emerging economies will add more to global growth than all developed economies combined. In some sectors, this growth will factor in to more than 80%.¹ Entrepreneurial businesses will be able to develop new business models which focus on high value-add niche segments whilst complementing the value chains generated by large corporations.

Interestingly, the educational sector holds great potential in the emerging Asian Markets. But what sets it apart from the other conventional sectors? Business schools in countries such as India and Pakistan have huge growth potential in both delivering financial return on investment and social impact return.

This report will analyse the business education sector in Pakistan and examine how incubator models can harness the potential to develop enterprises which serve both commercial and social purposes.

There is a cross-dependency of various factors which can help to foster the combined growth of business education and social entrepreneurship in Pakistan. Policymakers, educational heads and social entrepreneurs are paramount to building a sustainable and stable knowledge-driven economy.

Figure 1: The macroeconomic environment



Source: EPG.

The figure above gives a snapshot of a market structure which fosters growth and development at all levels of governance. The objective is to incorporate this on a micro level to the business education sector for which an incubator hub can be analysed in greater detail.

Pakistan is home to numerous microenterprises in rural and urban areas, which serve as a pipeline for two players: a) policy-makers, for whom long-term social impact can address community needs; and b) investors, who will need greater deal flow to finance these microenterprises.

¹ McKinsey & Company (McKinsey), "The Power of Many: Realizing the socioeconomic potential of entrepreneurs in the 21st century", October 2011.

In an effort to promote foreign investment, the Government of Pakistan has employed taxation exemptions in the following sectors: interest income on foreign currency accounts, capital gains on sales of shares of listed companies, income from manufacture of solar energy equipment and income from fruit processing. Renewable energy and agriculture are fast-growing sectors in Pakistan, whilst mobile banking and other technology-infused consumer industries.

The development community in Pakistan has tried to address the challenge of inefficient funding to smaller enterprises at the base of the pyramid by creating microfinance lending instruments and private sector intermediary institutions, including those supported by the International Finance Corporation.

Microfinance Banks (MFBs), such as the Kashf Foundation, First Microfinance Bank Ltd and the Orangi Pilot Project are established as separate legal structures administered and regulated by the State Bank of Pakistan. These institutions have made considerable strides in Pakistan in improving access to capital from loan sizes of US\$10 to more than US\$1,000 for small businesses. Currently, default rates for SME clients of MFBs in Pakistan are amongst the lowest in the world, highlighting the success of the sector and the strength of their legal structures.

This paper will examine how both public and private sectors in Pakistan can maximise the opportunities in the nascent social enterprise sector in Pakistan, by harnessing the skills of young social entrepreneurs and investing in incubator hubs to further projects that achieve both financial and social returns.



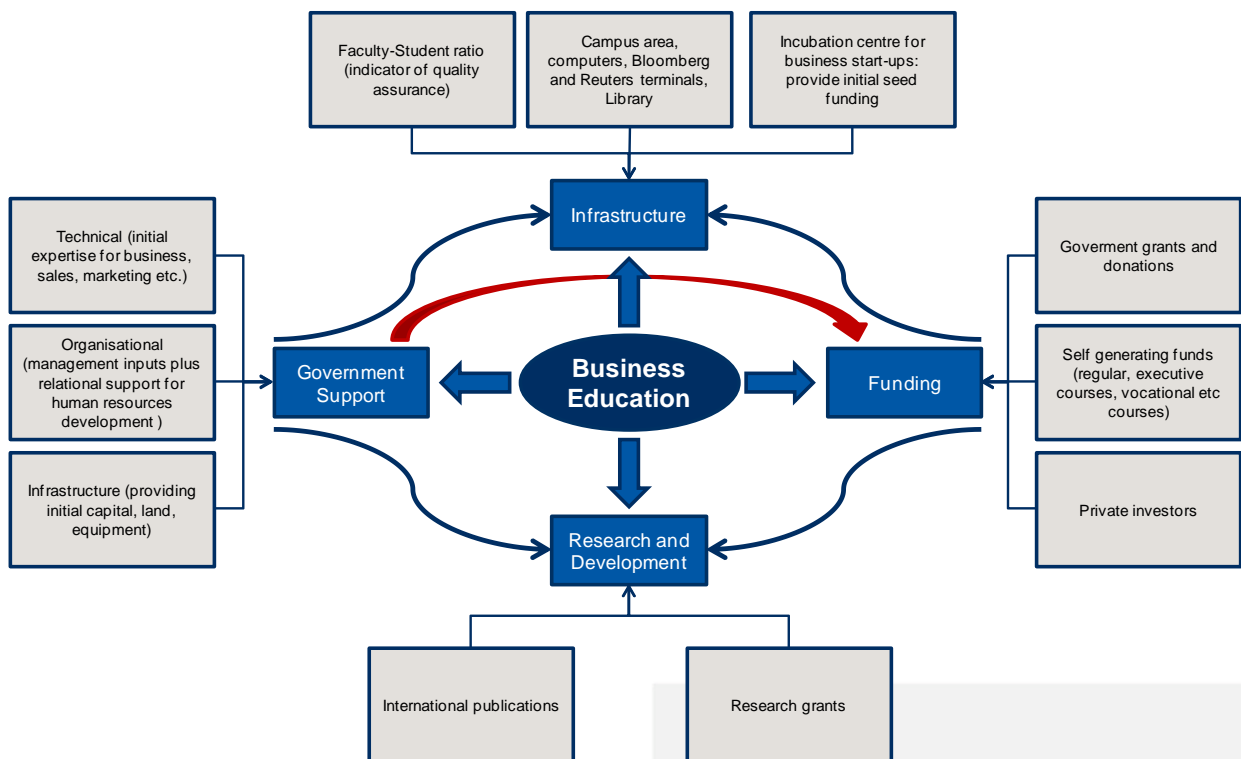
THE BUSINESS SCHOOL INCUBATOR MODEL

Investment in higher education programmes should maintain a focus on better alignment of student skill-sets to the economic fabric of the market.

Pakistan requires a dynamic approach towards education to ensure socio-economic growth. The roles of the government, the private sector and infrastructure in building business education hubs are crucial.

Universities should promote knowledge transfer and talent exchange both by creating R&D incubator hubs as well as strengthening academic potential. The formation of university clusters could be a powerful launching pad for developing different facets of innovation strategy.

Figure 2: The Business Incubator Model



Source: EPG.

The figure above presents an overview of the various macro inputs which need to be taken into consideration from both an investor and a policy perspective. Our approach is to deliver a comprehensive analysis of each support framework.

A research study claims that “five years after graduation, the average annual income for entrepreneurship majors and MBAs who concentrated in entrepreneurship was almost 27% higher than for other business majors and students with standard MBAs”.²

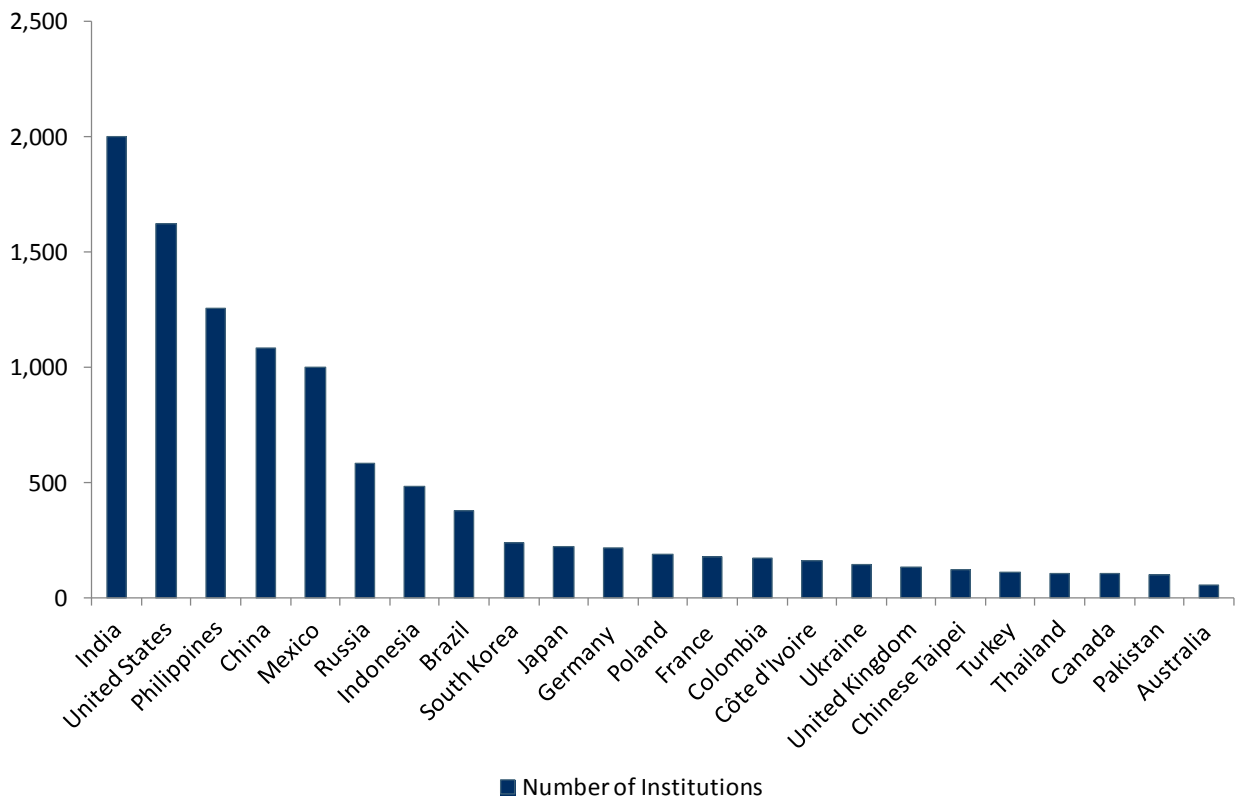
Business schools can best provide platforms for entrepreneurial skills that will help students identify new business ideas and provide them with a practical approach including a willingness to take calculated risks, the ability work effectively in a team, the creative skills to organise resources and the vision to recognise opportunity.

² S.A.J. Shirazi, "Tapping the Entrepreneurial Spirit", Pakistan Today, 3 August 2011. Accessed 30 December 2011).

The Association to Advance Collegiate Schools of Business (AACSB) is a global, non-profit membership organisation of educational institutions, businesses and other entities devoted to the advancement of management education. Established in 1916, AACSB International provides its members with a variety of products and services to assist with the continuous improvement of business programmes in their schools.³

Below is a tabular representation of the estimated number of global educational institutions offering business degrees at any level, as of January 2012.

Figure 3: Estimated number of educational institutions offering Business degrees (January 2012)



Source: AACSB, Page 9, Business School Data Trends and 2012 List of Accredited Schools, 2012.

There are 99 higher education institutions offering business education in Pakistan. Although this is still a significant number, a major concern has been the rapid formation of business schools across Pakistan more for monetary reasons rather than the creation of socio-economic and quality academic hubs.

There has been a mushrooming of educational institutes, outside universities, in Pakistan, especially those providing business-related degrees. However, these often lack the credibility and quality of private sector institutions.⁴

Nevertheless, there are institutions which aim to improve the quality of business education in Pakistan and foster entrepreneurship. In July 2011, Pakistan hosted its inaugural Junior World Entrepreneurship Forum Conference at the Lahore School of Economics which was attended by large number of young scholars from UET, LUMS, UCP, Punjab University, FAST, NUST, IM Sciences and Lahore School of Economics.

³ AACSB website homepage. Accessed 6 October 2012.

⁴ A.A. Qureshi, "How do perceptions of the importance of Service-Quality Determinants differ across key stakeholder groups in the Pakistan Higher Education Sector?", MPhil Thesis, March 2012.

The MIT Enterprise Forum of Pakistan is a good example of a membership organisation which promotes the growth of innovative and technologically-oriented enterprises through specialised executive education programmes. These programmes include roundtables, discussion panels, investor forums and awards ceremonies which showcase successful entrepreneurs. The executive education includes developing and providing linkages for angel investors in Pakistan, discussing exit strategies, investor incentives and regulatory frameworks to create an enabling environment for social investment in the country.

PUBLIC AND PRIVATE FUNDING

Funding for incubator hubs in business schools must be aimed toward the objective of long-term sustainability. The funding support should partially come from the Government, forming a basis for fixed costs, namely, staff, utilities and rental expenses. It is also in the interest of the government to build a solid foundation of business schools for socio-economic development. Private funding also plays a role in determining the scope of upside, or Return on Investment (ROI), for the investor.

The Sharpe Ratio⁵ of the investment on business education should be calculated not only in terms of pure financial gain but also in terms of the social impact returns. In the long-term, business schools should be able to self-sustain and generate funds from full-time and executive education programmes as well as initial capital investments to incubator hubs.

The mission of the HEC is to facilitate institutions of higher education to serve as engines of growth.

The Higher Education Commission (HEC) is an educational body in Pakistan which was formed in 2002, committed to providing a platform for socio-economic development. HEC is dedicated to improving both the quality and quantity of business education institutions and assist in its development from both macro and micro perspectives.

Dr Javid R Laghari, the Chairperson of the HEC stated: “The mission of the HEC is to facilitate institutions of higher education to serve as engines of growth for the socio-economic development of Pakistan. HEC is faced with three key challenges: (a) quality; (b) access; and (c) relevance.”

Whilst Government policies should support the creation of incubator hubs, they can aim to minimise their input in the admission, governance and management of business schools. Business schools need to have autonomy to grow so that rather than being a centre of political focus in the long run, they can be more focused on wholesome educational development and socioeconomic reform.

The Government can initiate support business schools in three areas:

- Technical (information technology, equipment);
- Operational (management, human resources); and
- Infrastructural (freehold land, buildings at a discount).

The Government of Pakistan has shown a commitment towards building social entrepreneurship hubs in the country through partnerships.

An example of a government-run programme is the Benazir Bhutto Shaheed Youth Development Programme, initiated by the Government of Sindh, which addresses the issue of unemployment by developing human talent in the province. The Programme

⁵ A ratio developed by Nobel laureate William F. Sharpe to measure risk-adjusted performance. The Sharpe Ratio is calculated by subtracting the risk-free rate from the rate of return for a portfolio and dividing the result by the standard deviation of the portfolio returns.

provides opportunities for skill development to approximately 100,000 semi-literate and educated unemployed youth in Sindh for a period varying between three months to one year.

The Government of Pakistan has also functioned as a social intermediary, funding the Women Business Incubation Centre (WBIC), established by the Small and Medium Enterprise Development Association (SMEDA). This centre provides hands-on support to women entrepreneurs. Uniquely, the incubator offers training programmes to new business ventures and supports existing enterprises owned and managed by women, specifically in early stages when fledgling businesses are most vulnerable.

Women, often seen as careful and meticulous in their approach to business ownership, are increasingly collaborating in community structures to create larger enterprises. This cultural movement in Pakistan's social structure holds much promise for investors considering long-term investments, which should include raising employment, diversifying skill-sets and broadening the scope of investment to wider segments of the population.

RESEARCH AND DEVELOPMENT

Research and Development (R&D) is often one of the main components in the quality evaluation of business school incubator hubs. Universities with R&D units are an important facet of the social innovation strategy and the development of successful entrepreneurial ventures in incubators.

Improved connectivity and innovative IT systems can cultivate information exchange and knowledge transfer.

Improved connectivity and innovative IT systems can cultivate information exchange and knowledge transfer, creating in effect a virtual self-support network across business schools in Pakistan.

Publication of research papers can also drive government grants for R&D. Support for the publication of social entrepreneurship papers and articles in global journals can encourage business school faculty to participate in international business conferences and present their research findings, winning credibility in the social entrepreneurship field. For example, the Lahore University of Management Sciences (LUMS), Iqra University and Karachi and National College of Business Administration & Economics have been very active in achieving recognition in social impact journals.

A generation of business leaders can be bred who participate in economic and social policies and assist in creating a stable environment to promote social entrepreneurship. The Karachi School of Business and Leadership (KSBL) has taken steps to encourage R&D initiatives. KSBL is one of the highest-ranked business schools in Pakistan, and was established by Pakistani business leaders who recognised that Karachi, the business and commercial hub of Pakistan, needed a world-class business school.

By promoting economic and social change, KSBL's objective is to nurture leaders who create positive social impact in domestic projects through their knowledge, skills, expertise and contribute to global best practice. The Dean of KSBL, Robert Wheeler said, "We'll cut back on the administrative work that faculty is often required to do in Pakistan and encourage them to do applied research that could be used in the industry, government and business."⁶

Furthermore, the Virtual University is an example of a non-profit educational institution established by the Government of Pakistan which uses media and technology to create knowledge transfer in Pakistan. Using free-to-air satellite television broadcasts and the internet, the Virtual University allows students to follow its rigorous programmes in a

⁶ Haq's Musings, Riaz Haq blog, "KSBL world class business education in Pakistan", 3 January 2012. Accessed 6 October 2012.

virtual format, regardless of the students' physical locations.

The University also aims to alleviate the lack of capacity in the existing universities while simultaneously tackling the shortage of qualified professors in the country. The University opened its virtual doors in 2002 and in a short span of time, it has reached more than a hundred associated institutions providing infrastructure support to the students. Pakistani students residing overseas in several other countries of the region are also enrolled in the University's programmes.

Another example of a successful incubator hub is at the Institute of Business Education (IBA), established in Karachi in 1955 with initial technical support from the Wharton School of Finance at the University of Pennsylvania and the University of Southern California. IBA's Centre for Entrepreneurial Development (CED) aims to promote entrepreneurship education at the university-level, a programme that culminates in a business plan competition in which students pitch their business ideas to a panel of judges.

Moreover, the IBA CED is not just geared towards students at IBA in Karachi – it targets a consortium of eight universities across Pakistan – including those in Quetta, Peshawar and Islamabad. This extension of the programme gives students in lesser known and smaller universities access to quality entrepreneurship education, skills and opportunities.

INFRASTRUCTURE AND ENTREPRENEURIAL CULTURE

Infrastructure development for incubator hubs in business schools can take the form of:

- Phd faculty;
- a higher ratio of faculty to students;
- higher standard of buildings; and
- improved equipment.

The incubator hubs should be aimed at forming viable and scalable business models aimed at social innovation. By strengthening the incubator hubs, one can promote entrepreneurial opportunities to students, enhance their skill-sets through consistent mentorship programmes, and provide them with access to capital. A big challenge in Pakistan is the lack of entrepreneurial culture. University graduates spend large amounts of time searching for employment in a job market where private sector opportunities are poor.

The Youth Engagement Services Network in Pakistan is an example of an organisation which plays a leading role in developing entrepreneurship so that Pakistan's youth becomes the ultimate beneficiary of the economic development process. Their mandate is to strengthen youth-led SMEs in order to spread social innovation models locally by building strong links with public, private and educational institutions. Other change-maker networks in Pakistan include Social Innovation Hub, Ashoka Pakistan and Pakistan Sustainability Network.

Importantly, business plan development is a strong component of the incubator hub. At the rural level, the WBIC offers business development services including training programmes to women entrepreneurs. The effort is focused on encouraging new business start-ups and the provision of support to existing enterprises by nurturing the growth of businesses owned and managed by women to an extent that these become sustainable; more specifically, in early stage, when they are most vulnerable.

At the urban level, youth organisations such as the Pasha Social Innovation Fund provide entrepreneurs with business plan mentoring for cost-effective technology implementation to social ventures. Similarly, training entrepreneurs in succession management is crucial to ensuring the longevity of their enterprises, encouraging replicability and providing scalability to other regions of the country. When a business plan training programme has been put into place, an inter-generational knowledge transfer will transpire and the culture of innovation will evolve.

In addition, building quantifiable and measurable targets adapted to rural and urban environments in Pakistan as well as assessing investment readiness of the target enterprises will be useful to fostering entrepreneurship. A large portion of early-stage enterprises in Pakistan do not have the in-built skill sets to administer complex financial products.

Due to this reason, and because the risk of default is lower in the growth stage, fewer investors invest at the early stage. This means that the distribution of capital is skewed towards the growth stage, while early-stage enterprises find it difficult to raise capital.

The pipeline, or deal flow for funding, structured across a range of risk and return scenarios, needs to be better formed, and there needs to be more support for early-stage enterprises. This goes hand-in-hand with the need for greater financial literacy; financial options across all stages of the organisational lifecycle; legal contractual mechanisms to protect against mission drift and take-over and incentives to diversify funding and the income base.

Entrepreneurship consistently bridges the gap between the private sector, human capital, intellectualism and government

In this regard, combining the guarantee of loan capital with comprehensive mentoring systems could drive a self-sustaining ecosystem of enterprises. Concerned parties need to establish the appropriate metric system to transcend the conventional players – the investor, the investee and the fund – and to examine the broader range of intermediaries in the market.

The challenge for the investor is to identify the entrepreneur at an “inflection point”, where the injection of loan capital would catalyse rapid growth in the enterprise and influence both policy and grassroots development. The idea is not simply to grow one organisation but to grow the sector industries at large, as success is often built through collaboration. Entrepreneurship consistently bridges the gap between the private sector, human capital, intellectualism and government, allowing for sustainable and scalable growth across multiple sectors.

Investors also need to assess social impact and gauge whether entrepreneurial ventures are actually effecting change in the communities and building unique and innovative business models. The formation of an ecosystem will help to achieve this long-term investment objective and further clarify the goals of the individual entrepreneurs in order to engage the right players that are needed for these early-stage enterprises to succeed.

Developing entrepreneurs could also take the form of initiating a “Fellows” system comprising of Pakistan’s most inspirational social entrepreneurs who are eager to make a long-term social impact. The Fellows System can create mentorship networks around the incubator hubs, build a narrative around social entrepreneurship and help to generate qualitative data for investors to account for ROI taking into account the “triple bottom line” (TBL).⁷

By sharing a passion for their projects, Fellows can help raise awareness of social entrepreneurship through media interviews, speaking engagements and online platforms, as well as engaging with both policymakers and private sector investors.

An example of a Fellow for Pakistan is Dr. Asher Hasan, Founder and CEO of Naya

⁷ TBL accounting expands the traditional reporting framework to take into account social and environmental performance in addition to financial performance.”

Jeevan, a non-profit organisation dedicated to regenerating the prospects of low-income families by providing them with affordable access to quality healthcare infrastructure. Naya Jeevan offers its insurance programme in Pakistan at subsidised rates under an innovative health insurance model, underwritten by Allianz-EFU, IGI Insurance, and AsiaCare. Hasan is a 2009 member of the Clinton Global Initiative, a TED Fellow and a Draper Richards Social Entrepreneur Fellow for 2009-2011.

Roshaneh Zafar is another example of a Fellow who established Pakistan's first interconnected conglomerate of microfinance-based companies, the Kashf Foundation and the Kashf Microfinance Bank. The Kashf Bank has so far attracted 15,000 depositors, a quarter of whom are women. Zafar aspires to increase this number to one million by 2015 and aims for two-thirds of the recipients to be women.⁸ In addition to the bank, Zafar is diversifying the brand into an insurance company, a financial education company and a business incubator to support the needs of micro-borrowers and help them scale and expand their businesses.

Case Study

Invest2Innovate (I2I) is an example of a social intermediary which provides tailored services to early-stage enterprises both to grow their businesses and connect them to capital.

Pakistan is the pilot market where the intermediary plans to support the growth of a self-sustaining ecosystem of microenterprises, fostering entrepreneurship using top-down and bottom-up approaches.

I2I is keen to mentor entrepreneurs through its incubator function and Accelerator programme, and aims to create an enabling environment for technological innovation by cultivating local, regional, and global partnerships necessary to grow the social innovation space.

I2I caters to a diverse range of early stage enterprises, some of which include MilkOp, a for-profit enterprise that offers support to dairy farmers; a non-profit enterprise that delivers affordable clean energy solutions to empower the rural poor; and Hosh Media, a social enterprise that aims to transform Pakistan's media industry by empowering and engaging Pakistan's youth in quality journalism online.

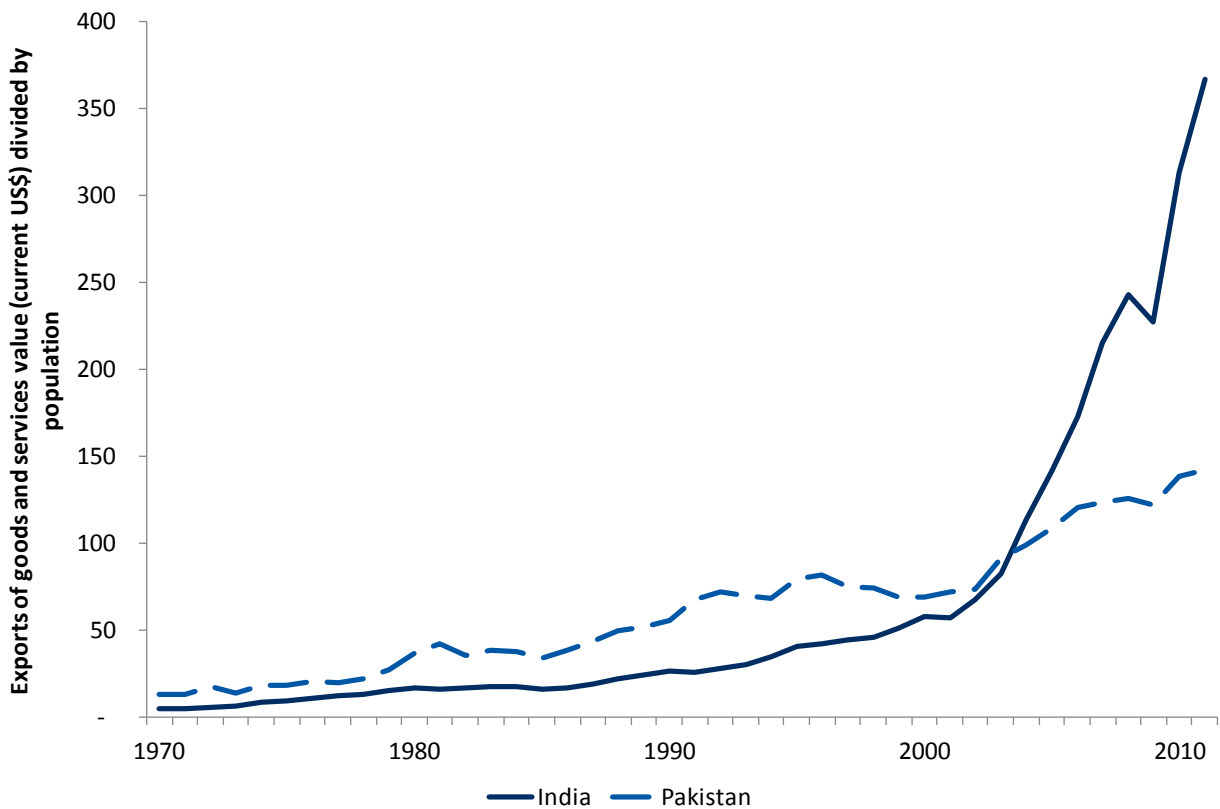
⁸ Embassy of the United States, Press release, "Roshaneh Zafar: Pakistani Miracle Worker", 2010. Accessed 6 October 2012.

INDIAN CASE STUDY: IIMA

Entrepreneurial ventures lend momentum to business schools and the creation of incubator hubs. In this report, the Indian Institute of Management, Ahmedabad (IIMA) is used as a proxy model for Pakistan.

A key assumption for the proxy model is that within 10 to 15 years, Pakistani Business Schools can achieve the same growth trajectory as the current crop of Indian Business Schools. The development of an economy is influenced by the growth and success of entrepreneurs, and we present below a comparative graph showing the export intensity for India and for Pakistan.

Figure 4: India and Pakistan export intensity (1980-2010)



Source: World Bank.

In the figure above, one can note that India excelled in export intensity (measured as export dollars per capita). By contrast, Pakistani businesses struggled with infrastructure deficit, security concerns, poor governance and regulation and lack of entrepreneurial growth.

Pranay Gupta, CEO of Centre of Innovation and Entrepreneurship at the Indian Institute of Management, Ahmedabad (IIMA), offered recommendations to students keen to pursue entrepreneurial activities and start social ventures.

- A primary concern for many students is the opportunity cost of turning down business school offers to launch riskier entrepreneurial ventures.

IIMA proposed that entrepreneurial students can apply for company placement programmes 2 years after setting up their business venture. This increases student confidence to invest in new business ventures. Statistically, IIMA has seen 20 to 30

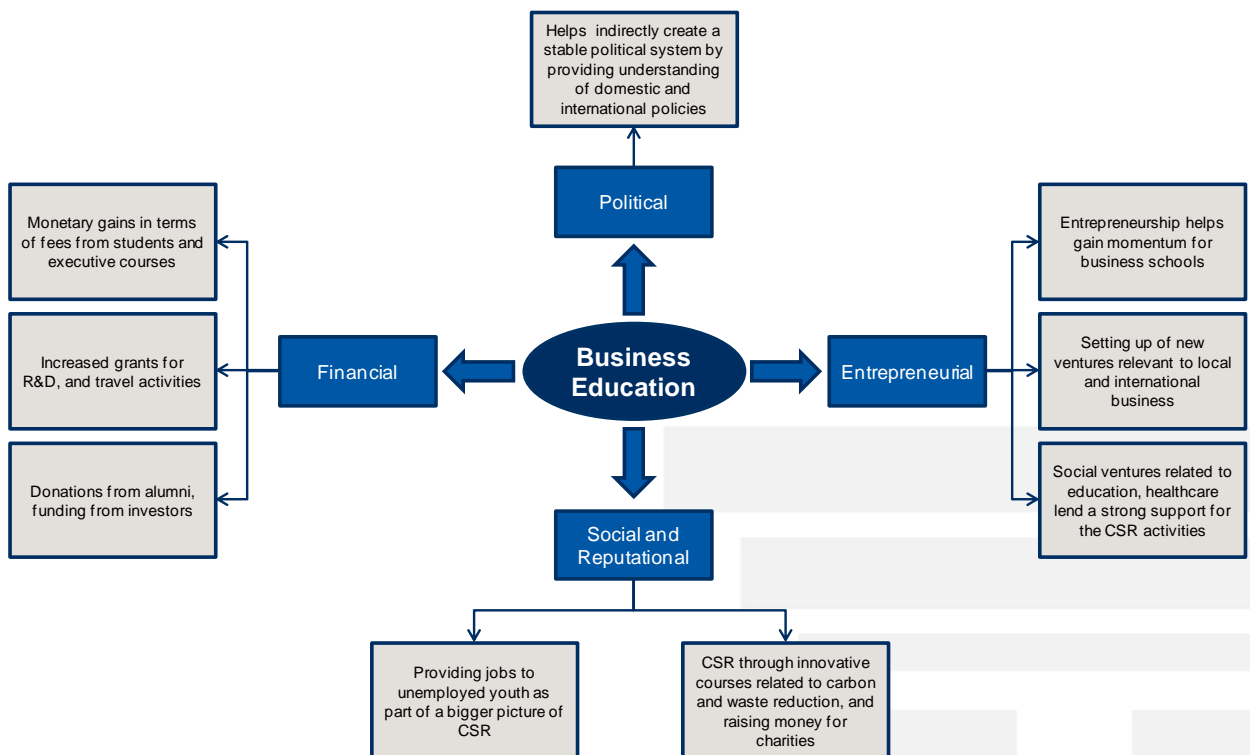
students launch their own start-ups; only 2-3 students have returned to apply for company placements. The batch size is approximately 300, therefore around 10% of the batch size takes the entrepreneurship route and only 10% of those who take the entrepreneurship route return to complete business school.

- Many students have concerns that launching an entrepreneurial venture would impair the payback of study loans (typical study loans are of the range of INR1.5m).

IIMA, with the help of its alumni pool, created an entrepreneurship fund which allocates an initial salary to entrepreneurs so that they are able to pay off their loans. IIMA has also requested banks to push back the loan payoff date by one year. The typical seed funding provided by IIMA is of the order of INR2.5m (approximately US\$50,000). The funding for entrepreneurial ventures is provided by the Indian government with a clause to repay the funds in a particular time frame if the venture starts making profit. Interestingly, there is no obligation to pay back seed funds if the business venture does not have any operating profit and closes down.

However, there is a strict set of rules and regulations as to whom and how the funds are allocated. A panel assessment of the business plan is initiated to determine its feasibility and success. IIMA professors and industry experts make the final decision on whether the business plan can qualify for seed funding from the Institute.

Figure 5: Benefits of an entrepreneurial system in business schools



Source: EPG.

Figure 5 shows that the ROI of business school incubator hubs is not only financial but also social, entrepreneurial and political, and form an integral part of Corporate Social Responsibility (CSR) activities. The arrows pointing outwards show the benefits or outputs generated from the establishment of incubator hubs in business schools. By contrast, in Figure 2, the arrows pointing inwards show the inputs that are needed to successfully establish a business school incubator hub. There are some extra parameters for organic growth which can be tailored as per policy and investor needs.

A COMPARATIVE VALUE CHAIN ANALYSIS

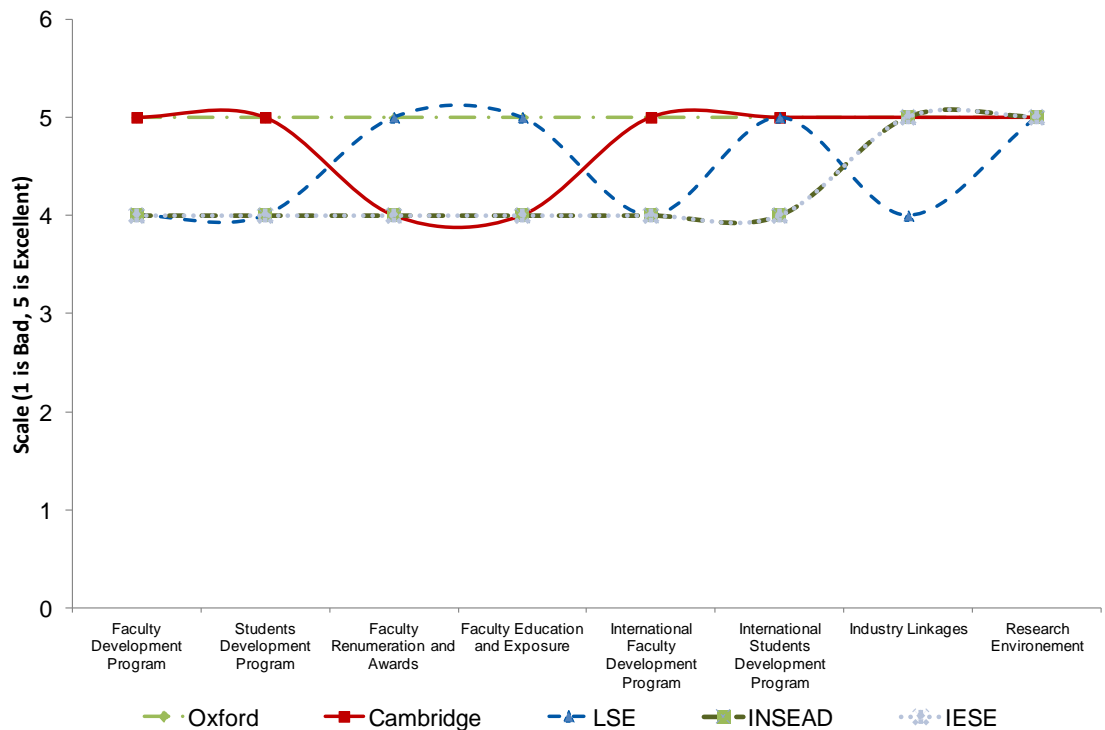
A value chain analysis is a strategic representation of the various primary activities that help generate an output. For the establishment of world-class business school incubator hubs, there are various factors which would constitute as inputs. These inputs are then compared across different business schools and a comparative assessment is made about the strengths and weaknesses of each incubator hub.

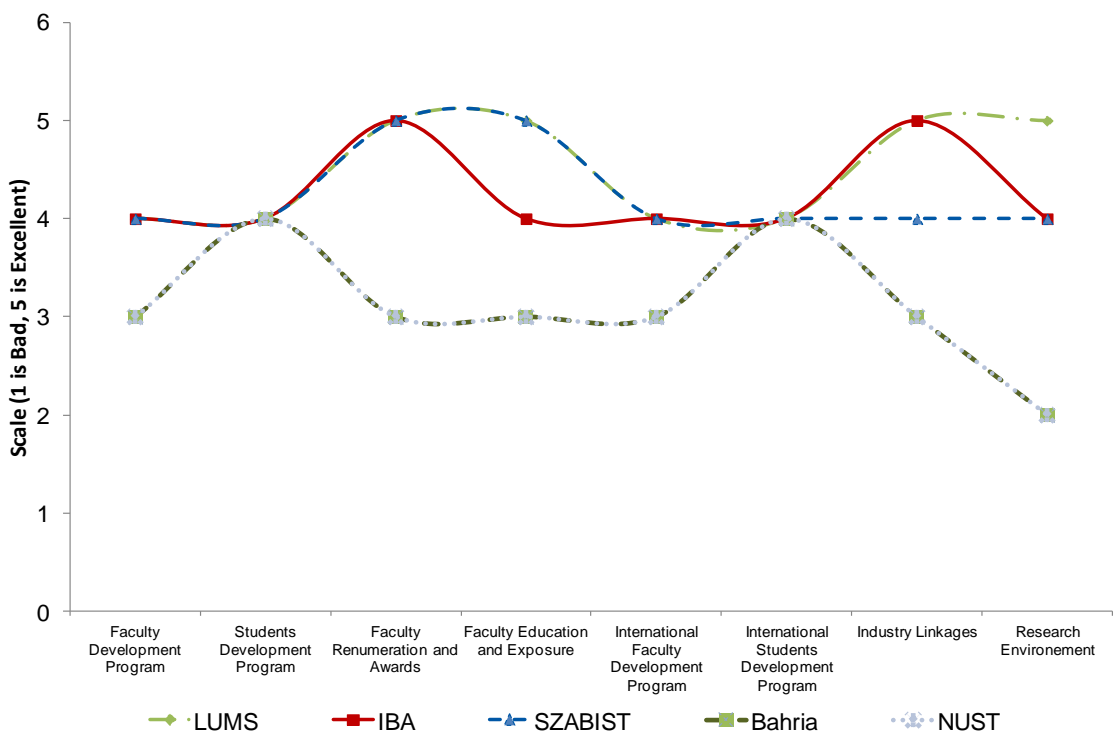
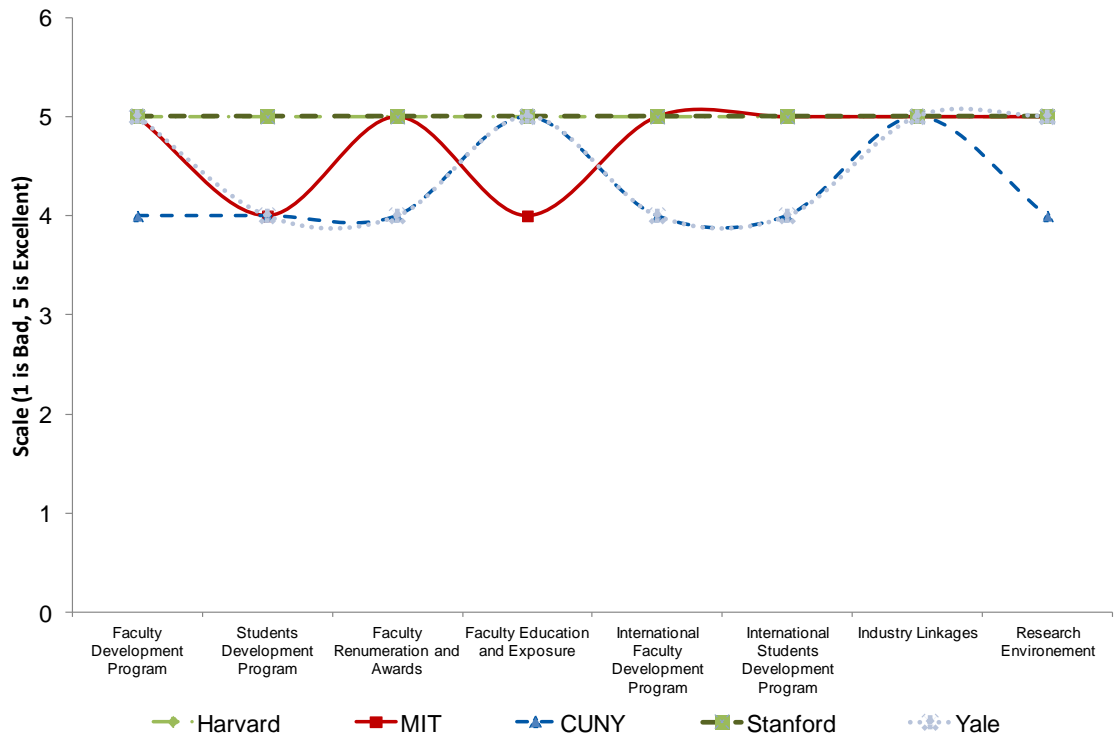
Value chain analysis is important in allowing both public and private investors to evaluate the quality of the outputs. Below is a short comparative analysis on Pakistani business schools which ranks them as per a collective ranking in terms of:

- faculty;
- students;
- HECs; and
- and research activities.

The comparative analysis below for the US, Europe and Pakistan guides business schools to adopt a comparative framework. Each category is divided into internal and external subclass and weights assigned. A weight of 0 denotes the lowest ranking while 5 denotes the highest ranking.

Figures 6-8: Value Chain Analysis of US, European and Pakistani Business Schools





Business, Vol. XI - 2008, No 1 and No 2, 2008. Lines smoothed for ease of reading.

As indicated above, Pakistani business schools can improve in areas of R&D, faculty development and building a global brand.

It is worth noting that the above value chain analysis does not take into account all the input factors in our model in Figure 2 due to lack of sufficient and liquid data. Nevertheless it shows the comparative strengths and weaknesses of business schools across these regions. A more comprehensive model can take into account a greater

number of factors to rank the business schools from a financial and social return perspective as well as address major areas of improvement.

POLICY FRAMEWORKS

In order to garner the support of policymakers in Pakistan for business school incubators, a government department would need to spearhead and cultivate social entrepreneurship by building stakeholder dialogue and innovation labs.

An open and productive dialogue can be facilitated between investors, governments, social intermediaries and entrepreneurs in order to:

- provide investment for incubator hubs;
- stimulate policies to build social enterprises; and
- create an enabling environment for social entrepreneurs.

The UK serves as a good example of how an established unit within the Government can be dedicated to cultivate a movement of social innovation. As part of the Cabinet Office, the Office of the Third Sector (OTS) leads the Government supporting a thriving third sector, comprised of voluntary and community groups, social enterprises, charities and cooperatives. The OTS enables the third sector to campaign for change, deliver public services, promote social enterprise and strengthen communities.

The UK has been successful in uniting many networks in the third sector into one cohesive coalition, which sits outside the government. The Social Enterprise Coalition is a national body of social enterprises representing different national and regional support networks. By engaging with the various networks of enterprises and entrepreneurs, there is a united voice for policymakers, investors and state institutions to create an enabling environment for social entrepreneurs.

In a similar way, a Social Innovation Coalition could be established in Pakistan to centralise and mobilise action on SME investment. Several sectorial bodies responsible for enterprise development could focus exclusively on social innovation strategy, investment and research.

Pakistan would be empowered to make a leap forward in transparency and corporate governance measures

This coalition would be vital in spreading awareness around the allocation of public and private funds for enterprise development. Crucially, the right stakeholders would determine the success of the coalition. The coalition would report to the public on how and where capital (loan and equity) is being deployed and to what effect.

Pakistan would be empowered to make a leap forward in transparency and corporate governance measures and would become an attractive ground for investors interested in the space. Figure 9 below gives an indication of the necessary components within the Social Innovation Coalition which would need to be established.

Legal structures for the Social Innovation Coalition would dictate its formation outside the Government of Pakistan. Not only will the administration of the coalition entity be costly if it were established with the Government but the corporate governance of the structure will be subject to several government adjustments which would unnecessarily slow down the process.

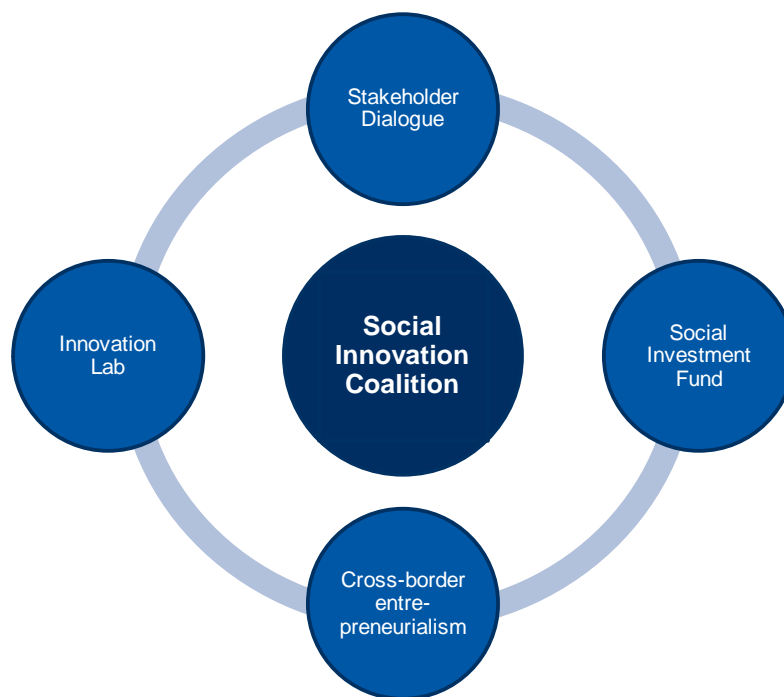
The Government should act as an enabling agent, but not be directly involved in influencing the decisions made within the coalition. The structure of the Social Innovation Coalition should be that of a hybrid model: it should combine the intent to maximise shareholder value in enterprises as well as create social impact.

Whilst the revenue stream would stem from membership fees to the Stakeholder

Dialogue secretariat unit, deal commission and reinvestment returns, the social impact would be generated from the value-add metric systems that measure the benefits to communities.

Good corporate governance should feature heavily into the formation of this coalition to oversee commercial activity, manage multi-organisation partnerships and encourage membership of under-represented groups. Licensed brokerage services should be introduced into the model via the financial intermediaries in the Social Investment Fund. Nominated leaders of the Coalition should be responsible for connecting with policymakers to influence regulations, promote accountability to its members and align best practice with clear objectives.

Figure 9: Social Innovation Coalition



Source: EPG.

Stakeholder Dialogue

A number of stakeholders should be involved, including the Government of Pakistan; the private sector, the Board of Investment, the Federal Board of Revenue, Community Development Organisations, Foundations, Associations, Heads of Mission, Chambers of Commerce, Legal units, private sector, SMEs, media, grassroots enterprises, Chambers of Commerce, entrepreneurs and venture capitalists.

The high level of specialised business associations and chambers around the country can be leveraged through Public Private Partnerships to strengthen stakeholder dialogue. The unit would be maintained as a secretariat, building knowledge transfer around social entrepreneurship through seminars and workshops. The outcome of these discussions can become regulatory reform (on the policy level) or investment decisions (on the private sector and investment level).

Case Study

Apna Aarsh Pakistan (AAP) is an example of a hybrid social intermediary with a non-profit arm that coordinates the various agricultural and ecological projects along environmentally sustainable principles.

AAP also comprises of a consulting arm which works with CSR divisions within the private sector and a research arm named the Centre for Sustainable Development, which conducts macro policy studies on Pakistan's political risk profiles in various regions of project operation. AAP believes in giving a Hand-Up, not a hand-out to marginalised SMEs with respect to environmentally sustainable principles.

AAP envisages its function as that of a facilitator; therefore their mandate, rather than to "re-invent the wheel", is to create beneficial linkages with relevant stakeholders. AAP prioritises the current and future sustainability of communities and demonstrates a commitment to the creation of a self-sustaining system of microenterprises across multiple sectors in Pakistan.

Social Investment Fund

The report, "Frontier Market: Pakistan" (2012), explores the innovation of a Social Investment Fund, which uses an enhanced venture capital model to direct hybrid investments with financial and social return into Pakistan's early-stage enterprises. The SIF is responsible for investment allocation, sector due diligence and risk diversification and can be established within the Social Innovation Coalition.

Initially, the SIF would assimilate the capital deployment from active investor circles. Subsequently, the financial intermediary group would structure debt and equity products to broker transactions with mid-cap enterprises and SMEs. As an organised platform for investors, the SIF interfaces between the commercial and social investment sectors to facilitate a sustainable cycle of top-down and bottom-up capital growth across market sectors in Pakistan.

The Social Innovation Coalition can play a role in harnessing in-country private sector funds, traditionally labelled CSR, into project initiatives managed by entrepreneurs. These funds, rather than being channelled into grants which fund "philanthropic endeavours", can actually be invested and re-invested into sustainable projects across multiple sectors. With active resources, increased commercial activities can be continually monitored and improved through the coalition.

In addition, further research could involve expanding the universe of the social investment space to address the creation of sophisticated capital market instruments to meet a variety of return-on-capital requirements whilst also maximising social returns. Quasi-equity or mezzanine finance offers this possibility through hybrid debt and equity instruments such as convertible bonds, shareholder loans, preferred shared and unincorporated joint ventures. The securitisation of loans (successfully implemented in microfinance organisations) could be another example of varied investment products to be utilised for the SME market.

Further research could also explore the creation of a central loan loss reserve and a social investment index or a public metric system. As a result, institutional investors may be able to buy structured products that function like fixed-income instruments and that combine sub and above-market rate returns with high social and environmental impact.

An important area for future research will be building a range of instruments to give the market close to full informational transparency. This would necessitate sector-specific performance data sets and the refining of existing metrics to include social impact frameworks. These research initiatives would be strong facilitators in building an enabling environment for investment into Pakistan's social investment space.

Cross-border Entrepreneurialism

Investors and other stakeholders should also examine cross-border entrepreneurialism, whereby social innovation models, implemented in other emerging economies, could be replicated in Pakistan. Models should be considered in markets where either cultural or geographical norms are similar to Pakistan in order to engender a similar success rate and infuse a sense of inspiration amongst entrepreneurs.

The Bright Green Foundation is a strong example of a renewable energy model which could be implemented in Pakistan. The organisation pioneers the "no ownership model" to train 100,000 rural grassroots women to set up their own renewable energy businesses by 2015 in Bangladesh. The Foundation provides linkages to financial institutions at low interest rates, access to solar panels and other accessories at cost effective prices and facilitates the setup of solar panel factories.

Husk Power Systems is an early stage enterprise in India which has provided power to thousands of rural Indians using proprietary technology, generating electricity in a cost-effective manner using a biomass gasifier. The enterprise has installed 60 mini-power plants that power approximately 25,000 households in more than 250 villages and impact lives of approximately 150,000 people in rural India. Husk Power Systems has invested in education and training to develop human capital in order to manage power plants and create a sustainable ecosystem of microenterprises.

As new technologies evolve into the market, the returns from the sale of these technologies could be reinvested.

Innovation Lab

A research unit should be established where existing academic research can be combined with technological advances, which could then be gauged to test their adaptability to SME models.

Innovations in the field of mobile communications could be applied to create cloud systems for farmers to understand the weather forecasts. Similarly, mobile technology could be utilised in the health sector for patients to have a portable platform and communication with their doctors.

In addition, electronic advances in capital machinery could be utilised in micro-hydro systems, solar products, textile mills and irrigation systems. As new technologies evolve into the market, the returns from the sale of these technologies could be reinvested back into the Social Investment Fund.

The Pakistan Council for Renewable Energy Technologies (PCRET) is an example of a government unit committed to the research, development and provision of energy services to Pakistan's remote areas. Recently, PCRET showed a commitment to technological innovation in the SME sector by partnering with SME Leasing Limited. PCRET will assist in the technical aspects of the projects, whereas SME Leasing Limited will cater to the financial needs of the feasible projects. SME Leasing Limited, a subsidiary of SME Bank Limited, specialises in providing financial solutions to SMEs in Pakistan.

The Pakistan Innovation Board (PIB) is another example of a government unit which has provided input into the National Innovation Strategy Framework and has championed reforms in the area of innovation. The Board is chaired by Dr. Sohail Naqvi, Executive Director of the Higher Education Commission and consists of prominent members of the

public sector, academia and the private sector.

The PIB was created in conjunction with The Competitiveness Support Fund (CSF), a joint initiative of the Ministry of Finance, in the Government of Pakistan, and USAID, established to position Pakistan on a more global competitive footing. The CSF is also providing technical assistance and co-financing for initiatives related to entrepreneurship, business incubators and private-sector led initiatives with research institutes and universities that contribute to creating a knowledge-driven economy. The First Innovation Workshop took place in Karachi in March 2010, and the discussion provided crucial input for the draft innovation strategy.

CONCLUSION

Both the establishment of incubator hubs in business schools and new policy frameworks to facilitate social innovation can leverage Pakistan's home-grown capacity in the global economy. Public and private investors can play an instrumental role in shaping the ecosystem of self-sustaining enterprises and unlocking the full potential of Pakistan's social entrepreneurs.

The investment in human talent, as well as in institutions, will spearhead a dynamic movement, where entrepreneurs will be the driving force of this change.

Raising both investor confidence and entrepreneurial confidence is critical to this process. By changing mind-sets through education, mentorship and training programmes, a strong enabling environment can be fostered to propel the intergenerational wealth and knowledge transfer in Pakistan.

Crucially, careful due diligence of operating entrepreneurs and an understanding of the social fabric within both urban and rural settings will be pivotal to the success of socio-economic development in Pakistan. Following this, the educated class can take advantage of the opportunities arising from business incubator hub models, and those at the Base of the Pyramid can receive the necessary benefits of financial inclusion.

The need to create a knowledge economy around the social innovation movement in Pakistan could not be timelier than it is today. A quiet optimism prevails both within internal policy circles as well as within the international community on Pakistan's ability to catalyse widespread and enduring change in its economy.

END

REFERENCES

1. Achleitner *et al*, "Social Investment Manual: An Introduction for Social Entrepreneurs", Schwab Foundation for Social Entrepreneurship, September 2011.
 - A. Nicholls and C. Pharoah, "The Landscape of Social Investment: A Holistic Topology of Opportunities and Challenges", Skoll Centre of Social Entrepreneurship, Said Business School, Oxford, March 2008.
 - A. S. Habiby and D. M. Coyle, Jr., "The High-Intensity Entrepreneur", Harvard Business Review, September 2010.
2. AACSB, Business School Data Trends and 2012 List of Accredited Schools, 2012
3. A.A. Qureshi, "How do perceptions of the importance of Service-Quality Determinants differ across key stakeholder groups in the Pakistan Higher Education Sector?", MPhil Thesis, March 2012.
4. Acumen Fund, "Planting the Seed", N. Achwal, 28 June 2012.
5. ADB, "ADB supports Pakistan's first privately owned wind farm", 4 February 2011.
6. D. Court and L. Narasimhan, "Capturing the world's emerging middle class", McKinsey Quarterly, McKinsey, 2010.
7. D. R. Wheeler, "Transforming business education to produce effective leaders", The Pakistan Observer, 2009. Accessed 24 Dec 2011).
8. Dr N. Ul-Haque, "Pakistan: Framework for Economic Growth", Planning Commission, Government of Pakistan, May 2011.
9. Dr R. Evenett and K. H. Richter, "Making Good in Social Impact Investment: Opportunities in an Emerging Asset Class", The Social Investment Business, CityUK, 2011.
10. Dr Z. I. Zaidi, "Pakistan Renewable Energy Report", United Nations Economic and Social Commission for Asia and the Pacific, 2011.
11. Embassy of the United States, Press release, "Roshaneh Zafar: Pakistani Miracle Worker", 2010. Accessed 6 October 2012.
12. Global Education Initiative, "Educating the Next Wave of Entrepreneurs: Unlocking entrepreneurial capabilities to meet the global challenges of the 21st Century", World Economic Forum, 2009.
13. Global Entrepreneurship Summit, "Global Entrepreneurship Summit moves to GEW 2012", 7 December 2011.
14. Haq's Musings, Riaz Haq blog, "KSBL world class business education in Pakistan", 3 January 2012. Accessed 6 October 2012.
15. J.P. Morgan, "Impact Investments: An Emerging Asset Class", Rockefeller Foundation and Global Impact Investor Network, November 2010.
16. M. A. Khan and S. A. Khan, "Foreign Direct Investment and Economic Growth in Pakistan: A Sectoral Analysis", Working Paper 2011:67, Pakistan Institute of Development Economics, 2011.
17. McKinsey, "The Power of Many: Realizing the socioeconomic potential of entrepreneurs in the 21st century", October 2011.
18. Ministry of Environment, Government of Pakistan, "Clean Development Mechanism: National Operational Strategy", January 2006.
19. Monitor Group, "From Blueprint to Scale", in partnership with Acumen Fund, by H.

- Koh, A. Karamchandani and R. Katz, April 2011.
20. N.A. Kolachi and A.Z. Wajidi, "Business Education in Pakistan: Identifying weaknesses and suggesting improvements", East West Journal of Economics and Business, Vol. XI - 2008, No 1 and No 2, 2008. Lines smoothed for ease of reading.
 21. P. Auerswald, E. Bayrasli and S. Shroff, "Creating a Place for the Future: Towards a New Development Approach for the Islamic Republic of Pakistan", December 2010.
 22. P. Auerswald, E. Bayrasli and S. Shroff, "Creating a Place for the Future: Towards a New Development Approach for the Islamic Republic of Pakistan", December 2010.
 23. R. Zavatta, "Financing Technology Entrepreneurs in Developing Countries: Challenges and Opportunities", Economisti Associati in collaboration with Zernike Group BV, Meta Group SRL, June 2008.
 24. S. Blackman, "Entrepreneurship Gains Momentum at Business Schools", US News, 18 November 2011.
 25. S. Lakhani, "Agents of Peace?: The Role of Entrepreneurs in Peacebuilding in Fragile and Conflict-Affected States", International Network for Economics and Conflict, United States Institute of Peace, 14 November 2011.
 26. S. Samir Saleem, "Pakistani Entrepreneurs Rock - #2 on the Arabia Fast Growth 500", The Technology Cafe, 4 December 2011. Accessed 24 December 2011.
 27. S.A.J. Shirazi, "Tapping the Entrepreneurial Spirit", Pakistan Today, 3 August 2011. Accessed 30 December 2011.
 28. SMEDA, Government of Pakistan, "Pre-Feasibility Study: Environmentally Controlled Dairy Farm," June 2010.
 29. Symbiotics Group, "Oxfam and Symbiotics target investment industry with new SME fund", Press Release, 12 January 2012.
 30. The Prince's Youth Business International, "Global Youth Entrepreneurship Survey 2011", November 2011.
 31. United Nations Industrial Development Organization, "Creative Industries and Small and Micro & Small Scale Enterprise Development," Project XP/RAS/05/002, 2006.
 32. Various Authors, "Social Innovation in a Post-Crisis World", Special Edition for the World Economic Forum Annual Meeting 2009, Schwab Foundation for Social Entrepreneurship, Innovations, Davos-Klosters, 2009.
 33. Various Authors, "Towards Achieving Social and Financial Sustainability: International Labour Organization State Bank of Pakistan: A Study on the Performance of Microfinance in Pakistan", State Bank of Pakistan, International Labour Organization (ILO), 2009.

ABOUT THE AUTHORS

Priya Shah

Priya works in the social impact sector, focusing on thought leadership and partnership-building in Asia. She has worked on impact investing projects in Cambodia and India, and is a Knowledge Chair on the Acumen Fund Chapter in London. She interviewed over 30 thought leaders and CEOs for a report on social investment in Pakistan, and is currently researching frugal innovation models in Indian healthcare.

Shailabh Shubhisham

Shailabh holds a Masters in Finance from London Business School, UK and a Masters in Mathematics and Computing from Indian Institute of Technology, Delhi, India. Shailabh has previously worked with Royal Bank of Scotland, Singapore and Lehman Brothers Japan, Tokyo on the pricing and risk management of fixed income derivatives covering the European and the Asian markets.

For more information, please contact: pshah@economicpolicygroup.com and pdattani@economicpolicygroup.com.

Economic Policy Group (EPG)

EPG is an economic and strategy consulting firm based in London. We offer economic and regulatory policy advice, social investment impact analysis, impact investment advice and business management expertise to corporations, governments and the third sector around the world.

With proven skills in a range of complex projects across an array of sectors, we offer deep policy advice in a range of 'real-world' problems to offer long-lasting solutions to our clients, that are tailored to their particular issue, in order to help them make better business and policy decisions.

This publication contains general information only, and none of EPG Economic and Strategy Consulting or its related entities ("EPG Network") is, by means of publication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your businesses, you should consult a qualified professional adviser. No entity in the EPG Network shall be responsible for any loss whatsoever sustained by any person who relies on this publication.

RECENT THOUGHT LEADERSHIP

All available from the EPG website <http://www.economicpolicygroup.com/>.

Regulatory challenges in developing shale gas.

Supporting the naissance of the US shale gas industry is the regulatory environment for exploration and production, which is more developed than in the UK. This article looks at the differences between the regulatory regimes and identifies opportunities for development for the British regime.

Discounting in public policy.

Deconstruction of the Social Rate of Time Preference: In public policy investments, costs are often incurred in the short-term, with benefits accruing in the longer term. Whether a project is worth doing, or government action is justified, depends on the balance of these costs and benefits, in present value terms. This article deconstructs the constituent components of the discount rate used in these calculations, using the economics of climate change as a case study.

Challenges and misconceptions with SROI.

here is increasing pressure for providers of public services to evidence the social impact they are having. The application of SROI is a relatively young discipline, often not well understood by the third sector. There is considerable variability in how SROI is applied, which makes no two SROI ratios necessarily comparable. This article looks at some of the technical challenges and misconceptions in working with SROI, based on our experience of measuring social investment returns.

Litigation and arbitration in Focus: Interest calculations in arbitration judgements.

The consideration of interest in damages awards may form a significant amount of the overall award. It typically occurs towards the end of the process of preparing pleadings. This article reviews the rationale for paying interest and briefly outlines the different approaches to calculating it.

© 2012 EPG Economic and Strategy Consulting



CONTACT US TO FIND OUT MORE:

WEBSITE: www.economicpolicygroup.com