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## Challenges Facing Social Enterprises in Ethiopia

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### Abstract

Social enterprise is an emerging concept that blurry boundaries demarcating the for-profit and nonprofit sectors by combining social and profit missions. In Ethiopia, it takes on nonprofit or for-profit firms and is treated as an ordinary business or charity. It is a new horizon of hope to address severe socio-economic, cultural and, environmental problems left unaddressed by the conventional sectors (for-profit, public, and nonprofit) of the capitalist economy. Social enterprise is an infant and a growing sector facing many challenges that hinder its growth and reduce its social impact. This paper has explored the challenges facing social enterprises in Ethiopia. As the finding has revealed, the challenges facing social enterprises are broadly legal and institutional, socio-cultural, and finance and support related challenges. The legal and institutional challenges follow from the inadequacy of the existing legal regime of conventional charity and business to address the special regulatory concerns of social enterprises. Challenges relating to legal dearth includes the absence of a system of recognition, registration, certification, and regulation of social enterprise, lack of clarity of concepts (social enterprise and its social purpose and activity), unsuitability of legal forms to signal double-bottom lines and attract stakeholders, prioritizing diverge as well as competing missions and interests, absence of and difficulties in social impact reporting and measurement, lack of governing bodies accountability to the social mission and beneficiaries interest, absence of regulator that regulate and support social enterprise as distinct, and absence of a legal limit on the amount of profit distributed to shareholders and reinvested for a social purpose. The socio-cultural challenges facing the social enterprise is mainly associated with lack of social enterprise and social entrepreneurship in education curriculum, low awareness of public and government officials, lack of real motive of entrepreneurs to create positive social change, stiff market competition, and absence of partnerships (public-private). The finance and support scheme related challenges include access to capital(equity and debt), access to funding (grant and donation), access to land and high cost of premises, lack of technical support (training), and government subsidy (preferential treatment of tax and procurement). The degree of a problem these challenges pose may differ for for-profit and nonprofit social enterprises. To address challenging facing social enterprise and scale up their social impact the researcher called for the adoption of collaborative approaches by stakeholders.

**Keywords:** Social enterprise, Ethiopia, nonprofit, challenges, and for-profit

## 1. Introduction

Capitalism has been a positive force of change in the economy of Ethiopia. It has resulted in many extraordinary triumphs. However, every Ethiopian has not benefited. Gross inequalities in resources among people has been perpetuating as it has failed to ensure inclusive, equitable, and sustainable development. This happens because of defects in for-profit, nonprofit, and public sectors. For-profit sector focus on maximizing shareholder value (financial return) with no or less consideration for society and the environment.<sup>[1]</sup> Such conceptualization of human beings (trader) as only profit maximizer has negative consequences on society and the environment.<sup>[2]</sup> When the market and its main actor fail, the government is expected to rectify through its regulator and enterprise wings. The government intervenes in the market either as a regulator or trader. As a regulator, the government enacts policy and law which facilitates the operation of the private sector and correct market failures. The regulation of government make the business ethical, it does not make the business a social-centered one. The government have enacted different laws (labor, environmental, and customer protection laws) to protect the public from the abuse of capitalist, but it has not brought change required. In other words, it has not address the social problems because of resources and skills constraint accompanied by bureaucracy and rent-seeking. Besides, traders' bias influenced government regulation. As a result, instead of working to rectify the market failure and solve social problems, it focuses on leveling filed for greed investors who manipulates the people. As a trader via public enterprise government intervenes in the market through direct engagement in the economic activities. The public enterprise operates in the same fashion with private business organizations as profit maximizers neglecting their social missions. For example, the Commercial Bank of Ethiopia which is one of the public enterprises does not provide loan for the poor majority which lack (pledge and mortgage) like all other private commercial banks. The same is true for the Development Bank of Ethiopia. As a result, the defect of for-profit *mutatis mutandis* applies to public enterprise. Following the failure of for-profit and public sectors, the nonprofit sector emerged as a third way to address social problems.<sup>[3]</sup> Despite its focus on creating positive social impact, the nonprofit firm has also failed because of a financial constraint following its dependency on a non-sustainable source of finance such as donation and grant.<sup>[4]</sup> In recent years, for-profit businesses start to incorporate social mission and nonprofit start to focus on earned income to finance their mission. These lead to the birth of for-profit and nonprofit social enterprises in an ordinary business and charity respectively. Based on legal forms it assumes, social enterprises can be classified as nonprofit and for-profit social enterprises.<sup>[5]</sup> The failure of for-profit private entities, government, and nonprofit entities triggered the emergence of social enterprises that combine the enterprise element of conventional business and social elements of conventional charity.<sup>[6]</sup> Social enterprise is a meeting point of nonprofit, for-profit, and public[?]. Social enterprise was emerged to fill gaps left not sufficiently addressed by the traditional sectors. In Ethiopia, it gets its first look recently. Social enterprise is an infant, but a growing sector without a system that expressly recognizes it.<sup>[7]</sup> Although their exact numbers remain elusive, as a study conducted by the British Council in 2017 has revealed over fifty-five thousand (55,000) social enterprises exist in Ethiopia.<sup>[8]</sup> Despite this, the concept is strange to most stakeholders including policy-makers. It is also common to see a confusion of social enterprise with conventional enterprise and nonprofit. As of today, there is no special legal form or status for social enterprise, it conventional for-profit, and nonprofit form.<sup>[9]</sup> The concept of social enterprise is fluid which is easy to understand but difficult to define. There is no consensus on what social enterprise is?<sup>[10]</sup> However, gradual convergence of understanding is occurring as a result of intensive research by a growing number of scholars throughout the world. Generally, a social enterprise is an organization that advances a

[1] Amr Seda, *Challenges facing social entrepreneurship The implications for government policy in Egypt*, Review of Economics and Political Science Vol. 5 No. 2, 2020,( Emerald Publishing Limited), 162-182, 162 (2020)

[2] PETER WINSHIP, BACKGROUND DOCUMENTS OF THE ETHIOPIAN COMMERCIAL CODE OF 1960, 23-23 and 35-77 (1974); Amr Seda, *supra note 1*, at 162.

[3] Gbenga Sesan, *Social Enterprises in Africa: An Emerging Concept in an Emerging Economy*, 1:1 INT'L NGO J. 5 & 6 (2006).

[4] *Id.*

[5] Green For All YELL Working Group, *Nonprofit Social Enterprise: Models and Funding*,1(2012), <http://greenlining.org/wp-content/uploads/2013/02/G4ASocialEnterpriseBrief.pdf>, (last visited on October 20, 2020).

[6] Muhammad Yunus, *Creating a World Without Poverty: Social Business and the Future of Capitalism*, 4:2GLOBAL URB. DEV. 10 (2008).

[7] BRITISH COUNCIL, *THE STATE OF SOCIAL ENTERPRISE IN ETHIOPIA*, 37 (2017).

[8] *Id.*, 36.

[9] *Id.*, 23.

[10] Moga Tano Jilenga, *Social Enterprises and Economic Growth: A Theoretical Approach and Policy Recommendations*, 7:1 INT'L J. ACAD. RES. IN ACCT. FIN. & MGMT. SCI.,41, 42 (2017); Andrew Rogerson, et al., *Mixing business and social What is a Social Enterprises and How Can We Recognize One?*, 1(Shaping Policy for Dev. Odi.Org, Working Paper, 2013).

social mission through market-based strategies.<sup>[11]</sup> Nonprofit social enterprise or commercial nonprofit refers to nonprofit entities that generate the majority of its income from a trade to finance their social mission and do not distribute profit to funders. In contrast, for-profit social enterprise refers to the for-profit firms which invest the majority of its income for a social purpose while distributing a limited amount of profit to shareholders.

The Association of Social Enterprise Ethiopia was established in late 2018 by a group of social entrepreneurs to serve as a collective voice of social enterprises in nudging the government to come up with special and supportive policy frameworks.<sup>[12]</sup> The sector is recently slowly receiving the attention of investors, media, researcher, and donors.<sup>[13]</sup> Because of the absence of a system to recognize, register, and regulate social enterprise as a distinct business model or sector, they are treated as ordinary traders or charity based on the form they take on. This posed social enterprise to multifaceted challenges that hinder its growth and social impact.<sup>[14]</sup> Empowering social enterprises to solve pressing social problems requires understanding and addressing challenges facing the social enterprise. So the purpose of this paper is to examine the challenges facing social enterprise in Ethiopia under the existing ecosystem initially designed for conventional charity and business. Besides, it offers a set of recommendations to address the challenges.

## 2. Research Methodology

To examine the challenges of social enterprise in Ethiopia, the researcher has utilized a qualitative approach through a combination of literature reviews and semi-structured interviews of relevant individuals. The participants include federal government bodies, social enterprises, the Association of Social Enterprise Ethiopia, and supporting organizations. In selecting participants, purposive sampling is used to purposely select persons relevant to the issues. Among federal government institutions, officers or officials at the Ministry of Trade and Industry, Federal General Attorney, Ministry of Revenue, Ethiopian Investment Commission, and Civil Society Organization Agency are interviewed. To reduce the cost of identifying only those firms which claim the status of social enterprises have been involved in the interview. To get representative data, both nonprofit and for-profit social enterprises are interviewed. A total of four for-profit social enterprises (Tebita Ambulance PLC, Vitae Nutrition PLC, Rehobot Home Nursing Service, Beautiful Mind Community PLC) and three nonprofit social enterprises (JeCCDO, Elilita Women At Risk-Elilita Product, Muday Association-Muday PLC) are interviewed. Besides, officers and officials at the Association of Social Enterprise Ethiopia and supporting organizations including Reach of Change are interviewed. All of the interviews were conducted with the relevant individuals and officials in person. Relevant regional government institutions and social enterprises operating in the regions were not included in the interview. In addition to interviews, the study has utilized both primary and secondary sources of data including laws, policies, strategies, books, articles, reports, and journals. The researcher used a qualitative data analysis method to analyze the data as the study progresses, continually refining and reorganizing in light of the emerging results. Within the qualitative approach, the researcher used an explanatory or analytical approach to critically analyze and explain data collected concerning challenges facing social enterprises in Ethiopia. Finally, the data collected from literature and interview analyzed jointly and, not independently.

<sup>[11]</sup> Green For All YELL Working Group, *supra note 5 at 1*.

<sup>[12]</sup> Social Enterprise Ethiopia, <https://socialenterpriseethiopia.org/>, <https://socialenterpriseethiopia.org/team/>, <https://socialenterpriseethiopia.org/about-us/>, (last visited October 12, 2020). The founding members of social enterprise Ethiopia are Tebita Ambulance PLC (Kibret Abebe), Whiz Kids & Tibeb Girls PLC (Bruktawit Tigabu), Beautiful Minds PLC (Ayatam Simeneh), Vitabite Nutrition PLC (Melat Yosef), Maisha Technologies PLC (Fassika Fikre and Tizzita Mengesha), and though not officially incorporated in the governing document, Rohobot Home Care Nursing Service (Nebiyat Demeke). Social Enterprise Ethiopia (SEE) is a national body for social enterprise – business with a social or environmental mission. As a membership organization, SEE is aims to build a strong social enterprise ecosystem in Ethiopia for a sustainable and inclusive economy. Members have an opportunity to connect with other social entrepreneurs, government, donors, investors, and partner organizations; access exclusive invitations and preferential rates for events; and increase visibility through the SEE directory, media platforms, and “Business for Good” logo. Social Enterprise Ethiopia also coordinates training programs, mentorship, coaching, advisory support, and other business development services. Furthermore, SEE conduct research, raise awareness, and lobby for an enabling policy on behalf of the social enterprise movement in Ethiopia.

<sup>[13]</sup> Social Enterprise World Forum 2019, <https://socialenterpriseethiopia.org/2020/04/01/social-enterprise-world-forum-to-be-held-in-ethiopia/>, (last visited October 12, 2020).

<sup>[14]</sup> BRITISH COUNCIL, *supra note 7*, at 33.

### 3. Finding and Discussion-Challenges Facing Social Enterprises

Social problems in Ethiopia is multidimensional one ranging from high illiteracy, poor healthcare, high destitute, high unemployment, increasing wealth gap between the rich and poor, to poor education quality.<sup>[15]</sup> None of the conventional sectors (for-profit private, public, and the nonprofit sectors) effectively addressed these problems and ensure inclusive, equitable, and sustainable development. As the study conducted by World Bank in 2018 show Ethiopia is one of five countries in the world where great numbers of world poor lives.<sup>[16]</sup> Social enterprise is a big hope to address the most stressing social problems. Social enterprise is growing in both the for-profit and nonprofit sectors.<sup>[17]</sup> Social enterprise has the potential to deal with rooted social problems. Social enterprise is a flourishing part of the entrepreneurial ecosystem in Ethiopia.<sup>[18]</sup> However, it is failing to grow and create the desired social impact, mainly because of challenges facing. Social enterprises face similar challenges to other businesses or charities.

This section examines the challenges facing social enterprises from the viewpoint of literatures and interviews of relevant participants. Social enterprises operate in the for-profit and nonprofit sectors with different business sizes to address a set of different social problems hence, the challenges it faces may differ. However, it is not the aim of this paper to explore distinct problems that the social enterprise face based on the specific business it carries on and the social problem it tries to address. Instead, it explores the general challenges that the sector of social enterprise faces. For this paper, the challenges facing social enterprise in Ethiopia is grouped into three major themes: legal and institutional challenges; socio-cultural challenges, and challenges relating to finance and support frameworks.

#### 3.1. Legal and Institutional Challenges

Social enterprises adopt for-profit and nonprofit forms designed for conventional business and charity. Consequently, they have been treated as an ordinary business or charity. Distinctively, social enterprises blend social mission and profit-making activities within a single entity. This hybrid feature revealed the dearth of existing forms and regulators. The fluidity and novelty of the concept complicate the challenges. The legal and institutional challenges facing social enterprises are as follows.

##### 3.1.1. Absence of System

As a study conducted by the British Council has revealed the biggest barrier faced by social enterprises in Ethiopia is a financial constraint that is the lack of access to capital and grant funding.<sup>[19]</sup> Contrasting to this, as the researcher finding shows the absence of a system to recognize, register, and regulate it as a business model or sector distinct from ordinary business and charity is the fundamental challenge facing social enterprise in Ethiopia. The British Council has not pointed out the absence of a system as a challenge.<sup>[20]</sup> Despite this, all *de facto* social enterprises participated in the study have mentioned the absence of a system that formally recognizes and supports social enterprises as the main challenges to their establishment and operation. More specifically, they claim that all other challenges arise from the absence system for social enterprise. In other words, the absence of the system is a root cause of all other challenges. Because of the absence system, social enterprises have been treated as ordinary businesses or charities based on the form they adopt and left unnoticed. To address this problem, there is a need to have a system for social enterprises. Introducing a system to recognize, register, and regulate social enterprise as a distinct business model is a matter of necessity. The system of recognition may take both public (by the government) or private (non-profit firms) arrangements. Countries introduced a system (including legal form, law, policy, strategies, and regulator) for social enterprise.<sup>[21]</sup> Besides formal recognition, the US and UK have

<sup>[15]</sup> Assefa Admassie and Degnet Abebaw, *Rural Poverty and Marginalization in Ethiopia: A Review of Development Interventions*, available at <https://core.ac.uk/download/pdf/188287052.pdf>, 2 (last visited on October 6, 2020).

<sup>[16]</sup> World Bank Blogs Half of the world's Poor Live in just 5 Countries, <https://blogs.worldbank.org/opendata/half-world-s-poor-live-just-5-countries>, (last visited on Aug. 26, 2019).

<sup>[17]</sup> BRITISH COUNCIL, *supra note 7* at 33.

<sup>[18]</sup> BRITISH COUNCIL, *supra note 7* at 4.

<sup>[19]</sup> BRITISH COUNCIL, *supra note 7* at 33.

<sup>[20]</sup> BRITISH COUNCIL, *supra note 7* at 33-35.

<sup>[21]</sup> Anna Triponel & Natalia Agapitova, *Legal Framework For Social Enterprises Lesson From Comparative Study Of Italy, Malaysia, South Korea, United Kingdom, And United States*, 6 (World Bank Group Working Paper. No 114405, 2017); Phan Thi Thanh Thuy, *Legal and Policy Issues of Social Enterprises Vietnam: Some Suggestion from Tawian*, 東海大學法學研究第五十五期.173, 174 (2018); Alicia E. Plerhoples, *Can an Old Dog Learn New Tricks? Applying Traditional Corporate Law Principles to New Social Enterprise*

introduced a framework of certification of organizations or individual which fulfill predetermined tests as a social enterprise by a licensed private entity. Ethiopia lack such a system of certification.

### 3.1.2. *Lack of Clarity of the Concepts*

Answering the questions of what constitutes social enterprise, social purpose, and activity is essential in ensuring the efficient operation of social enterprise. Ethiopia lacks a formal definition or characterization of social enterprise by the executive branch or the law, though, the Association of Social Enterprise and the British Council have developed its operational definition and characterization. The absence of formal definition or characterization of social enterprise has opened the door for abuse by those who declare themselves as a social enterprise without qualifying as such. Even organizations or individuals claiming the status of social enterprises face difficulties in explaining what makes them distinct from ordinary business or charity. Despite this fact, many countries have defined what social enterprise is. For example, South Korea has defined it under a special act designed for social enterprises.<sup>[22]</sup>

Defining what constitutes social purpose and activity of the social enterprise is essential to establish a clear identity of social enterprise. These issues are alien to the for-profit laws. As a result, commercial law has not defined what constitutes social purpose or social activity. Not only undefined but also unregulated by regulatory bodies. The existing regulatory bodies of for-profit firms regulate only its enterprise aspect as an ordinary enterprise without having regard to the social purpose and social activity of the firms. This opens the door for the wolf with sheep cloth to manipulate the sector without having a legitimate social purpose and without performing an activity that benefits the society and environment. In this respect, a nonprofit social enterprise that operates using nonprofit forms are relatively in a better position. Because even if it is undefined, the social purpose of nonprofit social enterprise can be inferred from the nonprofit form itself. Besides, the social purpose and activity of the nonprofit is subject to examination of the CSOA during the formation and operation stages. However, the business wing of the nonprofit which ensures the financial self-sufficiency of nonprofit social enterprise is treated as an ordinary business. In foreign jurisprudence, defining the social purpose of for-profit social enterprise in gaining currency. For example in the UK, the “community purpose” of a community interest company is defined as a purpose beneficial to (i) society at large, or (ii) a segment of society that is broader than the group of persons who are related to the community interest company (legal form designed for social enterprise).<sup>[23]</sup> Likewise, to ensure clarity of the concepts of social enterprise in Ethiopia, defining the term social enterprise, its social purpose, and social activity is necessary.

### 3.1.3. *Unsuitability of Legal Form*

#### 3.1.3.1. *Problem relating to nomenclature*

The existing laws neither prohibit nor expressly allow conventional for-profit and nonprofit firms to operate as a social enterprise. A nonprofit organization has been performing income-generating activities to finance their social purpose. As well, for-profit firms have been incorporating social and environmental missions besides their profit-making purpose. In doing so, for-profit and nonprofit organizations have been operating as a social enterprise. The permission of blending social and business missions does not guarantee the suitability and adequacy of naming (firm name) of existing legal forms to send essential signals about the nature of the business to stakeholders.<sup>[24]</sup> The social investor get interested to invest in, the customer prefers products and services of the firms, the

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Legislation, 13 TENN. J. BUS. L. 221, 228-231(2012); Antonio Fici, Recognition and legal Forms of Social Enterprises in Europe: A Critical Analysis from a Comparative Law Perspective, 3 (Euricse Working Paper No. 82, 2015); J. Haskell Murray, *The Social Enterprises Law Market*, 75:2:6 MARYLAND L. REV. 541, 543 & 544 (2016)

<sup>[22]</sup> Social enterprise is an organization which is engaged in business activities of producing and selling goods and services while pursuing a social purpose of enhancing the quality of local residents' life by means of providing social services and creating jobs for the disadvantaged. See South Korea Social Enterprises Promotion Act. No. 8217, art.2 (2007).

<sup>[23]</sup> Community Interest Companies Act. 2012, c. 38, s. 1, 2(1(b)).

<sup>[24]</sup>J. Haskell Murray, *supra* note 21, at 560. In recent years, states in a different corner of the world have designed different special firm names for SEs. Among other some of the firm name adopted by different states includes *community Interest Company*, *Benefit Corporation*, *Social Purpose Corporation*, *Public Benefit Corporation*, *General Benefit Corporation*, *Sustainable Business Corporation*, *Specific Benefit Corporation*, *Social Cooperative*, *Social Solidarity Cooperative*, *Collective Interest Cooperative Society*, *Social Purpose Company*, *Social Initiative Cooperatives*, *Low-Profit Limited Liability Company*, *Flexible Purpose Corporation*, and other. Relatively, “Low-Profit Limited Liability Company” and “Flexible Purpose Corporation” are weak to signal the social purpose of the business. In contrast, all other firm names in the list connote a focus on society at large

employee is motivated to be employed at a low or fair price, beneficiaries get services and good from enterprise, and donors is impressed to support if they know social missions of an enterprise. Ensuring the growth of the sector requires a firm name that is attractive enough to impress potential investors, customers, donors, and employees. However, the nomenclatures of the existing legal forms are not suitable in this regard. The firm name of the existing for-profit forms are not suitable to indicate the social purpose of an enterprise. In case, nonprofit social enterprises carry on business as a sole proprietor or shareholder in business firms. Distinguishing their products from products and services of other ordinary business is highly challenging. When a nonprofit operate business as a sole proprietor, the business license is given with the name of either director or one of a member of the charities. This poses difficulties in identifying the business of nonprofit social enterprise from the personal business of the owner or manager. Besides, it creates confusion mainly at the time of renewal of license since it is considered as the personal business of the founder or director in whose name the license was granted. Besides, the use of a separate entity as a business wing increases transaction costs because of duplication of resources to manage and operate the charity and its business wing. Many countries have introduced different legal form and statuses with impressive firms' names. Some of the names include Community Interest Company, Social Purpose Company, Social Impact Company, Solidary Company of Social Utility, Company of Social and Solidarity Economy, Social Cooperative, ESUS enterprise, Social Enterprise, Social Enterprise ex-Lege, Social Initiative Cooperative, Limited Liability Social Co-operative, Low-Profit Limited Liability Company, Social Purpose Corporation, Flexible Purpose Corporation, Benefit Corporation, Public Benefit Corporation, Benefit Limited Liability Company, and B-Lab Certified Corporation.<sup>[25]</sup>

### 3.1.3.2. Problem relating to operation

The unsuitability of the existing legal form is not limited to nomenclature, but it extends to operation. Social entrepreneurs have trouble fitting their organizations into the current menu of nonprofit and for-profit legal forms.<sup>[26]</sup> For-profit entities are designed to serve a profit-making purpose while the nonprofit serves a social purpose.<sup>[27]</sup> None of the legal form is designed to combine social and business missions at a time. This make the operation of social enterprise through blending social and business mission challenging. Operation as a social enterprise using for-profit forms makes its social impact out of consideration. Moreover, the absence of a special legal form for social enterprise posed a challenge to collecting the fruit of social branding. The practical unsuitability of existing legal forms to operate as a social enterprise blending social and business missions is confirmed by social enterprises participated in the interview.

Specifically, nonprofit social enterprises operating as nonprofits are severely restricted in terms of how they can raise capital.<sup>[28]</sup> Civil society organizations, cannot distribute profits. This constraint limits their access to investors and equity capital. Nonprofits are also subjected to business income tax concerning earned income unrelated to a nonprofit's core mission.<sup>[29]</sup> In doing so, large amounts of unrelated income can put a nonprofit's tax-exempt status at risk and discourage participation in commercial activity.<sup>[30]</sup> A nonprofit social enterprise may also have trouble finding other sources of funding that align with their organization. For instance, a donation may in conflict with the social enterprises' goal of self-sufficiency and financial sustainability. As a result of their funding challenges, social enterprises operating as a nonprofit will rarely be able to achieve the growth of for-profit businesses. Social enterprises operating as nonprofits are also challenged in terms of the efficiency of their operations as it has been criticized for failing to use cost-effective practices in fundraising, administering programs, and other areas of operation. Besides, nonprofit social enterprises may run into trouble finding individuals with business expertise. This is why nonprofit social enterprise cited human resources as also among the biggest challenges they face.

<sup>[25]</sup> J. Haskell Murray, *supra note 21* at 543 & 544; Haskell Murray, *Social Enterprises Innovation: Delaware's Public Benefit Corporation Law*, 4HARV. BUS. L. REV. 345-371(2014); EUROPEAN CENTER FOR NOT-FOR-PROFIT LAW, COMPARATIVE ANALYSIS OF THE REGULATORY FRAMEWORK FOR SOCIAL ENTERPRISES, (2015); EUROPEAN CENTER FOR NOT-FOR-PROFIT LAW, LEGAL FRAMEWORK FOR SOCIAL ECONOMY AND SOCIAL ENTERPRISES: A COMPARATIVE REPORT, (2012); EUROPEAN SOCIAL ENTERPRISE LAW ASSOCIATION, SOCIAL ENTERPRISE IN EUROPE DEVELOPING LEGAL SYSTEMS WHICH SUPPORT SOCIAL ENTERPRISE GROWTH, (2017); Anna Triponel & Natalia Agapitova, *supra note 21*; Antonio Fici, *supra note 21*, at 3.

<sup>[26]</sup> Alan J. Abramson and Kara C. Billings, *Challenges Facing Social Enterprises in the United States*, Nonprofit Policy Forum, 2 (2019)

<sup>[27]</sup> *Id.*

<sup>[28]</sup> Alan J. Abramson and Kara C. Billings, *supra note 26* at 2.

<sup>[29]</sup> Federal Income Tax Proclamation No. 979/2016; Art. 65(1(m)).

<sup>[30]</sup> Alan J. Abramson and Kara C. Billings, *supra note 26* at 2.

Nonprofits need greater expertise in sales and marketing of social enterprises product and services. At the same time, nonprofits have several advantages over their for-profit counterparts, including exemption from corporate income taxes, the ability to promise tax breaks to donors, and the capacity to attract volunteer labor.

For-profit social enterprises that choose a for-profit form face significant challenges in making a social purpose their primary mission.<sup>[31]</sup> While for-profit can include social cause in their memorandum of association, there is no way to ensure that the mission is prioritized over profit-making. Commercial law does not require for-profit directors or managers to prioritize profit maximization; however, in practice, they tend to prioritize profit-seeking because they are beholden to shareholders through fiduciary duty, with shareholders having the ability to remove and/or sue those who do not operate in their interests. To address these challenges, there must be a law that protects directors from such lawsuits.<sup>[32]</sup> Shareholders may agree to prioritize a social mission and set this fact in the memorandum of association, but not enforceable. They are subject to double taxation, and cannot receive tax-deductible donations.

### **3.1.4. Prioritizing Missions and Interest**

Prioritizing competing and diverge missions and interests is a major concern in the operation of social enterprises. Social enterprise serves two masters that is shareholders and beneficiaries community (social and business mission). Following this, how to trade-off between profits and the social mission or interests of shareholders and beneficiary is a challenging task. Unless social mission and beneficiary interest is prioritized the mission integrity problem arises. To address this problem, the social enterprise law must stipulate how competing missions and diverging interests should be prioritized or balanced. At this point, it needs to be underlined that the degree of concern that the issue of balancing and prioritizing competing and diverge missions and interests pose is different for nonprofit and for-profit social enterprises. The concern is high in the case of for-profit social enterprise because of the presence of profit and asset distribution to the owner. Commercial laws has not expressly addressed the issue of prioritization and balancing. Hence, the prioritization of competing interests or missions is left to the decision of members. The absence of legal provisions that regulate the issue of prioritization make the integrity of the social mission and interest of the community doubtful. Usually, for-profit social enterprise is criticized for privileging economic value over the goal of social value creation.<sup>[33]</sup> So the challenge here is the difficulty in remaining true to the original mission, which is purely social.

Relative to for-profit, the concern of prioritizing and balancing competing and diverge missions and interests is low for the nonprofit social enterprise because of the incorporation of the non-distribution constraint, mission lock, and asset lock doctrines under the charity law to promote the social purpose and serve the interest of the beneficiary community. The primacy of social purpose and beneficiary interest is expressly recognized. The asset is also public-owned. Despite this fact, the social purpose and beneficiary interest may be compromised by disguised profit distribution through unreasonable remuneration as well as emphasize on income-generating activity disregarding social purpose. To address the problem posed by unreasonable remuneration, the charity law of Ethiopia has limited the amount of income of CSOs used for administrative expenses including salary. However, the problem that arises from emphasizing income-generating activity disregarding social purpose is yet unaddressed. Separate management of the business and social wing is the best approach adopted by a few nonprofit social enterprises. The best example is Muday Charity Association and Elilita Women. These two social enterprises assigned separate management bodies for their social and business wings. In this way, it is possible to ensure the complementary operation of both aspects of an enterprise.

### **3.1.5. Profit Distribution and Asset Transfer**

The amount of profit distributed among shareholders and reinvested for social purpose needs regulation. Regulation ensures mission integrity and scales up social impact. Otherwise, it affects the integrity and growth of the sector. The degree of challenge this issue pose is different for for-profit and nonprofit social enterprises. Direct profit distribution is not a concern for nonprofit social enterprise.<sup>[34]</sup> Profit is used only to address social problems and cover the administrative expense. The total reinvestment of profit for social purpose and total prohibition of

<sup>[31]</sup> Alan J. Abramson and Kara C. Billings, *supra* note 26 at 3.

<sup>[32]</sup> Alan J. Abramson and Kara C. Billings, *supra* note 26 at 2.

<sup>[33]</sup> Amr Seda, *supra* note 1 at 163.

<sup>[34]</sup> Organization of Civil Societies Proclamation, Art. 16(6) & 63(1(b)).

distribution of profit to the owner has avoided prioritization challenges that arise in this respect. The issue of prioritization arises when the nonprofit social enterprises use all or the majority of its income generated from the commercial activity to cover administrative expenses instead of using it for social purposes. The absence of limitation on the amount of income invested for administrative expenses may create a loophole for indirect profit distribution under the guise of salaries and compensation for directors and employees. The new CSO law of Ethiopia has limited the maximum amount of income used for administrative expenses including salaries.<sup>[35]</sup> Accordingly, the administrative cost of an organization established for the benefit of the general public or that of third parties may not exceed twenty percent (20%) of its total income. In other words, a nonprofit social enterprise which have adopted charities form must invest a minimum of eighty percent of their total income for social maximization. The limit on the amount of income utilized for administrative expenses indirectly reduces the indirect distribution of profit through unfair remuneration.

Concerning the amount of profit distributed and reinvested for social purpose, the commercial laws which regulate for-profit social enterprise is silent. Social mission is a new dimension for for-profit firms. As a result, the amount of profit distributed as a dividend and reinvested for the social purpose to scale up social impact is determined by owners of the business. This opens the door for for-profit firms to claim the status of a social enterprise without investing the majority of its profit to scale up social impact. This hurt the growth of social enterprise by posing a mission integrity problem. The problem relating to determining the amount of profit reinvested for social maximization is a challenge facing the social enterprise.

The limit on profit distribution shall be supported by the restriction on asset transfer (asset lock) and mission lock to reduce mission drift or greenwashing.<sup>[36]</sup> The restriction on profit distribution would not be real and effective unless the asset is locked through the prohibition of transfer of assets or properties to members or third parties below the fair market value or against the social objective.<sup>[37]</sup> The asset transfer by the nonprofit social enterprise is strictly regulated under the charity's law. Nonprofit social enterprises are entitled to transfer assets or property through sale or donation in the normal course of the business. However, the property or proceeds from the disposal of the property may not be transferred as a donation for the benefit of members or to another activity which is not its mission.<sup>[38]</sup> The owner or controller may not transfer the asset of the nonprofit for self-interest maximization. Additionally, the nonprofit social enterprise are not entitled to drop their social mission and covert to for-profit firms. In contrast, the law of for-profit has no limit on asset transfer and mission change by for-profit social enterprise. The shareholders or owners of for-profit social enterprises have the freedom to transfer assets and drop the mission of an enterprise. The absence of assets and mission lock is one legal challenge facing the for-profit social enterprise.

### **3.1.6. Problem Relating to Social Impact Report and Measurement**

Communicating, measuring, and disclosing social impact is another identified challenges facing social enterprises in Ethiopia. By its nature, social impact is not easily measured, and accordingly, it is not easily communicated to the concerned stakeholders. There are several reasons for this. Social enterprises make a social impact which is notoriously difficult to measure.<sup>[39]</sup> Besides, social enterprises are required to demonstrate both their profitability and social outcomes, which involves collecting and analyzing very different kinds of data.<sup>[40]</sup> There is also challenges for social enterprises to prove their commitment to profit and purpose.<sup>[41]</sup> Despite these challenges, social impact reporting, auditing, and disclosure is essential to ensure the efficiency and integrity in the performance of a social enterprise. The standard and terms of social impact report, audit, and disclosure shall be expressly regulated by law. Unfortunately, the existing legal regime of for-profit social enterprise has failed to regulate this concern. In contrast, under the charity's law, the social impact report can be impliedly inferred from the required annual activity report. In Ethiopia, the absence of social impact reporting and audit is a challenge for for-profit social enterprises. Social impact reporting and auditing is unknown for a for-profit social enterprise that

<sup>[35]</sup> Organization of Civil Societies Proclamation, Art. 63(2) .

<sup>[36]</sup> Karsten E. Sørensen & Mette Neville, *Social Enterprises: How Should Company Law Balance Flexibility and Credibility?*, 15EUROPEAN BUS. ORG. L. REV, 267, 298 (2014).

<sup>[37]</sup> Antonio Fici, *supra note* 26 at 17.

<sup>[38]</sup> Organization of Civil Societies Proclamation, Art. 61(4).

<sup>[39]</sup> Alan J. Abramson and Kara C. Billings, *supra note* 26 at 5.

<sup>[40]</sup> Alan J. Abramson and Kara C. Billings, *supra note* 26 at 5.

<sup>[41]</sup> Alan J. Abramson and Kara C. Billings, *supra note* 26 at 5.

operate using legal forms designed for an ordinary trader. No law require a for-profit social enterprise to submit a social impact report. As a result, their social impact report is not subject to social auditing by an independent body (external auditor or government). At this time, as noted by social entrepreneurs, the government lacks the interest to require and accept social impact reports and conduct its auditing. Because of the absence of a social impact report requirement, social enterprises use their report only to evaluate owns social impact and use for grant-seeking. The existing regimes require only financial reporting for different ends. In the absence of law which requires a social impact report, some social enterprise like Beautiful Mind Community PLC has been making a report to a government agency (Addis Ababa Education Bureau) based on Memorandum of Understanding signed. The absence of social impact reporting and audit hurt the growth of a social enterprise, beneficiary thereof, and the public in general. The absence of a social impact report makes a positive contribution of social enterprises to the improvement of society and the environment is left unrecognized by the government and public. Besides, there is a situation in which an organization may abuse the beneficiary (community or environment).

The social enterprises in the non-profit sector make a social impact report (annual activity). Despite the existence of social impact reporting requirements, the standard of measurement is challenging even for nonprofit social enterprises as there is no similar assessment model that applies throughout the sector. However, relative to for-profit social enterprise, nonprofit have a better experience is preparing and measuring social impact reports. The Civil Society Organization Agency makes a desk-based and filed examination of the validity of the report to renew the license of nonprofit social enterprises.

### 3.1.7. Governance Challenges

Effective governance of social enterprise was identified as a challenge, because of a mismatch between the traditions of nonprofit and for-profit governance and the needs of social enterprises.<sup>[42]</sup> Governance serves to articulate both for what an organization is accountable, and to whom it is primarily accountable. Blending social mission and profit-making makes accountability for dual performance objectives and accountability to multiple principal stakeholders a challenge in the governance of the social enterprise.<sup>[43]</sup> Specifically, social enterprise combines not only potentially conflicting goals (social and financial) but also potentially divergent stakeholder interests.<sup>[44]</sup> Accountability to competing or conflicting goals may trigger the risk of mission drift. This is mainly true for for-profit social enterprise. Several social enterprises have been criticized for ultimately prioritizing financial gains at the expense of their social mission. Relative to social and environmental goals, measuring the performance of financial goals in terms of well-established definitions and benchmarks is easy. As a result, there is a greater potential for the ambiguous social goal to be contested. In other words, clear financial goals and measures may displace more vague and flexible social goals and measures. Here governance challenges differ based on whether the customer and beneficiaries of social enterprise are similar or different. In case the customer is different from the beneficiaries of social activities, the social goal (beneficiary) may be neglected to maintain the customer. In contrast, in case the customer and beneficiary are the same, the risk of neglecting one goal or interest over the other is minimal since they reinforce each other. Conventionally, the for-profit firms which operate as for-profit social enterprise are designed to maximize the interest of shareholders or owners through profit maximization. As a result, considering and prioritizing the social mission and beneficiary's interests is highly challenging. A for-profit social enterprise is usually at risk of giving priority to the business mission.<sup>[45]</sup>

Giving primacy for social purpose and community interest at expense of profit purpose or shareholder interest may entail liability on managing bodies. The absence of a legal clause that guard manager or director against liability for serving a social mission or beneficiary interest has a huge impact on the growth of a social enterprise. Besides, managing the social aspect is a new dimension for for-profit firms that operate as a for-profit social enterprise. As a result, many organizations encounter difficulties in striking the right balance between diversifying into new revenue streams and maintaining a core ethos.

<sup>[42]</sup> Jo B a r r a k e t , *Challenges and Opportunities for Australian Social Enterprise*, CS I S W I N B U R N E R E S E A R C H B R I E F N O . 1, (2015), 1.

<sup>[43]</sup> Alan J. Abramson and Kara C. Billings, *supra note* 26 at 4.

<sup>[44]</sup> Alan J. Abramson and Kara C. Billings, *supra note* 26 at 4.

<sup>[45]</sup> Alnoor Ebrahim et.al, *The Governance of Social Enterprises: Mission Drift and Accountability Challenges in Hybrid Organizations*, 34RES. IN ORGANIZATIONAL BEHAVIOR, 81, 82 (2014).

Governance of social enterprise requires considering and balancing when it deems necessary prioritizing competing as well as diverge missions and interests. Nonprofit legal forms that operate as a non-profit social enterprise is designed to maximize social mission and beneficiary interest, and not founders' interest. Hence, considering and balancing, when it deems necessary prioritizing diverge missions and interests is not a big deal. The main problem concerning is lack of profession and skill to manage the entrepreneurial approach which is a new paradigm. The birth of non-profit social enterprise within charities has raised concerns about how to manage new entrepreneurial initiatives and risks whilst sustaining core values.<sup>[46]</sup> Managing financial and entrepreneurial risk is a major governance challenge for nonprofit social enterprise. Hence, developing appropriate skills and roles for non-profit social enterprise is crucial and determinative. To address these gaps, training is essential.

The other governance challenge of social enterprise relates to stakeholder accountability. A nonprofit social enterprise, too often prioritizing funders over beneficiaries. In theory, it uses participatory approaches to governance, however, in practice, nonprofit social enterprise boards are usually made up of donors and/or fundraisers for the organization and do not often include other stakeholders (beneficiary). Likewise, the participation of the beneficiary community in the management body of a for-profit firm that operates as a for-profit social enterprise is zero. In other words, the members of the management body is usually members or shareholders of the organizations. In this situation, maintaining and promoting social missions and beneficiary interest is difficult. The degree of risk of customer preference at the expense of beneficiaries may differ. Where customers differ from beneficiaries, the social enterprise pays particular attention to doing what is necessary. Thus, there is a significant risk of preference customers over beneficiaries. In contrast, where customers is a beneficiary, the risk of preference is low, however, the commercial activities provide little or no social benefit to beneficiaries. Where customers and beneficiaries are different, more stakeholder accountability could be created by providing beneficiaries with direct representation on the governing board, giving them a say in the organization's activities. Here representatives must have an impact on decision-making, and not symbolic.

The other governance issue is the right of beneficiaries to institute legal action against social enterprises or its controller. Social enterprise mainly works for the benefit of the public at large or specified third parties. This triggers the issue should the beneficiary be entitled to the right to standing or the right to institute a claim against social enterprise when the enterprise fails to render the required services or goods. As of today, beneficiary are not entitled to the right to institute legal action against social enterprise which fail to provides required services or goods. Despite this fact, the entitlement of beneficiary with the right to standing is very essential in ensuring the growth of social enterprise by ensuring mission integrity and creating a sense of ownership among the beneficiary.

### 3.1.8. Regulator's Challenges

The regulatory body is essential in ensuring the growth of a social enterprise. Unfortunately, no regulatory body recognizes and treats an organization as a social enterprise. Rather, social enterprises have been treated as ordinary businesses or charity based on the forms it assumes. Social enterprises can take one of two general legal forms; either register as a civil society organization and work under the Civil Society Organizations Agency or register as a for-profit (business organizations, sole business person, or cooperative) and work under the Ethiopian Investment Commission, Ministry of Trade and Industry, and/ or Federal Cooperative Agency. The for-profit social enterprise is subject to the existing regulatory body for a for-profit business. However, existing regulatory bodies treat it as an ordinary business without consideration of its social purpose and social impact. The existing regulators lack not the only mandate but also interest and competence to regulate the social aspect of for-profit social enterprises. The nonprofit social enterprise is subjected to different regulatory bodies concerning its social and business wings. Its business wing is subjected to the regulation of the Ministry of Trade and Industry and Ethiopian Investment Commissions whereas its social wing is subject to the Civil Society Organization Agency. Neither regulator of social aspect nor regulator of enterprise wing regulate it as a social enterprise. Rather, the regulator of the enterprise wing regulates the business wing as an ordinary business while the regulator of the social wing regulates it as a conventional charity. Treatment as an ordinary business or charity has a negative impact on the public visibility of social enterprises. The subjection of social and business wings to different regulatory bodies pose challenges to coordination and increase transaction cost. To address this challenge, special regulatory bodies (at least separate directorate) is necessary for social enterprise.

<sup>[46]</sup> Roger Spear et.al, *The Governance Challenges of Social Enterprises: Evidence from a UK Empirical Study*, Annals of public and Co-operative Economics, 14 (2009).

### 3.1.9. Problem relating to taxation

The other challenge raised by social enterprises that participated in the study is the absence of special tax treatment. Currently, in Ethiopia, both for-profit and nonprofit social enterprises are treated as ordinary trader and charity concerning taxation.<sup>[47]</sup> The Ethiopia tax regime has not distinctly addressed the tax treatment of nonprofit and for-profit social enterprises. Hence, the relevant tax rules on the nonprofit organization and for-profit business shall apply to business income generated by nonprofit and for-profit social enterprises respectively. Accordingly, nonprofit social enterprises are tax exempted (except income not directly related to its core function) while for-profit social enterprise is taxable without consideration of its social purpose.<sup>[48]</sup> The issue of whether the social enterprise should be granted a tax deduction or an exemption is yet unsettled.<sup>[49]</sup> The designer unrelated income of charities (nonprofit social enterprise) tries to justify the imposition of unrelated business income tax on grounds of revenue protection, avoiding unfair competition between nonprofits and for-profit entities, and keeping nonprofits from straying too far from their mission.<sup>[50]</sup> However, none of the justifications for unrelated income tax is fully convincing. Regarding the consequences of unrelated business on the nonprofits' social mission, it is difficult to discern the validity of a claim that commercial activity distorts nonprofits' behavior toward non-mission activities. Tax exemption encourages entrepreneurial activities and scales up the social impact of nonprofit social enterprises. Besides, commercial charities or nonprofit social enterprise does not distribute profit or transfer the asset to the funder.<sup>[51]</sup> As a result, most probably, the income generated from trade shall be used for social maximization or public goods. Despite arguments against tax exemption, a nonprofit social enterprise operating in Ethiopia raises the absence of special tax benefits as a major challenge that hinders their growth. The need to operate as a social enterprise must emerge from an innate passion to solve a social problem using an entrepreneurial approach. However, the presence of mission lock, asset lock, and profit distribution constraint doctrine support granting tax exemption for nonprofit social enterprises.

On the other side, granting tax deduction or exemption to for-profit social enterprises in the absence of a definition of social purpose and scientific social impact measurement may create a loophole for tax planning in the tax system.<sup>[52]</sup> The absence of profit distribution limits, asset lock, and mission lock aggravate the problem of tax avoidance. Giving preferential tax treatment for a for-profit social enterprise may have a huge negative effect on the treasure of government as it has the effect of nudging every trader to become a social enterprise to exploit the benefit. Despite such a problem that special tax treatment may poses, a social enterprise operating in Ethiopia raises the absence of special tax benefits as a major challenge that hinders their growth. It clear that tax is one of the positive social benefits that social enterprises contribute as an honest citizen. So, the need to operate as a for-profit social enterprise must emerge from innate passion to solve a social problem and create social impact and not from curiosity to secure special tax treatment. Hence, blaming the absence of tax benefits as a challenge is not reasonable in the absence of measures to reduce tax planning such as mission lock, asset lock, and profit distribution constraint. However, in the future, after enacting the law that locks assets, profit distribution, and missions, the government can provide a tax incentive for a for-profit social enterprise which are non-loss and non-dividend ones.

<sup>[47]</sup> Sheila Killian & Philip O'Regan, *Taxation and Social Enterprise: Constraint or Incentive for the Common Good*, 10:1J. OF SOC. ENTREPRENEURSHIP, 1, 5(2019).

<sup>[48]</sup> Lloyd Hitoshi Mayer & Joseph R. Ganahl, *Taxing Social Enterprises*, 66 STAN. L. REV. 387, 391 (2014); Henry Hansmann, *The Rationale for Exempting Nonprofit Organizations from Corporate Income Taxation*, 91 YALE L.J. 54, 56-57 (1981); Federal Income Tax Proclamation No. 979/2016; Art. 65(1(m)).

<sup>[49]</sup> J. Gregory Dees, *Enterprising Nonprofits*, HARV. BUS. REV., 55, 58 (1998); Burton A. Weisbrod, *The Nonprofit Mission and Its Financing: Growing Links Between Nonprofits and the Rest of the Economy*, in TO PROFIT OR NOT TO PROFIT THE COMMERCIAL TRANSFORMATION OF THE NONPROFIT SECTOR, 2 (1998); Boris I. Bittker & George K. Rahdert, *The Exemption of Nonprofit Organizations from Federal Income Taxation*, 85 YALE L.J. 299, 302 (1976); Anup Malani & Eric A. Posner, *The Case for For-Profit Charities*, 93 VA. L. REV. 2017, 2064, 97 (2007).

<sup>[50]</sup> Katherine Toran, *The Unrelated Business Income Tax*, Tax Policy and Charities, 1 (2013); Burton A. Weisbrod, *The Nonprofit Mission and Its Financing: Growing Links between Nonprofits and the Rest of the Economy*, in TO PROFIT OR NOT TO PROFIT THE COMMERCIAL TRANSFORMATION OF THE NONPROFIT SECTOR, 19 (Burton A. Weisbrod eds., 1998); Lloyd Hitoshi Mayer & Joseph R. Ganahl, *supra note* 48 at 391.

<sup>[51]</sup> Lloyd Hitoshi Mayer & Joseph R. Ganahl, *supra note* 48 at 391.

<sup>[52]</sup> Lloyd Hitoshi Mayer & Joseph R. Ganahl, *supra note* 48 at 387.

### 3.1.10. Lack of Mechanism of Controlling Subsidy

The support or subsidy that social enterprises receive from government or private actors needs to be regulated or controlled to avoid the risk of mission drift or expropriation of subsidy for the personal benefit of the owner or controller. The use of subsidy shall be controlled to maximize social purpose and thereby ensure the healthy growth of the social enterprise sector. The absence of a mechanism to control the use of subsidy for social purpose maximization is one of the major challenges facing the social enterprises in Ethiopia. Ethiopia lacks a special mechanism to control whether the subsidy received by the social enterprise is appropriated for the social purpose or the personal benefit of the owner and controller. This poses integrity problem and mission drift. The degree of risk of mission drift is different for for-profit and nonprofit social enterprises. In the case of nonprofit social enterprises, the total prohibition of profit distribution mitigates the risk of subsidy expropriation by the owner or misuse by the manager.<sup>[53]</sup> The owners or controllers of the organizations have limited incentives to compromise the mission of the organization.<sup>[54]</sup> The non-distribution constraint is the best (but not sufficient) mechanism to ensure the utilization of subsidy for social missions in nonprofit social enterprises.<sup>[55]</sup> This is true mainly because the controller of the organizations may expropriate the subsidy through unreasonable remuneration. To avoid the risk of mission drifts caused by payment of unreasonable remuneration to the controller, the amount remuneration paid to controllers of the organizations shall be regulated. The charity law of Ethiopia has not expressly and directly (but indirectly) addressed the issue of remuneration paid to controllers of nonprofit social enterprises. In the case of for-profit social enterprises, there is a clear risk (suspicion) that the subsidy they receive will be distributed to the firm's owners or misused by the managers.<sup>[56]</sup> Meaning, there is a general concern that subsidies fail to achieve their purpose and may be expropriated by those who own or control the organization.<sup>[57]</sup> The concerns is very high in Ethiopia, where legal clauses on asset lock, mission lock, the primacy of social purpose, and profit distribution limit are lacking. Thus, there is a need for devices to assure subsidy will not be expropriated, or there is a need to have a mechanism to mitigate the risk of expropriation for the personal benefit of owners or controllers.

Without prejudices to a law-backed mechanism of controlling subsidy (asset lock, mission, limit on profit distribution, and others), as observed by Ofer Eldar, there are three additional devices (usually used by subsidy-providers) used to regulate or ensure the utilization of subsidy for social purpose in the case of for-profit social enterprises. These are certification, contract, and control mechanisms. *Certification* mechanisms consist of a nonprofit or government agency that evaluates whether or not firms satisfy certain standards. One prominent example is B-Lab in the USA, a nonprofit that certifies companies as "B-Corps" and rates them per certain criteria relating to governance, workers, community, and the environment.<sup>[58]</sup> Certification is feasible only when it is possible to create uniform standards concerning both the class of beneficiaries and the type of subsidies that should be allocated to them. In Ethiopia, no organization is empowered to certify and there is no uniform standard against which certification is made. Hence, this method is not available in Ethiopia. A second *mechanism is a contract* with a subsidizer or support provider stipulating that the subsidies will be used for their intended purpose. Contractual mechanisms are typically used when the subsidy to the social enterprise is provided by a nonprofit organization. This mechanism allows greater flexibility for social enterprises in defining the class of beneficiaries and the type of disbursements allocated to them. Social enterprises that operate as low-cost sellers may need flexibility in adjusting their prices and discounts to different customers who have different levels of wealth. In Ethiopia, usually, the support provider uses this mechanism. However, it is ineffective since it lacks an enforcement mechanism. For example, Reach for Change which finance social enterprises in Ethiopia supervise the social enterprise which benefits from its support based on contract, but the only thing they do when the social enterprises fail to pursue social mission is giving a warning and excluding such enterprise from future competition for the fund. The last device is *controlling* by the non-profit owner.<sup>[59]</sup> A non-profit owner or shareholder determines the class of beneficiaries and the type of disbursements. It also controls mission change using its voting rights. In this case, it is the investor or owner of an organization that ensures the utilization of subsidy for the benefit of the

<sup>[53]</sup>Ofer Eldar, *The Role of Social Enterprise and Hybrid Organizations*, 1:92 COLUM. BUS. L. 92, 117 (2017).

<sup>[54]</sup>*Id.*

<sup>[55]</sup>Ofer Eldar, *supra* note 53 at 150.

<sup>[56]</sup>Ofer Eldar, *supra* note 53 at 116.

<sup>[57]</sup>Ofer Eldar, *supra* note 53 at 123.

<sup>[58]</sup>Ofer Eldar, *supra* note 48 at 164.

<sup>[59]</sup>Ofer Eldar, *supra* note 48 at 155.

community. This is a weak mechanism as it does not avoid the risk of missions drift especially in case they are “greedy investor”. The same is true when the voting rights of the nonprofit owner is minimal.

### **3.2.Socio-cultural challenges**

#### **3.2.1. Problem relating to education**

One of the main challenges facing social enterprise in Ethiopia is that it is not widely recognized as a concept among the common citizen, let alone understood. The same is true when it comes to academician and practitioners. The efforts that have been exerted in the field of social enterprise and social entrepreneurship in the education system of Ethiopia is none. Leave lower levels, even among higher education institutions, only two universities (Addis Ababa and Ambo) have been providing the course social entrepreneurship for business students at the graduate level. The field is not researched. A big part of the problem of low awareness about social enterprise is related to the absence of the subject of social enterprise and social entrepreneurship in school and university education. In Ethiopia, everyone wants to be employed as a doctor or lawyer or engineers as they considered it the best job. Recently, the want to start once own job as a business (not social) entrepreneur, is increasing. The culture of social entrepreneurship is at its early stage. This socio-cultural barrier is largely a result of a lack of education about the topic at school or university level. There is no social entrepreneurship and enterprise module that is being taught at any of the universities in Ethiopia.

In 2020, the Government of Ethiopia has incorporated the course “entrepreneurship” to be learned by all undergraduate students of both public and private universities. However, the course is limited to business entrepreneurship. Delivery of the course entrepreneurship will probably influence students’ to start their business. Using the inclusion of entrepreneurship in the curriculum, without a need for the change of curriculum the instructor or university can able to incorporate social entrepreneurship as a chapter or topic within the course entrepreneurship being taught. In doing so, it is possible to create awareness and encourage graduating students to come up with innovative solutions to address the pressing social problems of its community. Besides, the Government of Ethiopia needs to work to incorporate social entrepreneurship and social enterprise in the curriculum.

Social entrepreneurship and social enterprise should be taught to students in all filed. The delivery of the course social entrepreneurship and social enterprise for students of all fields helps to ensure the growth of social enterprise in all filed of the profession. Social entrepreneurship and social enterprise programs can able to steadily grew from a single topic or chapter to a single module to multiple modules all the way to separate specializations and units on the undergraduate and graduate levels. Opening social entrepreneurship and enterprise as a field of study or specialization help the social enterprise sector to get competent manpower. Besides, universities can establish a center for social entrepreneurship and social enterprise advancement that render trainings, conduct researches, design projects, advocate for policy, and holds an annual competition for teams with innovative social ideas that address most stressing problems Ethiopia. The ignorance about the field as a result of the lack of social entrepreneurship education results in a low buy-in from citizens and investors and other stakeholders as well. The low awareness and misunderstanding not only reduce the income of social enterprises but also demotivate social entrepreneurs. Because of the problem relating to education, accessing qualified employees with skills of balancing social and business is a challenge to many of the enterprises interviewed.

#### **3.2.2. Low Awareness**

Low awareness or understanding of stakeholders, namely, governments and the public (investor, customers, and scholars) about what social enterprise is and do is one of the challenges of social enterprise in Ethiopia. The public at large has low (almost no) awareness of the social enterprise. The novelty and fluidity of the concept has contributed a lot in this regard. Besides, the low awareness of social enterprise is attributed to many reasons including lack of education about social enterprise in school and university education, lack of enough effort from the practitioners of the field itself, latencies of local media in promoting the filed, lack of clear identity of social enterprise, and passiveness SEE in the awareness-creation campaign. The majority of people do not have awareness about social enterprise business. The low awareness of the public is also attributed to unfamiliarity, ambiguous, and non-descriptiveness of the term “social enterprise” or “*mahiberawi nigidi ena investmenti*”. Besides, the low attention given by the government and media for social enterprise has contributed a lot. In recent years, social enterprises have been receiving the attention of media following Social Enterprise World Forum-2019 hosted in Ethiopia. However, the way social enterprise is being advertised is hindering the growth of the sector.

Usually, the media focus is on individual “heroic” social enterprise such as Tebita Ambukkance PLC and its accomplishments. Individual successful social entrepreneurs provide rich and powerful narratives that tend to receive funding and are noticed and often celebrated. This focus on individuals, however, ignores the social activities of and teams of diverse stakeholders, which results in a narrow view of the field of social enterprise. Besides, the naming of social enterprise as “*mahiberawi yesira edili fetera*”, which means “social job creation” which is not descriptive of the concept of social enterprise is a challenge. Such misnomer has a huge negative impact on the growth of social enterprise by reducing public awareness and creating misunderstanding and confusion. Besides naming social enterprise as social job creation limit the scope of the sector to Worker Integration Social Enterprises which work to integrate disadvantaged groups who cannot compete because of disability and low skills to the labor market. The SEE social media campaign also focused on narrating individuals, instead of promoting the social enterprise sector. The impact of such a campaign that focuses on the individual heroic social enterprise on creating public awareness and influencing the government is probably limited. The British Council has also done a social media campaign to create public awareness of social enterprise for a few months. The SEE trying to create public awareness about social enterprise through its website. However, the campaign is not enough. As a social enterprise lack a clear and formal identity under the existing legal regime, it may face opposition from organizations or sets of organizations (for-profit or nonprofit) that feel threatened by their existence.<sup>[60]</sup> At this moment, there is no publicly announced opposition either from for-profit or non-profit actors.

In Ethiopia, most high-ranking government officials have no hint about social enterprise. In this situation, the introduction of special and supportive policies and strategies is unexpected. Among other, lack of awareness and understanding among government official has resulted in a dismissal of formation, operation as well as a claim for the status of social enterprise by officials in the view that it is not within the mandate of their organization.<sup>[61]</sup> For instance, the Ministry of Trade and Industry (MTI) had the stand that business organizations lack the right to incorporate social missions within their Memorandum of Association (MOA) to operate as a social enterprise. This happens based on the misconception of the trader as only a profit maker or profit maximizer. The stand of MTI delayed the formation and registration of business organizations that incorporated the social purpose in their MOA. Despite this, the commercial laws neither expressly permitted nor prohibited the inclusion of social mission. In such a case, the general principle of law, which assume silence as permission, applies. Furthermore, the government has no power to limit the right and freedom of traders to use their profit as they wish for a legal end once they have fulfilled their legal obligation such as tax. In recent years, the stand MTI concerning the right of business organizations to set social purpose as its purpose of the establishment is changed. As a result, few business firms such as founding members of the SEE that incorporated social mission as their main objective in their MOA established. The government officials also confuse social enterprise with cooperative, micro and small enterprise, and traditional shelf-help associations. Despite this, few government employees and officials who have attended training delivered by the British Council have know-how about social enterprises.<sup>[62]</sup>

The public is both beneficiaries, customers, and donors of social enterprise. As a result, public awareness has a huge impact on the growth of a social enterprise. Currently, the majority of customers do not distinguish the product of social enterprise from an ordinary trader, as there is no way to distinguish it. In this scenario, the preference of the public for social enterprise products and services is unexpected. The products and services of social enterprise is subject to stiff market competition from an ordinary trader. This why social entrepreneurs stress market competition as a critical challenge of social enterprise business.<sup>[63]</sup> To benefit from social branding, globally, there is a “Buy Social” campaign. Likewise, the SEE has adopted “Buy Social” as a membership logo used only by its members. Even so, the “Buy Social” campaign and logo is not operational. The social investor get interested to invest in, and the employee is motivated to be employed at a low or fair price, beneficiaries get services and good from enterprise, and donors is impressed to support if they have awareness of the social enterprise. The lack of public awareness has also resulted in misconceptions and misunderstanding of social

<sup>[60]</sup> Alan J. Abramson and Kara C. Billings, *supra* note 26 at 6.

<sup>[61]</sup> Interview with Abyi Mohammed, Director of Share Company and Sectorial Association Directorate, Ministry of Trade and Industry, in Addis Ababa (March 25, 2019).

<sup>[62]</sup> Interview with Namara Jiratta, Director of Licensing and Registration Directorate, Ministry of Trade and Industry, in Addis Ababa (March 25, 2019).

<sup>[63]</sup> Interview with Ayatam Simenehe, Founder and Chief Executive Officer, Beautiful Mind Community Work PLC, in Addis Ababa (March 27, S 2019).

enterprises as deceivers (wolf with sheep cloth) who hide its intention of profit-making to exploit the community. Ensuring the growth of the sector requires the public who have awareness and get impressed to be investors, customers, and employees. Hence, low awareness a big challenge facing social enterprise in Ethiopia.

To conclude, the low awareness is attributed to many reasons including novelty and fluidity of social enterprise, lack of education, lack of enough effort from the practitioners of the field itself, latencies of local media in promoting the field, lack of clear and formal identity of social enterprise, and passiveness in the awareness-creation campaign. In addition to this, non-descriptiveness of the term “social enterprise” and misnomer of social enterprise as “*mahiberawi yesira edili fetera*”, literal “social job creation” has contributed a lot. Addressing challenges relating to low awareness require the adoption of collective approaches to address contributing factors.

### 3.2.3. *Lack of Real Motive or Passion*

The absence of an innate motive or passion to solve social problems is another challenge of social enterprise in Ethiopia. Why for-profit firms start a social enterprise when they can start a commercial one where it can potentially make a lot of profit? Likewise, why nonprofits engage in commercial activities while it is possible to generate income from donations and grants? Probably, firms or individuals operate as social enterprises because of their motive to solve social problems using an innovative and sustainable approach. Although there are selfless people who genuinely care to only help society without much attention or emphasis on making a profit out of their business, these are usually a trivial percentage. The efficient operation of social enterprise requires a selfless (at least not selfish) person dedicated to solving social, economic, and environmental problems that have long plagued humankind. However, usually, social enterprises lack a real passion or motive to address pressing social problems. Usually, entrepreneurs use “social enterprise” as a window dressing to attract funds from funding organizations. The possibility to use it as a money-laundering club is not minimal. The establishment and operation of social enterprise always need to be activated by the honest motive to address the problem of the society, but it is usually not true. The greedy entrepreneurs proclaim social purpose as their main mission while profit generation is their point of focus. This is a big challenge for social enterprise growth in Ethiopia. Profit help the social enterprise to sustain and develop their social impact.

### 3.2.4. *Market Competition*

Social branding is the main benefit of social enterprise. The social brand will enable the social enterprise to attract customers, employees, and donors, which are relevant to the growth of the sector. To exploit the benefit of social branding there a need to have mark or brand which differentiate the product and services of social enterprise from the product and services of other ordinary business. As a study show, the customer prefers the product, which have social value. Despite this fact, in Ethiopia, social enterprise is not exploiting the fruit of social branding, as a customer cannot distinguish the product of social enterprise from ordinary business. Because of this, social enterprises have been facing stiff market competition from an ordinary business. As confirmed by Mr. Ayatam, market competition is one of the main challenges facing social enterprises. This is mainly true for social enterprises that compete with big and established businesses. To overcome the challenge, social enterprises need to be competitive and innovative enough to win the competition. The “Buy Social” campaign may give privilege for products and services of social enterprises in the market competition by creating customer preferences, but it is not operational. In creating a social brand, the SEE and other stakeholders should work in creating awareness about the difference of social enterprise products and its positive impact on the improvement of the society and environment.

### 3.2.5. *Absence Partnership*

The public, private, nonprofit, and social enterprise sectors should complement each other’s to work efficiently and flourish. Social enterprises are the small seeds that can have a huge positive impact since they have a bigger social mission. Social enterprise is more efficient than the government in solving pressing social problems. The public sector should support social enterprises. The government supports the sector by either omission or commission. In other words, the government either supports by taking positive actions or by avoiding illegitimate intervention in the affair of social enterprises. Despite this, the public-private partnership is lacking, mainly because of the absence of legal and institutional frameworks for social enterprise in Ethiopia. In the absence of a system recognition of social enterprise, it is very difficult to have a public-private partnership. As noted by the founder of Tebita Ambulance, Kibret Abebe's absence of public-private partnerships is one of the main challenges facing social enterprises. The government lack scheme to cooperate with and support social enterprise. It lack the

scheme to encourage exemplary social enterprise. As a result, there is no difference between latent and hard-working social enterprises.<sup>[64]</sup> Government lacks an incentive scheme for well-functioning social enterprise. The absence of coordinated policy advocacy is another challenge of social enterprise in Ethiopia as noted by the participants. Despite this, the British Council, Reach of Change, and Social Enterprise Ethiopia have been advocating for supportive policy and legal environment. However, it is not enough as it is not a coordinated one.

### 3.3.Finance and Support Scheme Challenges

The growth and sustainability of social enterprises require a strong support scheme. The support framework for social enterprise can able to takes various forms including funding, technical support, provision of suitable land or premises, or another subsidy form. It may be provided by public or private actors. Despite the need for continuous funding, qualified technical support, and qualified employee motivated by social work, the support scheme for social enterprise is low. Social enterprises have been receiving support designed for ordinary business or charity based on the form they assume. However, there is no special support scheme designed for social enterprises. As a result, generally, access to adequate finance, land or premises, and subsidy is a challenge facing social enterprise in Ethiopia. There is still a gap in access to finance and investments targeted toward enhancing social enterprises. Many social enterprises rely on funding from international donors and note the difficulty of securing funds for their core operations and activities from these donors. The challenges related to finance and support scheme facing social enterprises are discussed as follow.

#### 3.3.1. Access to finances

As the finding of the British Council has revealed, access to finance (capital and funding) constraint is one of the main challenges of social enterprises in Ethiopia.<sup>[65]</sup> Access to capital in the form of equity finance and debt finance is challenging.<sup>[66]</sup> Usually, it is difficult to persuade investors to invest in a social enterprise that gives primacy to society and the environment. Access to capital is mainly challenging for non-profit social enterprises as they lack the capacity issue equity and debt instruments, and cannot borrow because of lack of property to attach as collateral. The owners of nonprofit social enterprises and the organization itself lack ownership rights in a conventional sense. Instead, the assets of a nonprofit organization belong to the public. Such public ownership of the asset has restricted the ability of the nonprofit social enterprise to get a loan. Social entrepreneurs confirmed this fact saying ‘no collateral, no loan.’<sup>[67]</sup> For-profit social enterprises are also suffering from a lack of access to capital, but with less degree relative to nonprofit social enterprises. Usually, social enterprises run a small business that cannot able to attract investors with deep pockets. Access to capital is a severe problem for the trader which cannot issue debt instruments. In Ethiopia, for-profit social enterprises which organized in the forms other than share company are not entitled to issue transferable securities.<sup>[68]</sup> A loan is not available for those which lack collateral, this is true for business at the starting stage. Social enterprises are unknown to lending financial institutions.<sup>[69]</sup> Hence, they are treated like any borrower without any special consideration concerning requirements, repayment, and interest rate.

A lack of understanding and trust of social enterprise among customers and funders also poses a clear challenge in terms of access to capital. Many customers do not know what social enterprise is, and there is increasing skepticism among consumers about companies’ claims of doing good. Among funders, there is strong ambivalence regarding the commercialization of the nonprofit sector. Whether nonprofit organizations that generate earned revenues may see donative revenues decline or not needs further researcher. The investors in for-profit organizations are skeptical of the return-on-investment from social enterprise. The other challenge for social

<sup>[64]</sup> Interview with Melat Yosef, Founder and Chief Executive Officer, Vitae Bite Nutrition Private Limited Company, in Addis Ababa (March 25, 2019).

<sup>[65]</sup> BRITISH COUNCIL, *supra note 26* at 33.

<sup>[66]</sup> Equity finance imply share issued and sold to collect money. The shareholder become member of issuing organization, receive dividend and not interest. The debt finance includes debt instruments like bond issued and sold and loan contract concluded to get money. The bondholder and lender become creditor of issuing organization and receive interests at agreed rate.

<sup>[67]</sup> Interview with Eminent Mersha, Chief Executive Officer, Elilita Woman at Risk, Elilita Product, in Addis Ababa (March 29, 2019); Interview with Helina Abrham, Chief Executive Officer, Jerusalem Children and Community Development Organization, in Addis Ababa (2019)

<sup>[68]</sup> Commercial Code of Ethiopia, Art.510(3) and 513.

<sup>[69]</sup> Interview with Kibret Abebe, President, Association of Social Enterprise and Founder in Addis Ababa (March 26, 2019); Interview with Kibret Abebe Chief Executive Officer, Tebita Ambulance Per Hospital Medical Services Private Limited Company, in Addis Ababa (March 26, 2019).

enterprise is that it may try to earn an income is that the resource pool of the targeted customer population may simply fall short. For example, a social enterprise marketing its products strictly to low-income populations may not be able to raise the capital it needs to sustain and/or grow its operations through sales.

Government and philanthropy are deemed to be funders of social enterprises and can help buffer these entities against business pressures.<sup>[70]</sup> However, the government of Ethiopia is not a funder of social enterprises. Besides, the government of Ethiopia lack policy supports, such as government subsidies and procurement. Following this, all social enterprises that have been interviewed complain about access to funding. So, funding can be labeled as one of the main challenges of social enterprise in Ethiopia. At this time, most self-declaring social enterprises are receiving funds in the form of grants and donations. However, the fund is subject to stiff competition because of an increment in competitors relative to donors. In Ethiopia, there are only a few domestic and international organizations that finance or fund social entrepreneurs and social enterprises. That funding institution includes Reach for Change,<sup>[71]</sup> British Council,<sup>[72]</sup> IKEA Foundation,<sup>[73]</sup> and X-Hub.<sup>[74]</sup> Even when social enterprise manages to secure funding, this funding tends to focus on short-term project financing. Accordingly, the ability of the sector to have long-term planning, become self-sufficient, and reach a bigger and more sustainable impact is limited. The field is not getting the financial support it deserves. Most people that invest this kind of money are capitalists and expect a good return on their money. That's why governments and international organizations should step in.

Despite the claim of social enterprise, lack of access to funding should not be the main challenge of social enterprise except for those at the startup stage. One of the main rational of social enterprise is financial sustainability and independence secured through the generation of the majority of its income from trade avoiding dependency on donation and grant. Thus, social enterprises should not blame a lack of funding as their main challenges. Instead, they need to work hard and innovative enough to ensure their financial autonomy, but they may get grants and donations as secondary or additional sources of income.

### 3.3.2. Lack of access to land

The other challenge of social enterprises in Ethiopia is the lack of access to sufficient and suitable land or premises and the high cost thereof. Access to land and the cost thereof has a great impact on the growth of social enterprises. Unfortunately, all social enterprise participated in the interviews lacks accesses to sufficient and suitable land to undertake their business. The issue of access to land is relatively addressed for a social enterprise that operates as cooperative societies as they are entitled to obtain land to conduct their activity or provide service.<sup>[75]</sup> At this time, cooperative are entitled to get urban land with lease floor prices.<sup>[76]</sup> Beyond, most other social enterprises get land through rent at a high cost. As noted by social entrepreneurs, lack of access to land or premises and the high cost thereof is one of the critical challenges affecting the development of social enterprise. To address this challenge facing social enterprise the government should adjust how the social entrepreneurs access land at least at floor lease price.

<sup>[70]</sup> Alan J. Abramson and Kara C. Billings, *supra note* 26 at 6.

<sup>[71]</sup> Reach for Change Ethiopia is a non-profit and non-governmental organization that harnesses the power of Ethiopia's best social entrepreneurs to improve the lives of children, youth and women across the country. Reach for Change find and develop local social entrepreneurs with innovations that solve some of the most pressing issues society. See Reach for Change Ethiopia, <http://ethiopia.reachforchange.org/en/>, (last visited May, 15, 2019).

<sup>[72]</sup> British Council have three year SEs project which supports the development of SEs and social investment. SEs project is designed to support underserved populations to access social protection, health, education and jobs, and in doing so help foster inclusive and sustainable growth for human development. See BRITISH COUNCIL ETHIOPIA, <https://ethiopia.britishcouncil.org/>, <https://ethiopia.britishcouncil.org/programmes/society>, (last visited May, 15, 2019).

<sup>[73]</sup> IKEA FOUNDATION, <https://www.ikeafoundation.org/>, (last visited May, 15, 2019).

<sup>[74]</sup> X-Hub is a social business incubator and coworking space that supports innovative, affordable, and scalable solutions that solve existing social problems for positive value. It provide our resources and mentorship to aspiring entrepreneurs and startup companies to be able to play a significant role in shaping the entrepreneurial culture and ecosystem here in Ethiopia. Available at, <http://xhubaddis.com/>, (last visted on October 1, 2020).

<sup>[75]</sup> Cooperative Societies Pro. No. 985/2016, Art. 43(1(b)).

<sup>[76]</sup> Interview with Abebe Alemayheu, Organizer Expert, Federal Cooperative Agency, in Addis Ababa (March 29, 2019).

### 3.3.3. Lack of Adequate Support

The growth of social enterprise requires a subsidy or support scheme. The subsidy may be provided by the government, investor, donor, or customer.<sup>[77]</sup> Here, the term subsidy is broad enough to include any contribution of value (monetary or otherwise) that is provided for no consideration. It need not be a direct subsidy, like a grant or a donation, but may also take the form of premiums over market prices paid by consumers or discounts to market returns of an investor on investment.<sup>[78]</sup> Nowadays, there are only a few known organizations such as Reach for Change, British Council, X-Hub, and Entrepreneurship Development Center that provide financial (grant) and non-financial support (trainings) for social enterprise in Ethiopia. The support is not adequate. So, the absence of sufficient special technical support, assistance, and training on specific features (their dual missions, business models, target groups, sectors of activity, etc.) of social enterprise is one challenge to the development of the sector. Currently, no government agencies are providing technical support, assistance, and trainings distinctively for social enterprise. Social enterprise is alien to almost all Ethiopian Universities except Addis Ababa University and Ambo University which deliver the course “social entrepreneurship” for the business students at the graduate level.<sup>[79]</sup> As a result, Ethiopia lack adequate experts to provide training. Particularly, social enterprises operating in the region are not getting technical support, assistance, and training. Currently, international NGOs such as the British Council and Reach of Change has been rendering technical support, assistance, and training for social entrepreneurs and social enterprises. The effectiveness of training is questionable as it is highly influenced by the ideology of the home state of the NGOs and fails to consider the country context. Despite this, the growth of social enterprises require access to technical support. However, in Ethiopia, the social enterprise sector has been suffering from minor access and assistance with technical support in terms of consulting services, business planning, and legal counseling. The number of enterprises that encourage the establishment and the growth of social enterprise in Ethiopia like incubators, accelerators, and co-working spaces is highly limited.

The subsidy or support may also be provided by the government. The government supports social enterprises through direct and indirect support schemes specifically designed for it. For example, in Europe, the government support scheme for social enterprise takes various forms including the provision of grants; loans; partial contribution to wages, insurance, and pension; long term lease with low price; special funds; special banks which provide loan to social enterprises; financial compensations; tax benefit (tax breaks and tax exemptions);<sup>[80]</sup> exemptions from payment of social contributions;<sup>[81]</sup> public procurement preferential arrangement,<sup>[82]</sup> and others.<sup>[83]</sup> Sometimes such supports are limited only to social enterprises that have a distinct legal status or operate in special legal form for social enterprises or specific sectors.<sup>[84]</sup> Remarkably, the UK has several independent financial institutions/mechanisms (Big Society Capital, Social Incubator Fund, Investment, and Contract Readiness Fund, and the Social Outcomes Fund), supporting the creation and operation of social enterprises through providing funding schemes for social enterprises.<sup>[85]</sup> These all show social enterprises in Europe are highly funded by the government. With the prevailing economic situation, the Government of Ethiopia cannot provide all these benefits for social enterprises, but, at least it is possible to offer some of the benefits. Unfortunately, Ethiopia lacks special support schemes specifically designed for social enterprises. As a result, they have been treated as a conventional business or charity based legal form they have adopted. In the researcher’s view, the government of

<sup>[77]</sup> Ofer Eldar, *supra* note 53 at 105.

<sup>[78]</sup> Ofer Eldar, *supra* note 53 at 105.

<sup>[79]</sup> Interview with Dr. Worku, Instructor, College of Development Studies of Addis Ababa University, in Addis Ababa (March 28, 2019).

<sup>[80]</sup> Some countries such as Lithuania and Slovenia have provided special tax privilege for SEs.

<sup>[81]</sup> In Italy, SEs employing registered unemployed are exempt from paying social contributions.

<sup>[82]</sup> Italy was the first to introduce a social clause in public contracts under its social cooperative law. This introduced the practice of preferential purchasing arrangement of social cooperative. Likewise, the new Slovenian Law on Social Entrepreneurs also provides for a privileged position of SE in public procurements, which employ vulnerable groups and disabled. See EUROPEAN CENTER FOR NOT-FOR-PROFIT LAW, *supra* note 25, at 47.

<sup>[83]</sup> EUROPEAN CENTER FOR NOT-FOR-PROFIT LAW, *supra* note 25, at 11 & 12.

<sup>[84]</sup> For example, in Lithuania there are two types of state support available for social enterprises. Article 13 of the Law on Social Enterprises distinguishes between state support to all types of work integration social enterprises and those that are employing persons with disabilities. Following state support is available for all legally recognized WISE: partial compensation for wages and state social insurance contributions; grants for creation of jobs, adaptation of workplaces for the disabled, and acquisition/adaptation of means of work for the disabled; grants for training of target groups. Following financial support is available for WISE employing persons with disabilities: grants for the adaptation of the work environment for disabled employees and production/rest premises; grants for compensating additional administrative and transport costs; grants for compensating costs of an assistant (gesture language interpreter).

<sup>[85]</sup> EUROPEAN CENTER FOR NOT-FOR-PROFIT LAW, *supra* note 25, at 52.

Ethiopia shall provide at least a special arrangement for social enterprise concerning access to a loan (low interest), lease (including long term capital lease and land at low cost), and public procurement with a preferential arrangement.<sup>[86]</sup>

The framework of supports for social enterprises may also take institutional form. The presence of an institutional apparatus that facilitates the establishment and operation of social enterprise is important for the growth of the sector. Many countries have introduced institutional support mechanisms for social enterprises. Such institutions play different roles. First, it facilitates the establishment and operations of social enterprises. Spain's Points of Access and Start of Procedures is the best example that facilitates administrative requirements for setting up a social enterprise in Spain.<sup>[87]</sup> Ethiopia lack such an arrangement to support and facilitate the formation of social enterprise. *Second*, the institution facilitates data collection on the status of social enterprise. Spain has established a national register to collect official data on the status of social enterprises. In Ethiopia, there is no official data and means of data collections on the status of social enterprises. The Central Statistics Agency and Commercial Register also lack the platform to register social enterprises as a separate business or organization model. *Third*, the institution facilitates structured policy dialogue on social enterprises. Concerning this, France and Spain established the Council for the Promotion of Social Economy (includes social enterprise) that played a great role in formulating policies and strategies for the growth of a social enterprise.<sup>[88]</sup> Unfortunately, Ethiopia lacks a special advisory body for social enterprise. Surprisingly, even the Offices of the Prime Minister lack separate advisory on social economy. *Fourth*, the institution can also play an advocacy role. For instance, the UK has established a national network called Social Enterprises United Kingdom that serves as a platform for dialogue on the issues of social enterprises.<sup>[89]</sup> In Ethiopia, the Addis Ababa Chamber of Commerce Sectorial Association and Ethiopia Chamber of Commerce Sectorial Association are a relatively influential association working for the interests of private business entities through lobbying the government.<sup>[90]</sup> However, they are not working specifically on social enterprises. The SEE has commenced its operation as a voice of social enterprises in Ethiopia but it lacks sufficient capital and manpower. *Fifth*, the institution can support social enterprise by developing a policy document. In the UK, the social enterprise policy was developed by the Social Enterprise Unit. In Ethiopia, no institution or government body is entitled or delegated to develop policy and strategy for social enterprises. *Finally*, the institution plays a role in ensuring the quality of work done by social enterprise by setting up a mechanism to monitor and support the quality work of the social enterprise. Unfortunately, Ethiopia lack a system or institution that sets up a mechanism to monitor and support the quality of work performed by social enterprise. To conclude, despite the role institutions play in ensuring the growth of social enterprises. In Ethiopia, the institutional apparatus that supports social enterprise is low. Because of this, the absence of institutional support is one of the challenges facing social enterprises in Ethiopia.

#### 4. Conclusion and Recommendation

Social enterprise is an emerging concept within non-profit and for-profit sectors combining social and business missions within a single entity. Now, it is subjected to the legal regime designed for conventional for-profit and non-profit. As a result, it has been facing a challenge suffered by ordinary charity and business. Besides, there are challenges peculiar to social enterprise. This triggered the researcher to qualitatively explore the challenges facing social enterprises in Ethiopia. As the finding of this study has revealed, social enterprises in Ethiopia are facing many challenges that affect their growth. The challenges facing social enterprise are broadly legal and institutional, socio-cultural, and finance and support schemes. The legal and institutional challenges is mainly related to the

<sup>[86]</sup>Currently, in Ethiopia, there is no special preference for SEs in relation to public procurement. However, SEs in Ethiopia are entitled to specified margin preferences in relation to public procurement that given for goods produced in Ethiopia, for works carried out by Ethiopian nationals and for consultancy services rendered by Ethiopian nationals In addition to this, those which operate as MSE are entitled to special preference given for MSEs. See Art 5(2), 24 and 25 (1 and 2) of the Ethiopian Federal Government Procurement and Property Administration Proclamation No.649/2009;Art 16.20 of the Federal Government Public Procurement Directive.

<sup>[87]</sup>EUROPEAN CENTER FOR NOT-FOR-PROFIT LAW, *supra* note 25, at 16.

<sup>[88]</sup>The High Council of the Social and Solidary Economy in France which is composed of diverse representatives is a special body placed before the Prime Minister and chaired by the Minister of Social Economy. The Council is consulted on legislative plans related to social economy and contributes to the development of the national strategies of the development of social and solidary economy. In Spain, the Council for the Promotion of Social Economy is an advisory and consultative body for activities related to social economy including SEs. It is integrated, through the Ministry of Labor and Immigration, within the Central Government. The Council acts as a body for collaboration, coordination and dialogue between the social economy actors and the Central Government.

<sup>[89]</sup><https://www.socialenterprise.org.uk/about-us>

<sup>[90]</sup>Commercial Registration and Licensing Proclamation No. 980/2016, Art 2(31&32)

dearth of an existing legal regime to adequately address the special regulatory concern of social enterprises. Particularly, legal and institutional challenges facing social enterprises are ill-fitting of legal forms, the absence of a system of recognition, regulator and governance challenges, problem relating social impact reporting and measurement, absence of means of ensuring mission integrity and primacy, non-clarity of the concept of social enterprise (its purpose and social activity) enterprises, and taxation. The socio-cultural challenges facing social enterprise include low awareness, absence of social entrepreneurship and social enterprise in education curriculum, lack of real motive or passion among social entrepreneurs, stiff market competition, and absence of partnership among different actors in the economy. The challenges facing social enterprise concerning finance and support schemes include lack of access to capital (debt or equity), lack of access to funding (donation and grant), lack of access to land or premises and the high cost thereof, and absence of special support. To conclude, a social enterprise in Ethiopia are facing many severe challenges that affect its growth. The degree problem these challenges poses may differ for nonprofit and for-profit social enterprises. Ensuring the growth of the sector require addressing these challenges.

Based on this concluding remark, the researcher recommends:

- ♣ The government of Ethiopia should address legal and institutional challenges by designing a special legal and institutional framework in the manner it address the special regulatory concern of social enterprise. To this end, the government may set up a separate agency that would be responsible for monitoring and coordinating a long term strategic plan for the social entrepreneurship and enterprise sector in Ethiopia with a holistic approach in coordination with the Civil Society Organizations Agency, Ministry of Finance, Ethiopian Investment Commission, Federal Cooperative Agency, Ministry of Trade and Industry, the local governments, and the social enterprises. This team would be responsible for proposing policies, strategies, and laws for social enterprise.
- ♣ To address challenges facing social enterprises relating to low awareness, the awareness creation campaign shall be done collaboratively by different stakeholders including local media, the SEE, practitioners in the field, NGOs and supporting organizations (such as British Council and Reach for Change), academic institutions and scholars, and governments. The government can introduce activities that encourage and foster social enterprises. For example, it can introduce social enterprise consumer labels and logos that recognize social enterprises as unique entities. This could help foster awareness by introducing identifiers for social enterprise products and services. This way, a product could be labeled something like “social-enterprise” or “Buy Social”, which would be an effective way to raise the visibility of the sector among the public. Improved recognition and publicity would affect both awareness of and demand for products and services provided by social enterprises. It would also attract potential investors and customers. The government can create awareness by adjusting different symposiums and forums on which social enterprise can advertise their products and services. The government and other stakeholders can develop awards programs to recognize and reward innovative and sustainable social enterprise.
- ♣ Addressing problems relating to education requires offering social entrepreneurship and social enterprise to all undergraduate university students. Education is essential not only to create awareness but also to produce competent and skilled manpower in the sector. Here, the easiest and quickest way to start this integration process is by introducing a chapter about social entrepreneurship and social enterprises within the course “Entrepreneurship”. This requires no permissions or approvals from the Ministry of Science and Higher Education or even the university or faculty councils. The next step in the process should be the introduction of a course about social entrepreneurship and social enterprise as a field of study or specialization within the business schools. The universities can also able to establish a center that can offer training, serve as a center for mentorship, incubation, acceleration, and funding. Universities can serve as hubs for social entrepreneurship innovation by bringing key stakeholders together. To address problems relating to partnership, the government should work with representative members of social enterprises to discuss any problems, receive ideas to improve cooperation and explore partnership opportunities. Besides, the government should seek partnerships with national and international organizations to support and fund social entrepreneurial efforts and initiatives. Further, the Government should encourage the formation of country-wide networks and associations of professionals with specific expertise in social enterprise
- ♣ In order address challenges relating to finance and support scheme the Government should come up with adequate policy frameworks of support for social enterprise through facilitating access to finance and land with the preferential term; providing public procurement preferential arrangement; offering business start-

up and development supports; and creating a special arrangement to access loan and lease arrangement for SE. in this regard, the government must identify key sectors and promote social activities in those sectors. The government should launch an initiative that would serve as a social enterprise incubator and accelerator. Priority and focus should be on issues that are deemed essential and urgent concerning their socioeconomic impact on Ethiopia. Mainly, the fields where the government cannot function properly or the areas it cannot reach. The center may offer different awards to promising and innovative enterprises.



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