

## OPENING UP LARGER MARKETS TO ALL<sup>1</sup>

***Public procurement represents 16% of the EU's GDP, so making it more efficient could have a sizable economic impact. But it can have a social impact too. Involving small companies and social enterprises in public service delivery can bring many community benefits. EQUAL has helped to set off a snowball of improved practice in commissioning services.***

### THE PROBLEM OR CHALLENGE

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According to the EU's Enterprise DG, public procurement contracts amount to more than €1.5 trillion a year, or 16% of the EU's GDP. The sheer size of this market makes it extremely attractive to large and frequently multinational companies, and the rules governing it are both complex and fiercely fought over. In this context, the EU Public Procurement Directive and EU competition policy are concerned to ensure that there is a "level playing field" and that procedures are as transparent as possible. However, there is concern from many quarters that local SMEs and social enterprises may be excluded by the sheer weight and complexity of tendering processes and their inability to deal with new e-procurement systems.

European procurement law allows local authorities to insert certain social clauses in their terms of reference, for example to encourage the employment of long-term unemployed or disadvantaged people, in their procurement procedures (although they are not allowed to discriminate geographically by specifying that businesses or their workers must come from a specific location) and the Commission supports what it has called "green" procurement.

New and small firms tend to lack information, skills and networks. Above all they have little knowledge or experience of the formal procedures from large companies and public authorities. If they did, they would not have the capacity to employ dedicated staff to scout round and go through formal procedures. If they did win a contract, they might have difficulty complying with all the conditions. Cash flow may also be an issue as payments come in large tranches and can be delayed.

Social enterprises face a slightly different set of problems. In the past, contracting bodies were often unwilling to accept tenders from social enterprises because they did not understand this type of company. There was overt discrimination against them. Potential clients may be unfamiliar with how they are set up and how they work. They may be confused by the fact that they are sometimes not constituted as companies with shares and suspicious of the very low capital gearing, reflected in a lack of assets on the balance sheet.

### EVIDENCE FOR EQUAL SOLUTIONS

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Recently local administrations have taken at least two different approaches to using their considerable spending power to make the most of this situation and create local jobs. The first favours ordinary *private contractors* who agree to employ a certain number of unemployed local people, while the second favours *social enterprises* that not only employ local people but provide certain verifiable social benefits. Local authorities in UK have become convinced that they can use their large procurement budgets to achieve more impact on their own local economies and thus fulfil their duty to look after the economic, social and environmental wellbeing of their citizens. They have understood that for example when they construct and renovate social housing they can also create jobs for people excluded by the labour market, thus fulfilling a

double objective. A number of EQUAL projects in both the UK and Italy<sup>2</sup> have been active in tackling the barriers local SMEs and social enterprises face in accessing public markets and making the most of these opportunities. They have shown that it is important to become involved as early as possible in the tendering process and to work in parallel on two fronts: firstly, on the procedures with the contracting officers to ensure that they are really accessible to local firms; secondly, to train and build up the capacity of the local entrepreneurs.

## EDUCATING PROCUREMENT PROFESSIONALS

A significant stumbling block to widening access to larger markets is the fear that procurement officers have of “getting the procedures wrong”. This means that they tend to play safe and default to the criterion of lowest cost. But in so doing they are throwing away many potential community benefits. Learning resources are therefore needed so that officials can learn how to purchase more intelligently and include social clauses in the terms of reference related to public, adapted or restricted call for tenders. These must first cover what the various regulations say, and secondly give examples of good practice in interpreting them.

A number of initiatives are under way to assist public sector purchasing staff to avoid thinking too narrowly and to adopt strategies to build additional community benefits into the contracts they sign up to. Guidance on best practice is converging on ways to develop a ‘mixed market’ for procurement, in which some services will be provided in house, some by private sector contractors, and others by contracts with social enterprises and other third sector organisations. There will also be a mix in the contracting arrangements used, depending in part on the contract size. There is a great variety of positions among public authorities, with some moving towards a partnership approach by involving social enterprises in consultations over the planning of future service delivery.

In the UK, the role of SMEs and social enterprises has been recognised as part of the ‘sustainable procurement strategies’ that the UK government has encouraged local authorities to adopt.<sup>3</sup> The Sustainable Procurement Information Network (SPIN)<sup>4</sup> relates how authorities should “include in invitations to tender/negotiate for partnerships a requirement on the bidders to submit optional, priced proposals for the delivery of specified community benefits which are relevant to the contract and add value to the community plan”. These benefits include diversity and equality, job satisfaction, regeneration, local employment, training, social cohesion and “local distinctiveness and neighbourhood vitality (the LM3 approach)”. In particular, “social enterprise is fostered and encouraged as new way of delivery and adding value to delivery of services”.

As part of the work of the [Social Enterprise Partnership](#) EQUAL project, the Social Enterprise coalition wrote a handbook entitled *More for your Money: a guide to procuring from social enterprises*. It followed this up in 2006, during the UK’s EU presidency, with a policy seminar called *Getting Best Value*.<sup>5</sup> As part of the national programme for Third Sector Commissioning,<sup>6</sup> the Office of the Third Sector has subsequently commissioned the IDeA, the Improvement and Development Agency,<sup>7</sup> to deliver training to 2,000 local government officers.

Several specific tools have been developed to help officials. As part of the EQUAL project [BEST Procurement](#), Northampton County Council has created an online self-tutoring course aimed at local authority officials called *Specification Writing for Community Benefits*.<sup>8</sup> It comprises three modules, each of which takes about 45 minutes to go through:

1. Understanding community benefits
2. Procurement (overview of procurement for those not involved day to day in procurement)
3. Achieving community benefits

It includes exercises such as analysing the economic, social and environmental benefits that accrue from using a worker co-operative bicycle courier service. It can be freely accessed by anyone who registers.

## BUILDING THE CAPACITY OF SOCIAL ENTERPRISES

Formal procedures can be off-putting to small organisations, and a lack of experience in bidding for larger contracts is a major barrier to entry. The first tool that has been used to build the capacity of social enterprises to respond to tenders for larger contracts is therefore **training**. The

BEST Procurement EQUAL project ran a set of 10 seminars in different UK towns, on five topics: agents of change & types of change, health markets, influencing the demand side, resource capacity and business effectiveness.<sup>9</sup> Social Economy Scotland took a slightly different tack and organised a forum at which public sector purchasers could dialogue with social enterprises about the potential benefits and challenges of involving social enterprise in public service delivery.<sup>10</sup>

Sector-specific training initiatives can also work well. The [Construction Development Partnership](#)<sup>11</sup> in Sheffield has brought seven construction companies together with the public company responsible for renovating the city's public housing stock. The companies undertake to deliver at least 10% of their work through 'community building social enterprises' based on each housing estate, which train long-term unemployed people to fill local vacancies, thus reducing the shortage of building workers. They undertake a 9-month course, paid at the minimum wage, and achieve an NVQ level 2 qualification. The initiative is believed to have reduced the price of building contracts in what is €1.7 billion housing programme.

A second important resource is **handbooks**: In October 2003, the UK Department of Trade and Industry launched a *Public Procurement Handbook* specifically designed to help social enterprises to gain better access to public markets. The Scottish social economy DP later prepared a similar handbook for use in Scotland. These have been elaborated and the most up-to-date guidance, *Social Enterprise and the Public Sector: a practical guide to law and policy*, was published by the BEST Procurement project in August 2007.<sup>12</sup>

**Tools to measure community benefit** are an important weapon in the armoury of social enterprises when they make their case to council officers. The NEF toolkit *Proving and improving: a quality and impact toolkit for social enterprise* sets out an array of 22 possible tools that have different strengths in different circumstances. One of these, LM3, is a relevant tool to assess benefits to the local economy.<sup>13</sup> During the second half of EQUAL, but outside its funding framework, this work has been developed as part of the 'Finance Hub', one of the six partnerships under the *Capacitybuilders* umbrella. A useful tool targeted at both commissioning officials and service providers is *Impact Briefing: putting impact at the heart of the tendering process*.<sup>14</sup> Its key recommendations are that:

- service providers should learn how to map, measure, and report on outcomes;
- commissioners should seek to understand real value over time by commissioning for results, rather than buying activities or outputs.

As part of the EQUAL [Agenzia di Cittadinanza](#) project, the municipality of Vimercate in Milan piloted the use of social accounting – the *bilancio sociale* – to calculate the costs and benefits of different ways of delivering social services. For instance it shows that savings can be achieved by improving social services: an increase in nursery provision both cuts benefit spending immediately as it enables more parents to go to work, and secondly (although with a delay of a few years) it boosts the local economy by raising educational levels. In addition there would also be intangible benefits, such as reduced healthcare or policing costs. Social accounting has other uses for public authorities: it enables them to improve the accountability to their electors, and to improve their internal organisation. Following the pilot at municipal level, the province of Milan is now in the process of selecting a contractor to extend the system to the whole province.<sup>15</sup>

An important argument to be made is that through '**joined up thinking**' social enterprises can deliver multiple policy outcomes simultaneously. An example is the 'Bulky Bob's' service operated by the FRC Group in Liverpool. This collects unwanted furniture renovates it as necessary, and sells it cheaply to poor people. It thus serves the environmental objective of reducing the quantity of waste going to landfill; it serves the employment objective of creating jobs and providing vocational training; and it serves the poverty reduction objective of providing furniture for those in need.<sup>16</sup>

## ONLINE MARKETING DATABASES

EQUAL projects have set up a number of online services to bring social enterprises to the notice of potential customers. In the UK, **Nearbuyou**<sup>17</sup> is a national social enterprise trading network covering the whole of the UK. It lists for instance 24 farms, 34 nurseries, 143 providers of business services and 22 finance organisations. In Belgium, **Connect**<sup>18</sup> is a web-based marketing portal that presents the products and services of social enterprise in Flanders and Dutch-speaking Brussels. Customers can search in any one of 12 categories of products, from

building services to toys. Users can also submit a request for what they would like to buy. A similar initiative outside the scope of EQUAL is *okkasiounsbutikk.lu*<sup>19</sup> in Luxembourg, which operates an online service to sell second-hand goods, typically furniture. It serves both the general public, who pay a small amount for the items they buy, and also offer a special service to local government: social workers may acquire items free of charge except for delivery and administration cost on behalf of their clients

## MARKETING CONSORTIA

In winning larger contracts, scale is an important issue, because without scale enterprises do not have the margin to employ specialist staff to seek out suitable opportunities, prepare and submit tenders and manage the compliance procedures. A number of initiatives have therefore been taken in which social enterprises group together to increase their marketing strength.

**Cleaning up – RREUSE and SerraNet EEIG:** In the field of reuse and recycling, social firms have created an international association, RREUSE, and an EEIG, SerraNet. In the first stage, 17 member organisations in 10 EU countries, which together represent some 40,000 individuals, joined together to create a European federation called the *Re-Use and Recycling European Union of Social Enterprises* (RREUSE).<sup>20</sup> In order to tap into the potential to sell reused and recycled products on the European scale, some RREUSE members decided to establish a commercially oriented structure. In 2006, 14 social firms spread across five EU Member States therefore founded a European Economic Interest Group, SerraNet EEIG. They see the EEIG as an efficient model both for organising the transfer of good practice on a stable basis and for implementing joint business activities in the long term.

**Sharing the caring – CASA:** Another example concerns the successful winning of contracts to provide home care by employee-owned companies in several cities in northeast England. This has been achieved by scaling up from one enterprise, which, rather than establish a branch structure, has opted to spin off independent new companies – the present total is four and several more are under negotiation. The enterprises are held together in a mutually supportive way through a ‘social franchise’ structure, in which the franchisees all hold shares in a common franchisor – Care & Share Associates –and it holds shares in them. Some 400 jobs have so far been created.

**A national brand – Welfare Italia:** In circumstances where the public sector is relatively weak and many social services have traditionally been provided by social enterprises, similar processes of strengthening the commercial aspect of the enterprises through the formation of consortia are taking place. In Italy there are some 7,100 social co-operatives with 267,000 members, 223,000 paid employees, 31,000 volunteers, 24,000 disadvantaged people undergoing integration and a turnover of around €5 billion. The most significant organisation among these social enterprises is Consorzio Gino Mattarelli (CGM), which federates 79 territorial consortia, in turn comprising some 1,500 social co-operatives. These have 40,000 employees, of whom 5,000 are volunteers. Their combined turnover in 2003 was around €1 billion. The strength that this consortium structure brings is enabling the social co-operatives to build their brand forcefully. In 2005 CGM launched a new development strategy based on the new brand ‘*Welfare Italia*’<sup>21</sup> which will appear as a trademark, in television adverts, etc. CGM promotes social co-operatives as partners with government and private sector, promoting themselves as a nationwide network combining solidarity with competitiveness and offering reliable services that meet people’s needs and are based on trust.

## LOCAL CONSULTATION MECHANISMS TO PLAN SERVICE DELIVERY

**Changing the balance of power – *tavoli* in Milan:** The *Agenzia di Cittadinanza*<sup>22</sup> EQUAL project in Milan introduced a new way of organising the collaboration between public authorities and social co-operatives. It opened four area offices – ‘territorial laboratories’ – which acted as antennae to find out what local needs were, and formed the hubs of local networks. The four laboratories together covered 50 *comuni* (municipalities). They grew into meeting places for local third sector organisations, the local authorities and individual citizens who want to start social initiatives. They have led to new markets for social enterprises through the creation of housing

agencies, incubators for start-up enterprises, nurseries and neighbourhood services, as well third sector fora and participation in local improvement plans.

National law 328/00 sets up a voucher system and provides for joint 'negotiated planning' in areas such as child and elderly care, handicap, mental illness, immigration and poverty. It works through local committees (*tavoli*) comprising representatives of the local municipalities, third sector organisations and trade unions. These committees decide social policy at the district level, and typically cover a population of several hundred thousand people. On some of the committees the EQUAL partnership has won direct representation, enabling it to engage in a dialogue with the local authority on health, housing, employment and training – and will possibly be extended to cover town planning.

## POLICY RECOMMENDATIONS

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Public authorities at all levels should ensure that their procedures for contracting with outside service providers are genuinely accessible to small local firms set up by entrepreneurs from under-represented groups and to social enterprises, which can provide significant additional benefits to the community. This involves getting involved as early as possible in the tendering procedures and acting simultaneously to open up procedures and to train and build the capacity of local firms.

It is local political leaders who have to take the lead in being more imaginative, as was shown by the examples of the mayors Jon Collins from Nottingham (UK)<sup>23</sup> and Jens Nilsson of Östersund (Sweden)<sup>24</sup> at the EQUAL Hannover Policy Forum on entrepreneurship in June 2007. The local authority officers responsible for drawing up contract specifications play a key role, and educating them on the issue of community benefit is an important factor. However it is essential that this work is supported by national policy and guidelines, developed in partnership among those departments responsible for small business, social, inclusion and public services. In 2008 the European Commission will be buttressing this by publishing a guide to incorporating social benefits within the public procurement directive.

The local community will also benefit from the existence of a local fabric of SMEs and social enterprises which has the capacity to bid for and win public contracts. Authorities can therefore benefit from helping to build the capacity of potential contractors. Tools to be used could include the publication of guides and the running of training seminars.

Thirdly, purchasing officers in public authorities – as well as those in large private companies – should be aware of, and where appropriate use, commercial resources for accessing SMEs and social enterprises, such as online databases.

## ENDNOTES

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<sup>1</sup> This policy brief arises from the work carried out in the Entrepreneurship pillar of EQUAL, which comprises the Business Creation and Social Economy themes. This involved some 700 projects across the vast majority of EU Member States. The brief addresses the issue of how enterprises owned and managed by people from disadvantaged groups, and those serving social objectives, can achieve growth and stability by gaining access to the markets offered by larger purchasers, in both the public and private sectors.

The issues it covers are an amplification of those discussed in the existing policy brief on the fourth pillar of the 'entrepreneurial ladder out of social exclusion' – that is *Inclusive entrepreneurship: consolidation and growth*.<sup>1</sup> [ETG2-DOC-145] Further minibriefs on linked issues are available:

- Providing the right kind of business support after start-up
- Handing on the business – to those who need it
- Tools for spreading success
- Building competitive local supply chains

This document has been prepared by experts and their opinions do not in any way engage the Commission.

<sup>2</sup> For instance UKgb-71 Strengthening the Social Economy,

<https://webgate.ec.europa.eu/equal/jsp/dpComplete.jsp?cip=UKgb&national=71>

UKgb-51 Social Enterprise East Midlands

<https://webgate.ec.europa.eu/equal/jsp/dpComplete.jsp?cip=UKgb&national=71>

<https://webgate.ec.europa.eu/equal/jsp/dpMonitoringComplete.jsp?cip=UKgb&national=51&year=2002>

TCA 687 SQUARES <https://webgate.ec.europa.eu/equal/jsp/tcaView.jsp?id=687>

TCA 4124 Social Economy Exchange Network (SEEN)

<https://webgate.ec.europa.eu/equal/jsp/tcaView.jsp?id=4124>

<sup>3</sup> National Procurement Strategy for Local Government, 2003

<sup>4</sup> <http://www.s-p-i-n.co.uk>

<sup>5</sup> [http://ec.europa.eu/employment\\_social/equal/data/document/etg2-med-093-procurement.pdf](http://ec.europa.eu/employment_social/equal/data/document/etg2-med-093-procurement.pdf)

<sup>6</sup> [http://www.cabinetoffice.gov.uk/third\\_sector/public\\_services/commissioning.aspx](http://www.cabinetoffice.gov.uk/third_sector/public_services/commissioning.aspx)

<sup>7</sup> <http://www.idea.gov.uk/idk/core/page.do?pagelId=6583598>

<sup>8</sup> <http://www.specification-writing.info>

<sup>9</sup> <http://seem.live.poptech.coop/Templates/Internal.asp?NodeID=90734>

<sup>10</sup> <http://www.socialeconomyscotland.info/scvo/content/events/events.asp?eventid=44>

<sup>11</sup> <https://webgate.ec.europa.eu/equal/jsp/dpComplete.jsp?cip=UKgb&national=14>

<sup>12</sup> [http://seem.live.poptech.coop/shared\\_asp\\_files/GFSR.asp?NodeID=91344](http://seem.live.poptech.coop/shared_asp_files/GFSR.asp?NodeID=91344)

<sup>13</sup> [http://www.neweconomics.org/gen/z\\_sys\\_PublicationDetail.aspx?pid=224](http://www.neweconomics.org/gen/z_sys_PublicationDetail.aspx?pid=224)

<sup>14</sup> [http://www.financehub.org.uk/uploads/documents/Impact\\_Briefing\\_135.pdf](http://www.financehub.org.uk/uploads/documents/Impact_Briefing_135.pdf)

<sup>15</sup> [http://ec.europa.eu/employment\\_social/equal/data/document/etg2-suc6-cittadinanza.pdf](http://ec.europa.eu/employment_social/equal/data/document/etg2-suc6-cittadinanza.pdf)

<sup>16</sup> <http://www.socialenterprise.org.uk/Page.aspx?SP=1925>

<sup>17</sup> <http://www.nearbuyou.co.uk>

<sup>18</sup> <http://www.connect-info.be>

<sup>19</sup> <http://www.okkasiounsbutikk.lu>

<sup>20</sup> [www.rrreuse.org](http://www.rrreuse.org)

<sup>21</sup> [www.welfareitalia.com](http://www.welfareitalia.com)

<sup>22</sup> <http://www.agenziadicittadinanza.it/equal2/index.php>

<sup>23</sup> <http://www.equal.de/Equal/Redaktion/Medien/Anlagen/Politikforum-Unternehmergeist/2007-07-04-forum-c3-2.property=pdf,bereich=equal,sprache=de,rwb=true.pdf>

<sup>24</sup> <http://www.equal.de/Equal/Redaktion/Medien/Anlagen/Politikforum-Unternehmergeist/2007-07-04-forum-c3.property=pdf,bereich=equal,sprache=de,rwb=true.pdf>