

Social economy - laying the groundwork for innovative solutions to today's challenges (Paris, 10-11 December 2012)

Social Enterprises in the Netherlands¹

Faryda Hussein

Ministry of Social Affairs and Employment

1. What are the current situation and the recent trends in your country in relation to social economy?

Current situation

The social economy landscape in the Netherlands is relatively limited with about 4,000-5,000 social enterprises (this number is based on the social enterprise definition: a company with the primary goal to deliver social value in a financially sustainable and independent way). The size of these companies is relatively small. According to this analysis, the social economy in the Netherlands has not yet reached its full potential². This is confirmed in the international comparison study provided by the Global Entrepreneurship Monitor (GEM), based on harmonised survey data collected across 49 countries in 2009. Here, it appeared that in the Netherlands about 1% of the population between 18 and 64 years could be identified as social entrepreneur, whereas the corresponding percentage was estimated to be somewhat above 2% for France and the United Kingdom and even more than 4% in the United States³.

Within the Dutch social economy, social enterprises are active in mainly 6 sectors: Biosystems, Cleantech, Economic Development, Civic Engagement, Health and Wellbeing, Education, of which Biosystems and Cleantech are the largest segments.

Some observations:

- Nearly half of the Social Enterprises do not measure their social impact;
- Over half of Social Enterprises have a turnover of less than 80,000 EUR;
- Nearly half are not (yet) break-even;
- They rely heavily on subsidies and donations for start-up capital;
- Social Enterprises in all sectors expect donations and subsidies to decline over the years to come and to rely more on loans and investors' participations;

¹ Prepared for the Peer Review in Social Protection and Social Inclusion programme coordinated by ÖSB Consulting, the Institute for Employment Studies (IES) and Applica, and funded by the European Commission.
© ÖSB Consulting, 2012

² Based on research conducted by McKinsey&Company (2011).

³ See Terjesen, S., Lepoutre, J., Justo, R. and Bosma, N. (2012). Global Entrepreneurship Monitor 2009 Report on Social Entrepreneurship. Available at www.gemconsortium.org.



- 42% of Social Enterprises are not profitable, 27% not even after 5 years⁴;
- 60% indicate limited access to funds as an obstacle for growth.

Relatively recent a platform for social entrepreneurs was set up: Social Enterprise NL. This network unites the social entrepreneurial sector in the Netherlands and aims to increase awareness for social enterprises, provide support, help professionalise and assist in scaling-up. It aims to achieve this by functioning as a representative lobby group vis-à-vis the government and other relevant actors to gain better access to and an understanding of incentives, capital, education and regulations.

2. What framework measures and models to encourage social enterprises are applied in your country?

Government support

With regard to access to financial support, the government of the Netherlands offers various facilities for entrepreneurs to support them in the start-up of their enterprise. These facilities are accessible for all types of enterprises. The main prerequisite is that the enterprise is viable. Focussing on sustainability, innovation, international business and cooperation, NL Agency is the executive agency of the government which services as the main contact point for businesses, knowledge institutions and government bodies which can be contacted for information, advice, financing, networking and regulatory matters. The mission of NL Agency is to implement international, innovation and sustainability policy and as such also supports social entrepreneurs. Facilities include start-up funds for SME's, Microfinance, matchmaking facilities between investors and enterprises, business plan support and (international) networking.

The government does not have specific measures aimed at increasing the professionalization or visibility of social enterprises. Facilitating measures such as advice and coaching are available for all enterprises and these services are offered by both the public and private sector.

With regard to hiring people with employment disabilities, social enterprises which focus on work integration experience similar obstacles as regular employers⁵. Therefore social enterprises are eligible for the same financing facilities as regular enterprises. Financing in this respect entails compensation for the extra costs for the functioning of an employee with a reduced earning capacity. The government does not have specific measures to compensate for the extra costs which work integration social enterprises claim they make at an organizational level. The government reasons that all enterprises should be treated with the same entrepreneurial base-line, which includes organizational risks.

Similar to conventional enterprises, the government reasons that additional support can be accumulated by the own sector, for instance by joining forces. Beyond the realm of government support, the social economy sector is successfully gaining ground in establishing its own support network.

⁴ Noteworthy, social enterprises tend to take quite long before being successful. It took Grameen Bank 10 years to reach profitability. Similarly, new companies in general often (according to some research 50%) of new companies, cease to exist within 5 years)

⁵ Based on research *Sociale ondernemingen en werknemers met een arbeidsbeperking* (TNO, 2011)



Non-government support

The non-government sector consists of various organizations and initiatives which offer measures to support social entrepreneurship. The following provides some examples of diverse forms of support. (Noteworthy to mention is that the underneath does not cover all actors which contribute to the Dutch social economy. There are many less known smaller initiatives as well as larger firms which, albeit indirectly, play an important role in the social economy. Due to the diverging definitions of social entrepreneurship, the various forms in which one can contribute to the social economy as well as the sector being relatively new and not yet fully researched the following is not an absolute representation):

- Investors and matchmakers that provide access to capital such as Triodos Bank, Toniic, Dutch Greentch Fund, Start Foundation and ASN Bank.
- ASN Bank not only provides access to capital but has also set up a community known as 'For the World of Tomorrow'. Through this community, ASN Bank support initiatives of people who want to make an active contribution to the sustainability of society. Not only entrepreneurs are supported but also projects in which individuals can participate. As such, smaller local initiatives and civil society are encouraged to take part in civic participation and hence contribute to a social economy.
- Researchers that aim to create transparency. Majority of research done by TNO, Nyenrode Business University and Erasmus University Rotterdam and Utrecht University.
- Education programs in social, sustainable entrepreneurship and social entrepreneurship lab (SE-Lab) (affiliated with with Utrecht University and Social Enterprise NL) are preparing a kick-off for a 'Social Entrepreneurship Initiative'.
- Coaches, supporters and education facilities such as ACE Amsterdam, Oranjefonds groeiprogramma, GreenWish, Kirkman Company, Knowmads. Universities also offer support to new ventures such as Yes Delft and UtrechtInc.
- Lobby organisations that aim to improve legislation, among others GreenWish, de Groene Zaak, Duurzame Energie Koepel.
- Business models for social businesses are a distinctive initiative. With www.opencollaboratives.org students participate in an open source platform to make particular business models open to others.
- Various larger firms have established an affiliated foundation which, supported by their commercial venture, invests in social initiatives. They do, for instance, by encouraging their professional employees to volunteer for social projects (Delta Lloyd Foundation), invest in social start-ups (Deloitte) or contribute otherwise to social projects (TNT). BASTA, a community of businesses in Amsterdam, is an example of joint cooperation between large commercial firms and social projects. By devoting their expertise to local project these firms aim to combat poverty.

As mentioned above, the social economy sector is not yet fully developed or analysed. The field of supporters is fragmented and a cross-sector vision is lacking. Research institutes TNO, NWO and Syntens have proposed a road-map (2012) with which they aim to strengthen cooperation between the government, the market



and knowledge-institutes with regard to social innovation. This is an example of joining forces and combining capital for a shared cause. More of such initiatives could decrease fragmentation and increase the effectiveness of support-networks.

Additional role of the government

Apart from direct support, through NL Agency, the Dutch government plays an additional role as an advocator of social investment. As an employer as well as a buyer of services and goods it contributes, as an agent, to the social economy by paying special attention to people with a (higher) distance to the labour market thereby advocating the importance of social and sustainable investment. This is done as follows:

- 1) By being a social employer: The government has implemented a quota system thereby obliging itself to hire a certain percentage (5%) of employees from the target group. It is, however not only about hiring disabled for instance, but also about developing new products that specific segments of the society would benefit from.
- 2) By deploying its market position and purchasing volume: By means of a 'social return provisions' in contracts for purchasing and procurement, the government aims to promote employment for people with a greater distance to the labour marker. With this social return provision, suppliers of the government are obliged to hire employees from the target group for the specified project. Not only the central government but also local governments (municipalities) apply social return in their operations.

Further, the coalition agreement of the current government announced that a quota system will be designed for the employment of disabled people by employers with over 25 employees. This mandatory quota system is foreseen to be introduced as of 2015 for medium and large employers in the market, subsidized premium and corporate sectors. At present, various embodiments are depicted, so that the government can come to an arrangement that works and is executable.

3. What are the main challenges for the future development of the social economy and social enterprises?

According to McKinsey&Company (2011) the following fields need strengthening/development to support the Social Enterprise sector:

- Promotion: awareness and visibility of the sector in the Netherlands;
- Education: more talent needs to be geared towards the sector;
- Support: management support in developing triple bottom line business models, coaching and access to relevant networks;
- Capital: access to seed and especially growth capital and matchmaking intermediaries;
- Guidelines: (inter)national standards for measuring both financial and social impact;
- Government recognition and support: for example in creating right conditions and opportunities for Social Enterprises to grow (e.g., supportive legislation).



Based on interviews with experts conducted by TNO⁶, it seems that enterprises with both economic and social goals experience barriers when it comes to finding access to financing and ability to operate within different legislative schemes and their implementation. Lack of information and advice were mentioned reasons for the presence of such obstacles. The unfamiliarity of the sector seems to be a disadvantage as clients and buyers seem to be less inclined to engage in business deals. The lack of acquaintance with the legislative system and still emergent ability to manoeuvre within a volatile field leaves room for enhancement.

4. A brief assessment of the learning value of the French good practice to your country

Though the indicated obstacles as outlined by various researchers seem legit, it is worthwhile to consider why these obstacles exist. The sector is relatively young in the Netherlands and hence still needs to develop itself. Enterprises with non-specified social goals, such as traditional commercial enterprises, suffer from similar obstacles when facing new legislation or changes within society.

The Dutch government, therefore, is not in favour of designing specific policies or implementing special measures for social enterprises as a separate group. The government would rather see the social enterprise sector use its own innovative potential and entrepreneurial responsibility to develop itself and as such create familiarity vis-à-vis its clients and become more experienced with the legislative and financial schemes from which it can benefit. The recent establishment of the Social Enterprise NL platform is a good example of how the sector can develop itself.

The key elements of the French social economy strategy are: improving recognition, structuring the sector, developing new funding mechanisms and developing innovative business models. What follows is a brief assessment of the French model:

- Improving recognition is important for any sector which aims to position itself. The set up of Social Enterprise NL is a helpful tool in that regard. After all, it is the responsibility of the sector and part of the general entrepreneurship to invest in one's own visibility and recognition. The Dutch government, thus far, has not implemented any measures to improve the recognition of this sector specifically. The government also has a critical stance towards the EU proposals for measures in this light as top-down policies may unwarranted unite social enterprises as a single phenomenon whereas the definition of 'social enterprise' remains open. It is up to the sector to unite under whichever definition - be it multiple - it believes fits best and to share knowledge, conduct research etc.
- With regards to structuring the sector as proposed by France, the social economy sector in the Netherlands is gaining grounds in visibility, recognition and representation. As mentioned earlier, the Social Enterprise NL sector can increase the capacity of the sector and as such improve its performance. The government is not inclined to impose measures on this sector to structure itself. Multiple and diverse actors are already gaining ground and even eager to gain market position. Conventional firms are, albeit gradually, investing in their social image. Without imposed government measures the social economy is acquiring gratitude. This amplified awareness seems to be paying off, for both

⁶ Sociale ondernemingen en werknemers met een arbeidsbeperking (TNO, 2011).



the social sector as well as the commercial sector. Additional government measures therefore are considered redundant.

- New funding mechanisms: In 2007 the European Commission outlined seven key-areas to improve access to micro-finance for social enterprises by removing barriers and simplifying structures. The Dutch government is in favour of improving access and welcomes improvement in the proposed fields. Green Deals is an example of how the government gives a boost to sustainable projects. For instance, by adjusting laws and regulations, ensuring good cooperation between society, the market and the government and improving access to capital. The government is, however, not in favour of the proposal for an explicit introduction of an investment priority "social enterprises" in the ESF and ERDF regulations for 2014-2020.
- Innovation is important for all entrepreneurs and for society at large. The Dutch government offers various facilities aimed at stimulating innovation and assisting in the set-up of business models. These services are open to all types of enterprises. As previously pointed out, NL Agency offers a wide range of support aimed at innovative and sustainable entrepreneurship.

The social economy sector is a large, diverse and somewhat complex sector. Yet more significant to mention, and conclude with, is that this sector is innovative, rich, of high potential and of added value to – logically deferred – the social as well as economic aspects of any given community, be it large, be it small. The reputable asset of this segment, moreover, is that it contributes to two important values of society: sustainability and responsibility. Would it, consequently, not be delightful – perhaps even incisive - if the social economy sector would not only envision and contribute to a sustainable and responsible economic society but truly represent these values by (self-sufficiently) making itself convincingly indispensable?

