Boosting Social Enterprise Development

GOOD PRACTICE COMPENDIUM

OECD

European Commission

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Preface

The OECD and the European Commission share the objective of building more inclusive economies and societies. By linking economic and social value creation, social enterprises play a key role in making this a reality. They can create new jobs, be a vehicle for efficient and effective service delivery, boost citizens' participation in their local communities, and turn innovative ideas into action for the benefit of the common good.

While varying national definitions makes international comparisons difficult, national figures provide an indication of the importance of social enterprises. For example, in Belgium, social enterprises account for 17% of private employment. In France, the social and solidarity economy – which includes social enterprises – is made up of almost 200 000 entities in 2014, accounting for 10% of GDP and 2.38 million jobs. Social enterprises were resilient during the crisis: in places such as Italy, Belgium and France employment in them grew at a rate of 20%, 12%, and 0.8% respectively between 2008 and 2014, while employment in mainstream or private enterprises decreased during the same period.

Social enterprises can only meet their full potential if an enabling environment is in place to allow them to start-up, scale-up and flourish. This is why the OECD and the European Commission have a longstanding co-operation to improve the ecosystems for social enterprises. This joint work supports European Union Member States in their efforts to create favourable conditions for social enterprises, while also providing learnings for the broader OECD area. The recent Start-up and Scale-up Initiative by the European Commission confirmed and provided new impetus to this approach.

Many European Union countries have recently addressed this promising policy field with dedicated legislation or strategic frameworks, and many others are preparing or considering new actions. New social enterprise support organisations and networks are also emerging, while other already established networks are placing more importance on this issue. In short, the European social enterprise landscape is evolving rapidly.

In this context, there is a growing appetite to learn from others' experience, with increasing requests for the European Commission and OECD to support this exchange. And because countries have different traditions and aspirations, there is also a diversity of policies, programmes and initiatives from which others can learn. The challenge, however, is making this pool of experience accessible for those looking for inspiration and guidance.

This joint publication of the OECD and the European Commission takes up this challenge, making use of the strengths of both institutions. It benefits from the analytical capacity and expertise of the OECD, which has built evidence on social enterprise policies over the past two decades. It draws from the political processes as well as funding programmes of the EU, which have worked as a catalyst to boost social enterprise related policies and initiatives in Europe.

The Compendium presents a rich collection of initiatives aimed at boosting social enterprise developments. It identifies key lessons, providing concrete pointers for policy makers – from how to raise awareness and visibility of what social enterprises are and the value they provide, to how to unlock and attract funding better suited to their specific needs. It also warns against piecemeal approaches, stressing that a coherent and inter-connected ecosystem is more valuable than just the sum of its parts. We hope that it will be a source of inspiration and a useful tool for policy makers across Europe and beyond.

Lamia Kamal-Chaoui
Director Center for Entrepreneurship,
SMEs, Local Development and Tourism, OECD

Michel Servoz
Director General Employment,
Social Affairs and Inclusion,
European Commission

Foreword

In October 2015, the OECD Secretariat launched a call through its website, national and international networks, and the European Commission's Expert Group on Social Entrepreneurship, to collect policies, programmes, and initiatives aiming to support social enterprises. In collaboration with the European Commission, the Secretariat developed a list of criteria, with the goal of selecting policies, programmes, and initiatives that: i) supported social enterprises as defined by the Social Business Initiative; ii) illustrated approaches in the various policy areas of the social enterprise ecosystem; and iii) allowed for a balanced geographical coverage across European Union Member States. Another important criterion was to reach beyond established initiatives and include less well-known or prominent initatives, to further nurture and complement existing work by the OECD, the European Commission and some dedicated networks, such as the Social Enterprise Network. Lastly, cases that could demonstrate both systemic impact in supporting social enterprises effectively, as well as a potential for replication in different contexts, were prioritised.

The OECD Secretariat undertook an initial screening of the policies, programmes, and initiatives gathered through the call. As a result of this screening, 48 of the 73 cases received in total, were selected for further examination. An informal advisory group of five external experts, the OECD, and the European Commission, assessed and discussed the remaining cases based on a detailed grid prepared by the OECD. The OECD Secretariat and the EC services also reached out to their expert networks, to address gaps in the geographic coverage and diversity of the policy areas this compendium aimed to reflect. The delegates participating into the OECD LEED Directing Committee were also consulted. As a result of these outreach activities, 20 cases were finally included in the compendium. Each case study was prepared by external experts in co-operation with the OECD Secretariat, which co-ordinated the entire process.

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Acknowledgements

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This report was prepared by Stellina Galitopoulou, Policy Analyst at the OECD LEED Programme - who also coordinated the written inputs from all the external contributors- and Antonella Noya, Senior Policy Analyst who also directed and supervised the whole project.

Substantive inputs were provided by Lou Aisenberg, Policy Analyst, and Célia Hanssen, Intern, at the OECD LEED Programme. The case studies were initially drafted by the following external experts: Jonathan Bland, Gerhard Braunling, Gwendolyn Carpenter, Rita Casimiro, Ann Clarke, Monika Czerwinska, Frédéric Dufays, Salvatore Fallica, Jérôme Faure, Markus Freiburg, Caroline Jenner, Kim Kiszelnik, Sybille Mertens, António Miguel, Christina Moehrle, Josep Villarreal Moreno, Rocio Nogales, Simone Piceno, Andreas M. Rickert, Nadine Richez-Battesti, Michael Roy, Mathilde Stokart, Delphine Vallade, Eva Varga, Nele Verbruggen, Davorka Vidovic.

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Executive summary

Inequality and persistent unemployment for vulnerable groups in particular have come to the fore as priority policy issues, not only with respect to social justice but also with respect to economic growth. Social enterprises are longstanding agents of inclusive growth and have proved remarkably resilient in the face of economic adversity. By design, social enterprises address socio-economic challenges in innovative ways and engage citizens to become part of the solution. A survey conducted in 2015 on more than 1000 social enterprises in 9 countries (the SEFORÏS project in which the OECD LEED participated as well) showed registered revenues of more than EUR 6.06 billion, provision of services and products to 871 million beneficiaries, job creation - particularly for people with disabilities or migrant backgrounds - upwards of about half a million people, and job placement for approximately 5.5 million people.

In 2001, the European Commission adopted the Social Business Initiative (SBI) that aims to support the development of social enterprises. Policy makers have a crucial role to play in this process by building enabling and tailored ecosystems, structured in a coherent, inter-connected, and transversal way. This means, for instance, designing a legal framework for social enterprises while simultaneously seeking to facilitate market access, support skill development and foster a varied financial landscape. Likewise, a social-enterprise ecosystem's policy outcomes and actions are just as important as the process that leads to them: not only should each policy area within the ecosystem be part of an integrated systemic vision, it should also be co-constructed with the relevant stakeholders and co-ordinated among the different (national and territorial) policy levels.

This compendium of good practices provides an in-depth analysis of 20 initiatives across the European Union and illustrates the diversity of policy approaches that can be employed in order to establish an enabling ecosystem for social enterprise development. Policy makers can draw inspiration from the design of these initiatives and derive policy lessons from their implementation.

Key lessons

Raise awareness and visibility of social enterprises, and tackle misconceptions

Legal and institutional frameworks bring clarity by defining the nature, mission and activities of social enterprises. By granting to social enterprises recognition and visibility through the creation of framework laws or the implementation of national strategies, they help policy makers to more effectively target their support. Policy makers can also support efforts to raise funders' awareness of the benefits of investing in social enterprises, supported by social finance intermediaries that help funders design tailored financing schemes. Support structures contribute to raising the visibility of social enterprises by organising regular local events and annual meetings bringing together social entrepreneurs, investors and public-sector representatives, designing creative communication campaigns about social enterprises, and having a strong media and social network presence.

Establish strategic and multi-stakeholder partnerships

Engaging and consulting with potential stakeholders is essential for public agencies to establish support frameworks for social enterprises. When an institutional development process is inclusive, the final output can more accurately reflect the needs of stakeholders, who will then take ownership of the process. The resulting institutional changes are more likely to be implemented effectively and to endure through time and government changes. Moreover, strategic partnerships constitute a win-win-win for social enterprises, public agencies and private-sector entities. When policy makers adopt a multi-stakeholder approach and establish strategic partnerships, they create the conditions for helping social enterprises enter public and private markets, build or participate in value chains, and gain access to complementary resources, skills and networks.

Foster viable and sustainable social enterprises

Social enterprises require business support throughout their developmental phase. Targeted public support for structures such as hubs, accelerators or incubators is essential to ensure their sustainable development across territories and activity sectors. Training, coaching or consultancy services play a critical role in building social entrepreneurial skills (e.g. measuring their impact, navigating administrative and public procurement procedures, developing business plans, accessing diverse funding sources and becoming financially self-sustainable). The asset of support structures is that they rely on professionals who understand both traditional businesses and social enterprises, and build entrepreneurial capacity without diluting the social mission. Financial intermediaries can help social enterprises to become investment ready and identify the right tool for reaching financial sustainability. However, social enterprises – especially small ones – often struggle to pay for intermediary services. To overcome this challenge, some financial intermediaries provide grants and vouchers to facilitate social enterprises' access to tailored support by specialist providers. Public financial instruments can also provide useful support in this regard.

Support risk-sharing mechanisms for finance providers

While public support (predominantly through grants and subsidies) is a major financial source for many social enterprises, an increasing number now seek to access financing provided by mainstream or new funders (e.g. commercial banks or impact investors). Still, mainstream funders or impact investors perceive social enterprises – especially in the early stages – as high-risk clients, and are therefore reluctant to invest in them. Commercial banks share this view, considering that social enterprises may not have the capacity to sustain the loan costs or present the necessary financial guarantees. Policy makers need to encourage capacity-building, along with efforts to unlock and attract funds that are better suited to social enterprises. One effective response to this challenge is guarantee schemes, which are widely known for sharing or amortising risk with mainstream funders, impact investors and commercial banks.

Foster social-entrepreneurship skills in the education system

In the long run, education and skills that breed entrepreneurial behaviours need to be developed. Educational programmes on social entrepreneurship provide students with opportunities to develop new solutions to unresolved social challenges, and learn about business-creation processes and planning at the secondary and higher education levels. Partnerships between the social-enterprise community and research institutions are a promising approach to develop the evidence base, improve understanding and raise visibility of the field.

Ensure institutional continuity and political support for social enterprises

Political impetus can act as a catalyst for both nascent and/or well-established ecosystems, fostering and accelerating favourable conditions for the growth of social enterprises. However, challenges may emerge when political support fluctuates owing to government changes. Sustained policy support, which transcends government changes, is essential to establish an enabling ecosystem allowing social enterprises to thrive over time.

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Chapter 1

Main trends in social enterprise development

This part underlines the importance of creating an enabling ecosystem that can effectively support social enterprises, and briefly presents the policy areas in which policy makers can act to this end. It discusses eight key lessons emerging from the policies, programmes, and initiatives analysed, and examines the challenges faced along with the policy approaches used to address them successfully. Finally, it includes an overview grid presenting the main features of each case, such as, the funding sources, the policy area and approach, and the key success factors and challenges. Finally, it features a one-page summary of each case.

Social enterprises in Europe: towards a shared understanding

The policy and public debate is increasingly highlighting the contribution of social enterprises to tackling socio-economic challenges- such as rampant unemployment and increased inequalities- often in innovative and sustainable ways at the local, regional and global levels. More precisely, social enterprises provide the opportunity to disadvantaged individuals to integrate or re-integrate into the labour market while contributing more generally to building cohesive and creative societies (OECD, 1999; Noya and Clarence, 2007). A survey conducted in 2015 on more than 1000 social enterprises in 9 countries (the SEFORÏS project in which the OECD LEED participated as well) showed registered revenues of more than EUR 6.06 billion, provision of services and products to 871 million beneficiaries, job creation - particularly for people with disabilities or migrant backgrounds - upwards of about half a million people, and job placement for approximately 5.5 million people (SEFORÏS, 2016).

A wide range of stakeholders, including policy makers, entrepreneurs, citizens and investors, have become more interested in social enterprises and social entrepreneurship as a result of this positive dynamic. "Millennials" in particular are showing great willingness to participate actively in addressing societal issues, through social entrepreneurship (UNICEF, 2007). Higher education institutions attempt to address this new interest and aspirations through a growing array of new courses and chairs in social entrepreneurship. Social entrepreneurship programmes remain scarce at the primary and secondary education levels however.

Consumers are also increasingly attuned to the importance of ethical and environmentally friendly aspects, as illustrated by the fair-trade and "buy-social" phenomenon, which advocates the human being's centrality in the economic undertaking. Their desire to provide direct support to social projects in different activity sectors is also illustrated by the new participative financing models, such as crowdfunding and crowdlending platforms. At the same time, new financial actors and intermediaries are entering the field: social impact investors, ethical banks and venture philanthropists provide new sources of funding for social enterprises, but also call for more rigorous social impact assessments, promoting a culture of measurement and evaluation (OECD/European Commission, 2015).

In this context, the European Commission adopted in 2011 the Social Business Initiative (SBI), which aims to support the development of social enterprises by improving their access to funding, raising their visibility and fostering a friendlier legal environment.

Box 1. **What is a social enterprise?**

Building on the academic work done by the EMES research network[1] and in line with the OECD analysis,[2] the SBI identifies a social enterprise as "an operator in the social economy whose main objective is to have a social impact rather than make a profit for their owners or shareholders. It operates by providing goods and services for the market in an entrepreneurial and innovative fashion and uses its profits primarily to achieve social objectives. It is managed in an open and responsible manner and, in particular, involves employees, consumers and stakeholders affected by its commercial activities" (European Commission, 2011). This definition is increasingly driving a shared understanding of what a social enterprise is across European countries. This is particularly important in the existing European landscape, characterised by a multiplicity of social economy organisations with different legal forms and statuses.[3]

1. EMES is a research network of established university research centres and individual researchers whose goal has been so far to gradually build up a theoretical and empirical knowledge around social enterprises, social entrepreneurship, social economy, solidarity economy and social innovation.
2. The OECD identifies a social enterprise as "any private activity conducted in the public interest, organised with an entrepreneurial strategy, but whose main purpose is not the maximisation of profit but the attainment of certain economic and social goals and which has the capacity for bringing innovative solutions to the problems of social exclusion and unemployment" (OECD, 1999).
3. Not all social economy organisations, however, are social enterprises; only those that adopt the features described in the SBI concept are social enterprises. Many of these are "traditional" social enterprises aligned with the SBI concept; many others are transforming into social enterprises by adopting the Initiative's key features. A growing number of "new" social enterprises – i.e. social enterprises originating neither from the third sector nor from the social economy – are also emerging.

Against this backdrop, policy makers at different government levels are called to act and to build an enabling policy environment that will empower, support and help social enterprises to maximise their impact.

Building conducive policy ecosystems

Social enterprises can be important partners for governments, helping them meet major policy objectives (e.g. reducing unemployment and poverty, and increasing social cohesion). However, they often face a number of barriers (e.g. a lack of legal recognition, and difficult access to markets and finance) that can limit their impact and prevent them from reaching their full potential. The recent report of the Expert Group on Social Entrepreneurship of the European Commission (European Union, 2016) stresses that favourable policy ecosystems are essential to helping social enterprises overcome these barriers. To build tailored policy ecosystems, policy makers first need to develop a sound understanding of the features, mission and needs of social enterprises before translating into policy actions supporting their development.

These policy actions need to be conceived using a holistic approach: any ecosystem is likely to be better tailored and structured when its different elements are coherent, inter-connected, and transversal (i.e. not designed and implemented in silos). This means, for instance, that designing a legal framework for social enterprises without simultaneously seeking to facilitate market access, support skills development and foster a varied financial landscape will yield a limited – if not counterproductive – impact on social-enterprise development. Likewise, an ecosystem's policy outcomes and actions are just as important as the process that leads to them: not only should each policy area within the ecosystem be part of an integrated systemic vision, it should also be co-constructed with the relevant stakeholders and co-ordinated among the different (national and territorial) policy levels.

A number of policy areas – including legal frameworks, access to markets, access to finance, support structures, and education and skills – seem particularly relevant to social-enterprise development.

Legal frameworks

Legal frameworks bring clarity by defining the nature, mission and activities of social enterprises. By granting them recognition and visibility, they help policy makers support social enterprises through different levers (including fiscal measures), and they help funders and investors understand the benefits of providing funds to social enterprises. Inaccurate, unclear or excessively narrow legal frameworks can harm social enterprises, by causing confusion or failing to capture the array of entities that may qualify as social enterprises in a given context. Legislators can create a dedicated and appropriate legal framework by adapting existing legislation on specific legal forms – for instance co-operatives – or passing new laws. However, less rigid normative tools should also be considered, as they may be easier to adapt to new developments in the field.

Access to finance

Access to finance is key throughout social enterprises' life cycle. Depending on their development stage, social enterprises derive financing from a combination of resources, ranging from subsidies and debt instruments to equity, patient capital and impact investments (OECD/European Union, 2016). Private donations are another (although less common) source of funding. Simultaneously, new actors – such as financial intermediaries, whose role is essential in assisting social enterprises to become more investment-ready, and connecting them with potential funders – are emerging. Still, policy support is vital to improve access to funding. Policy makers need to encourage capacity-building, along with efforts to unlock and attract funds that are better suited to social enterprises. Moreover, while they rightfully advocate mobilising private funds, they should keep in mind that public support remains an important element of the financial landscape that can help leverage and guarantee private resources for social enterprises. In fact, public support may remain the principal (if not the only) source of funding for some social enterprises facing particularly intractable challenges.

Access to markets

To be sustainable, social enterprises require access to public and private markets. Policy makers could support various instruments to this end, such as: 1) encouraging the use of social clauses in public procurement, both at the national and local levels; 2) supporting socially responsible procurement by private companies and facilitating their relations with social enterprises; 3) levelling the playing field, by allowing social enterprises to access the same enabling policy measures provided to small and medium-sized enterprises (SMEs), as well as tailoring support to their specific features; and 4) encouraging and supporting managerial training for social entrepreneurs (possibly by developing university-level taught courses on social enterprise management).

Support structures

Social enterprises require business support throughout their developmental phase. Targeted public support for structures such as hubs, accelerators or incubators is essential to ensure their sustainable development across territories and activity sectors. Training, coaching or consultancy services play a critical role in building social entrepreneurs' skills (e.g. in developing business plans, accessing diverse funding sources and becoming financially self-sustainable); at a later stage, investment-readiness support can help them expand. However, social enterprises do not require the same services as commercial enterprises: because of their double bottom line, they need to balance financial sustainability with maximising social impact. Hence, policy makers may wish to promote "braided support" both for general business skills and social enterprises' specific needs. (OECD/European Union, 2013).

Education and skills

Policy ecosystems need to foster social entrepreneurship not only in the short term, but also in the long run. To this aim, they need to develop education and skills that breed entrepreneurial behaviours. Educational programmes on social entrepreneurship provide students with opportunities to develop new solutions to unresolved social challenges, and learn about business creation processes and planning at the secondary and higher education levels. Partnerships between the social enterprise community and research institutions are a promising approach to develop the evidence base, improve understanding and raise visibility of the field.

Key lessons

This section presents and discusses eight key lessons on establishing an enabling policy ecosystem for social enterprises. These lessons emerge from the comparative analysis of the initiatives described in this Compendium. They demonstrate the importance of co-constructing and looking at ecosystems holistically. They also illustrate that similar challenges can be addressed by using different approaches within the same policy area, allowing for tailored and context-sensitive policy actions.

Raise awareness and visibility of social enterprises, and tackle misconceptions

Despite growing interest in social enterprises (and the different actions undertaken to increase their visibility and recognition by policy makers, potential funders, users and consumers), there is still limited understanding of their specificities. This breeds misconceptions that hamper them from effectively meeting social enterprises' needs and setting enabling conditions for them to thrive. Yet policy makers can take an active role in supporting their visibility. For example, the French Law on the Social and Solidarity Economy, adopted in 2014, grants legal recognition to the institutions representing the social and solidarity economy (SSE) at the national level and strengthens the network of regional SSE chambers. Although the Law has a broad scope beyond social enterprises, it explicitly mentions them and creates favourable conditions for their development. It also foresees the use of a specific certification for those entities, within its purview, which place social impact first, helping public agencies and funders recognise and support them. Another interesting example is the initiative of the Minister of Innovation in Flanders (Belgium), which provided subsidies to the Social Innovation Factory (a local support structure) for activities aiming to raise awareness of social entrepreneurship and social enterprises.

Policy makers can also support efforts to raise funders' awareness of social enterprises, aided by social finance intermediaries, who help funders design appropriate financing schemes. Supported by the Portuguese government, Portugal Innovação Social acts as a market catalyst and helps social enterprises access finance. Its creation stemmed from the awareness-raising and lobbying efforts of Social Investment Lab to promote social enterprises and social investment as priorities in the policy agenda. To this end, it produced papers on the relevance and applicability of social investment in Portugal, and conducted feasibility studies of social investment deals, fostering discussions with investors and local authorities. The German organisation FASE, for its part, uses a "deal-by-deal" approach to design a tailored financing scheme matching the needs of social enterprises and impact investors.

Support structures can also help raise the visibility of social enterprises. In Spain, El Hueco actively supports the creation of social enterprises and highlights their contribution to regenerating the sparsely populated area of Soria. This multidimensional support structure organises regular local events and an annual meeting bringing together social entrepreneurs, investors and public-sector representatives; designs creative communication campaigns about social enterprises; and has a strong media and social network presence. It also collaborates intensively with Soria's provincial council (which finances the social enterprise competition "El Hueco Starter" award), as well as public administrations at the local, regional, national and European levels.

Joint efforts and partnerships among organisations that support social enterprises can strengthen and amplify awareness-raising. In Scotland, the Partnership for Supporting the Social Enterprise Strategy comprising three national social enterprise intermediary organisations (Scottish Social Enterprise Coalition, Senscot and Social Firms Scotland) increases the visibility of social enterprises through a range of activities; e.g. organising study visits to social enterprises by parliamentarians from all political parties and sending them monthly e-bulletins; submitting responses to government consultations and motions; and promoting social enterprises' added value to the media and local communities through national and local events, awards and press activities.

Establish strategic and multi-stakeholder partnerships

Strategic partnerships constitute a win-win-win for a range of diverse stakeholders, such as social enterprises, public agencies and private sector entities. When policy makers adopt a multi-stakeholder approach and establish strategic partnerships, they create the conditions for helping social enterprises enter public and private markets; build or participate in value chains; and gain access to complementary resources, skills and networks. Partnerships between social enterprises and private companies are an interesting and less explored avenue. For example, the Social Impact Factory, a support structure aiming to spur social enterprise creation and inspire traditional enterprises to add a social or environmental component, resulted from a partnership between the municipality of Utrecht (Netherlands) and the Kirkman Company, a private enterprise. The Social Impact Factory uses an online platform connecting social enterprises both with private companies seeking to purchase social services or products and with the municipality, which advertises its calls for public contracts or suppliers. In Denmark, the partnership between the social enterprise Specialisterne and the multinational software corporation SAP integrates people with autism into the job market by leveraging their unique skills. Specialisterne is now part of the SAP value chain, allowing it to expand its operations – and therefore its impact – to 12 countries and establish new partnerships not only with other large corporations, but also local authorities.

Strategic partnerships enable stakeholders to leverage complementary strengths, expertise, skills and funds, as well as enhance knowledge-sharing. In Belgium's Walloon region, SAW-B brings together social enterprises facing similar challenges and organises group discussions where they can share their experiences. It has also established a federation connecting social enterprises with complementary needs and skills. By joining forces and resources, some have already developed new services or products, while others have expanded their original regional scope to the trans-regional, national or even European scale.

Engaging and consulting with potential stakeholders is essential for public agencies to establish support frameworks for social enterprises. When an institutional development process is inclusive, the final output can more accurately reflect the needs of stakeholders, who will then take ownership of the process. The resulting institutional changes are more likely to be implemented effectively, and to endure through time and government changes. The Barcelona City Council Decree for Socially Responsible Public Procurement was the result of a consultation process among 50 representatives from 40 different entities (including experts, social partners, non-state actors, private-sector representatives, various municipal areas and political parties). A key success factor was the establishment six months before the adoption of the Decree of the Mixed Commission for Socially Responsible Procurement. The Commission regularly brought together all the stakeholders, who managed to reach common ground and drafted the legal text in a fully collaborative mode. Through this process, each side identified the benefits of the Decree and the potential risks if they failed to reach an agreement.

In Croatia, the Ministry of Labour and Pension Systems followed a similar path while developing the National Strategy for the Development of Social Entrepreneurship. It established a working group (comprising representatives from other government authorities, social partners, vocational and educational institutions, and an umbrella organisation representing social enterprises' interests) that met regularly over a period of two years to produce a draft Strategy. The final draft Strategy became available for public consultation on an online platform, where citizens could add their suggestions.

Foster viable and sustainable social enterprises

One of the most effective ways of helping social enterprises become viable and sustainable is to foster social entrepreneurs' business skills and know-how. To this end, support structures (e.g. incubators) and networks rely on professionals who understand both traditional businesses and social enterprises, and build social entrepreneurs' capacity become sustainable without diluting their social mission. In Denmark, the Copenhagen Project House (KPH) incubator supports social enterprises from the early stage to scaling by providing mentoring and peer-to-peer activities in a large co-working space. KPH has a network of private partners who help entrepreneurs interact with corporate social responsibility managers at events and mini-conferences; identify the skills necessary to collaborate with them; and generate social and business value. Meeting and working closely with established companies and large organisations can help social enterprises test their ideas and create new business opportunities that may also attract investors.

Policy makers should identify social enterprises' financial needs and design appropriate financial support tools. For instance, the United Kingdom's three-year funding programme Big Potential offers grants to help social enterprises progressively take on repayable investments. The grant amount depends on the enterprise's stage of development; it is coupled with one-to-one support sessions to discuss its business model and an online diagnostic tool that helps it identify its needs. Policy makers should also consider supporting initiatives that help social enterprises aiming to consolidate their business model shift from a grant-funding mindset to taking on credit and micro-loans. ESFund TISE, a pilot repayable instrument in Poland, offers social enterprises a combination of loans and 30 hours of free expert advisory services on a wide array of subjects.

Finally, financial intermediaries can facilitate this changing paradigm and help social enterprises identify the right tool for reaching financial sustainability. However, social enterprises – especially small ones – often struggle to pay for intermediaries' services. To overcome this challenge, Portugal Inovação Social provides grants and vouchers to facilitate social enterprises' access to tailored support by specialist providers in areas such as financial management, business modelling, impact measurement, leadership and governance. Public financial instruments can also provide useful support in this regard.

Support risk-sharing mechanisms for finance providers

While public support (predominantly through grants and subsidies) is a major financial source for many social enterprises, an increasing number now seek to access financing provided by mainstream or new funders (e.g. commercial banks or impact investors). However, social enterprises may not always be investment ready, or have sustainable business models. Germany's FASE focuses on creating impact-investment pipelines that bring together impact investors and investment-ready social enterprises, and support them throughout the transaction process, clearly demonstrating that both public support and philanthropic funds are equally crucial to early-stage social enterprises and intermediaries aiming to provide them with sufficient capital to survive and thrive.

Another challenge is that mainstream funders or impact investors perceive social enterprises – especially in the early stages – as high-risk clients, and are therefore reluctant to invest in them. Commercial banks share this view, considering that social enterprises may not have the capacity to sustain the loan costs or present the necessary financial guarantees. One effective response to this challenge is guarantee schemes, which are widely known for sharing or amortising risk with mainstream funders, impact investors and commercial banks.

JEREMIE Sicily, a financial instrument in Italy, has established a dedicated guarantee fund that helps social enterprises and SMEs access credit. Portugal Inovação Social and its Social Innovation Fund provide guarantees to co-investors, thereby improving social enterprises' risk profile and allowing banks to lend them on more favourable terms. In Ireland, the social finance provider Clann Credo takes a slightly different approach, providing retail loans to social enterprises based on their size, repayment capacity and expected social benefits. In the event of a loan default, Clann Credo shares 50% of the loss with the Social Finance Foundation, a wholesale social-finance provider. Still, its operations emphasise prudent lending practices in social finance and capacity-building for assessing risk.

Foster social-entrepreneurship skills in the education system

Uptake of entrepreneurship education is still low in most OECD countries, particularly at the primary and secondary education levels. And yet entrepreneurship education can nurture an entrepreneurial mindset while enhancing students' creativity, collaborative skills and ethical thinking – all of which are particularly important in social entrepreneurship. By providing related programmes to students throughout the education system, organisations help fill this gap. However, teachers rarely have the opportunity to undergo initial training and continuous professional development in social entrepreneurship. They are often unfamiliar with the concept, and hesitate to adopt new, project-based pedagogical methods. As highlighted by JA Europe, raising awareness on the benefits of entrepreneurship (including social entrepreneurship) education, and providing relevant training to teachers and head teachers – who are critical to their success – is key when implementing these programmes.

Policy makers can play a critical role in designing and implementing strategies fostering entrepreneurship education, and seeking to develop students' ability to recognise and act upon opportunities to create social value. For example, the French Law on the Social and Solidary Economy created the Higher Council for the Social and Solidarity Economy (Conseil supérieur de l'ESS) which aims (among other things) to promote social entrepreneurship among young people through the public education system. Another example worth mentioning is the Croatian Strategy for the Development of Social Entrepreneurship (adopted in 2015), which allocates 28% of its total budget to educational activities (e.g. replicating innovative educational programmes, and supporting institutions providing formal and informal programmes on social entrepreneurship).

Supporting public-private partnerships between schools and third-sector organisations – including social enterprises, which are specialised in providing social entrepreneurship education programmes – is another promising strategy that does not require additional government spending. JA Europe, which is almost completely independent from public funding, is a good case in point: in 2015, only 14% of its total annual budget stemmed from public funding, and 82% from private sources.

Promote impact measurement and evaluation

While public and private funders increasingly ask social enterprises to measure their impact (OECD/European Commission, 2015), most social enterprises have a limited impact measurement and evaluation culture. First, over-emphasis on measuring their impact can divert social enterprises' attention from actually producing social change, and lead them to change their organisational structure. The financial intermediary PHINEO has reached out to more than 200 opinion leaders across Germany, describing social enterprises' mission and organisation structure, and explaining how they should be taken into account when designing impact measurement requirements. PHINEO also strives to raise awareness within social enterprises, by explaining that measuring impact has a useful function in substantiating and improving non-profit activity. In this process, it conducts issue-related impact assessment studies in which social enterprises are invited to participate free of charge and without risk. After undergoing a selection assessment process, social enterprises that meet certain criteria (regarding their organisational and financial structure, vision, potential impact and capacity to yield results) are publicly profiled and awarded PHINEO's "Wirkt!" impact label. PHINEO publishes guides, such as the *Social Impact Navigator*, which gather and analyse social enterprises' impact measurement experiences, as well as offer hands-on advice, checklists and step-by-step activities.

Second, measuring impact requires skills, financial resources and time. Social enterprises often lack team members with appropriate skills, and cannot afford to recruit new ones and/or pay for relevant training. Policy makers can support structures that help social enterprises learn how to measure their impact. NESsT provides (and teaches social enterprises how to use) a performance-management tool that sets goals and targets, and regularly monitors performance (based on tailor-made indicators on the social enterprise's organisational capacity, enterprise performance, social impact and financial sustainability).

Finally, policy makers could encourage partnerships among higher education institutions, social enterprises and support structures. In France, the regional incubator Alter'Incub, in partnership with the Occitanie region,[1] and Aix-Marseille and Montpellier universities, has convened an interdisciplinary group of researchers in the social sciences, economics and management to develop cutting-edge research on impact evaluation and measurement methods. Social enterprises incubated at Alter'Incub learn to implement these methods in their own context.

Establish user-friendly administrative processes

Like SMEs, social enterprises often face complex and time-consuming bureaucratic procedures. Portugal Inovação Social stresses the difficulty of navigating through EU structural fund procedures. In Croatia, the heavy bureaucracy and requirements for obtaining the "social enterprise" status are a major bottleneck in implementing the National Strategy for the Development of Social Entrepreneurship. Moreover, the public-procurement bidding process is one of the most challenging – yet essential – exercises for social enterprises. NESsT notes the procedures are often not user-friendly and require specific skills, which can prove discouraging for social enterprises that are not tender-ready. Public administrations find implementing social clauses equally challenging. In Barcelona, many public officials did not have the relevant skills to implement the City Council Decree for Socially Responsible Procurement and evaluate tender offers.

Policy makers can streamline the administrative procedures for social enterprises and reduce the red tape. In Poland, ESFund TISE has suggested that government agencies relax some of the longstanding, rigid procedures in public procurement and financial schemes, which may no longer be suitable for social enterprises. Finally, policy makers could showcase the activities and tools used by support structures that help social enterprises navigate administrative procedures. For example, both SAW-B in Wallonia and the Social Impact Factory in Utrecht prepare guides that help social enterprises respond to calls for tender.

Ensure institutional continuity and political support for social enterprises

Sustained policy support is essential to establish an enabling ecosystem allowing social enterprises to thrive over the long term. Political impetus can act as a catalyst for both nascent and/or well-established ecosystems, fostering and accelerating favourable conditions for social enterprises. However, challenges may emerge when political support fluctuates owing to government changes. In Croatia, strong political commitment would probably have accelerated the design and adoption of the National Strategy for the Development of Social Entrepreneurship. Although the political fluctuation may have slowed implementation of the Strategy, the multi-stakeholder engagement in its development and steadfast commitment of some elements of the public administration ensured its continuity. Portugal experienced strong political endorsement at the ministerial level in 2013, which transcended partisan affiliations and ensured a smooth transition through the government change, leading to the creation of Portugal Inovação Social. So far, the changes in the ministers responsible for innovation have not affected the agenda for establishing a social-investment market.

Note

1. When Alter'Incub was created the name of the region was Languedoc-Roussillon, but it changed to Occitanie in January 2016, after the territorial reform.

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Table 1.1. **Overview of featured policies and programmes**

Initiative	Country	Date	Funding sources				Policy areas																Challenges							Success factors						
								Access to finance			Access to markets		Education & skills		Business development support				Visibility & awareness																	
			Public funds (national, regional, local)	European public funds	Income-generating activities	Private funds	Legal/institutional framework	Traditional financing tools	Innovative financing tools	Financial intermediation	Public procurement	Partnership with private actors	Education & training	Coaching & mentoring	Incubation	Integrated support	Business counselling	Co-working space	Communication	Networks	Events	Knowledge sharing	Unstable or limited financial resources	Lack of/or fluctuant political support	Lack of awareness & understanding	Absence or weak monitoring system	Divergent interests& views among stakeholders	Reluctance to change	Complex administrative procedures	Multi-stakeholder partnerships	Participatory approach	Alignment with policy priorities	Diversified funding sources	Tailored support	Comprehensive approach/ complementary services (financial, non-financial)	Skilled staff
1. Social Innovation Factory	Belgium (Flanders)	2013	•	•	•									•			▲		•	•	•	•	•		•		•	•		•						
2. SAW-B	Belgium (Wallonia)	1981	•	•									▲				•			•		•						•							•	
3. National Strategy for the Development of Social Entrepreneurship	Croatia	2015	•				▲	•					•						•					•	•		•		•		•	•			•	
4. KPH	Denmark	2009	•	•	•							•		•	•		•	▲		•	•			•		•				•		•	•		•	
5. Alter'Incub	France	2007	•	•		•							•	•	▲		•		•			•	•							•				•		•
6. SSE Law	France	2014	•				▲	•			•	•	•			•			•				•				•			•	•	•		•	•	
7. FASE	Germany	2013		•	•	•			•	▲		•								•	•	•	•				•			•				•		•
8. Phineo	Germany	2010			•	•			•	▲		•					•		•	•		•	•			•	•			•			•			•
9. Clann Credo	Ireland	1996				•		▲	•	•								•				•	•		•									•	•	
10. JEREMIE Sicily	Italy	2013-2016		•		•		▲		•				•			•			•		•	•			•	•		•	•					•	
11. Social Impact Factory	Netherlands	2014	•		•	•						▲					•		•	•	•	•	•				•			•	•					
12. ESFund TISE	Poland	2013	•	•				▲		•		•					•		•				•			•		•		•		•		•	•	
13. Portugal Inovação Social	Portugal	2015		•					•	▲						•			•		•					•			•	•		•	•	•	•	
14. Barcelona City Council Decree for Socially Responsible Public Procurement	Spain	2013	•				▲				•															•	•	•		•	•	•				
15. El Hueco	Spain	2012	•		•	•								•	•	•	•	▲	•	•	•	•	•	•	•					•			•	•	•	•
16. Big Potential	United Kingdom (England)	2004- 2017	•					▲		•							•				•						•							•		•
17. Supporting Social Enterprise Partnership for Strategy	United Kingdom (Scotland)	2011	•				▲					•				•			•	•	•	•					•			•	•	•			•	
18. Specialisterne & SAP	Multiple/ Denmark	2004			•	•						▲	•	•						•		•		•	•			•					•	•		
19. JA Europe	Multiple	2002	•	•		•							▲	•							•					•		•		•	•		•			
20. NESsT	Multiple	1997	•	•	•	•		•		•			•	•		▲	•		•	•	•	•	•		•					•			•	•	•	•

▲ = Primary focus, • = Secondary focus

Annex: Summary tables

Belgium (Flanders)
Social Innovation Factory: An early-stage business support structure

Main actor(s)	Social Innovation Factory; Agency for Innovation and Entrepreneurship (regional government).
Level of implementation	Regional.
Implementation date	Launched in 2013; on-going.
Policy area	Business development support.
Policy approach	Business counselling; networking; research; awareness-raising.
Objectives	1. Raising awareness about social innovation and social entrepreneurship. 2. Enabling actors to tackle challenges in a socially innovative and entrepreneurial manner.
Rationale	In Flanders, subsidy cuts have made the need for social innovation and social entrepreneurship more acute. Private companies have also shown a growing interest in contributing to a better society through "corporate social responsibility" initiatives and networks that bring together civil-society actors and companies.
Key activities	– Business development services, such as face-to-face assistance by process managers, enrichment sessions with experienced innovators, workshops and "boot camps" to aspiring social entrepreneurs and innovators. – Communication activities, awareness campaigns and networking events. – Use of an alternative barter currency ("SIF") in order to monitor Social Innovation Factory's financial and non-financial transactions.
Impact	Social Innovation Factory has helped more than 300 innovators develop their business model, find business partners, evaluate their impact, scale-up, and analyse their target group.
Key challenges	– Initial reluctance from stakeholders: policy makers feared that the non-thematic approach of the initiative would drive away funding initially dedicated to specific policy domains; civil society organisations worried that the inclusion of actors primarily driven by financial gain would jeopardise social innovations that would never generate market revenues; for-profit actors were concerned about the decrease in innovation budgets initially intended for companies. – Defining when to stop providing support. – Building stronger relationships with bigger "established" actors. – Unstable funding situation.
Success factors	– Focusing on a brokering role in a well-established and diversified network of actors. – Lean organisational model, where relatively modest operational costs generate substantial output. – Demand for Social Innovation Factory came from different actors in society.
Financial source(s)	Public source (80%); EU funding and self-generated revenue from services provision (20%).
Budget	EUR 800 000 (2016).

Belgium (Wallonia-Brussels)
SAW-B: A training and advisory services federation

Main actor(s)	SAW-B.
Level of implementation	Regional.
Implementation date	Launched in 1981; on-going.
Policy area	Business development support; skills and education; visibility
Policy approach	Networking; lobbying; education and training; raising awareness; knowledge sharing; business counselling.
Objectives	The federation aims to bring together social economy actors, from all sectors of activity, to exchange practices and highlight their concerns at the political level.
Rationale	SAW-B was initially founded in response to the lack of political support for the growing number of producer co-operatives and work integration enterprises. Over time, and in order to professionalise and legitimise the sector, SAW-B became also active in education and training.
Key activities	– Federation: representing social enterprises in the political arena and influencing the institutional framework by engaging in lobbying; counselling publics bodies; organising awareness raising activities on social entrepreneurship for citizens and students. – Training and research: trainings and practice-sharing for social enterprise managers, entrepreneurs; and SAW-B workers; conducting research to develop practical tools. – Advisory agency: consultancy including legal, financial, communication, human resource-related services and governance advice, as well as support to draft business plans, and to obtain agreements from public authorities.
Impact	The advocacy work of SAW-B has contributed to: the establishment of a consultative body on social economy; the adoption of a legal definition of the social economy, thanks to close contacts with members of parliament; the creation of the social-purpose company; and the formulation of public agreements or labels. At a micro-level, an estimated 50 social enterprises benefited from its advisory services in 2014.
Key challenges	– Overcoming resistance to change (mainly from public authorities) in the face of the initiatives' innovative and alternative character. – Emergence of new actors (e.g. collaborative or sharing economy platforms) that only partially endorse the values of social economy; the challenge lies in taking into account these evolutions, without diluting the principles of economic democracy and limited surplus redistribution. – Lack of specialisation (causing potential loss of legitimacy) and in-depth knowledge.
Success factors	– Limiting the initiative's geographical scope and factoring in the subsidiarity principle, both to keep the federation close to its advisory and training activities, and to determine the most influential political level. – Transversal character to embrace the overall social economy and maintain awareness about innovations. – Engage with a wide variety of actors. – Complementary activities.
Financial source(s)	National public sources (87%); EU (3.9%); sales and donations (approximately 9%).
Budget	Approximately EUR 1 300 000 (2014).

Croatia
The National Strategy for the Development of Social Entrepreneurship

Main actor(s)	Government of Croatia.
Level of implementation	National.
Implementation date	Launched in 2015; on going.
Policy area	Institutional/legal framework.
Policy approach	Integrated approach.
Objectives	1. Boost social enterprise creation and growth by establishing a more supportive institutional and financial environment. 2. Decrease regional disparities, increase employment and ensure fair distribution of wealth.
Rationale	Prior to the Strategy, the policy discourse recognised social entrepreneurship only as a component of civil society, and social enterprises struggled to adjust to unsuitable and sometimes contradictory regulations. The Strategy was developed to acknowledge their unique specificities and meet their needs.
Key activities	– The Strategy has four main measures, whose activities include: – Develop and improve the legislative and institutional framework: setting up a dedicated institutional unit and an official register of social enterprises; harmonising legislation; providing unused public spaces and buildings for use by social enterprises; developing partnerships between public bodies; developing a social-impact measurement methodology. – Establish an adequate financial framework: developing a unique guarantee mechanism/fund, providing systematic financial support (grant schemes) linked to EU funds and national budget co-financing. – Promote social entrepreneurship through education: supporting social entrepreneurship educational programmes and lifelong learning projects; producing informational publications; encouraging further education about social entrepreneurship for teachers, adults and public servants. – Increase visibility and information channels: producing promotional materials and highlighting examples of good practices; developing social-enterprise market labels.
Impact	Considering the relatively recent implementation, no data are available.
Key challenges	– Lack of institutional recognition and high level political will. – Need to reconcile opposing approaches to social enterprise. – The social enterprise landscape is still small with limited capacity: many social enterprises may struggle to meet the requirements to receive the "social enterprise" status.
Success factors	– Adopting a bottom-up approach, developing a network or an umbrella organisation that represents social enterprises' interests and needs. – Creating a partnership with the government (as a process owner). – Creating a transparent and participative model of preparation and implementation, including stakeholders from multiple sectors and a public consultation. – Closely connecting the strategy with EU documents and policies to ensure coherence with EU strategic priorities and enhance access to EU financial resources.
Financial source(s)	Public funding.
Budget	Approximately EUR 37 million (of which EUR 32 million from the ESF) (2015-2020).

Denmark
Copenhagen Project House (KPH): An incubator for social start-ups

Main actor(s)	KPH, City of Copenhagen.
Level of implementation	Local.
Implementation date	Launched in 2009; on-going.
Policy area	Business development support; education and skills.
Policy approach	Co-working space; incubation; business counselling; mentoring; networking.
Objectives	1. Create value for society by supporting cultural and social enterprises during the early and scaling stages. 2. Strengthen inter-sectorial partnerships by actively linking the public, private and voluntary sectors. 3. Focus on market failure areas where the municipality is not active and there is a need for new services.
Rationale	Denmark currently faces major challenges in maintaining its social welfare. Municipal procurement to social enterprises could alleviate this problem and incubators, such as KPH, are instrumental in strengthening their role.
Key activities	KPH operates as: – an incubator and accelerator for social start-ups; – a co-location space for more mature social enterprises; – a multi-functional event space. The underlying business model of the KPH incubator rests on a multi-partner mentoring scheme and strong partnerships. KPH entrepreneurs have to mentor their peers for three hours per month. Experts both from the public and private sectors also provide mentoring on a case-by-case basis. KPH facilitates the collaboration between the Municipality and social enterprises. Its secretariat sits at the Municipality board and acts as both the initiator and the broker of relationships between public bodies and social entrepreneurs.
Impact	The KPH network of private partners has helped to meet entrepreneurs' small practical needs and brokered substantial partnerships, creating opportunities for social entrepreneurs to test ideas in co-operation with experienced entrepreneurs, organisations and businesses, as well as develop new business and investment prospects. KPH now houses over 300 social entrepreneurs, more than 60 companies and organisations, and hosts around 20 permanent cultural events.
Key challenges	– Diversifying financial sources and decreasing dependency on municipal funding, while keeping strong relations with the public sector. – Changing political priorities that create instability in municipal funding. – Facing increased competition among co-working spaces. – Adapting its business model to maintain the quality of services provided. – Assessing the organisation's social impact.
Success factors	– Adopting a broad definition of social enterprise and collaborating with a wide start-up ecosystem. – Implementing specific governance conditions that allow the incubator to attract further income streams and diversify its service portfolio. – Working across and within city departments.
Financial source(s)	Public (subsidies), income-generated activities (membership and rental fees, commercial activities), EU funding.
Budget	EUR 400 000 (DKK 2.9 million) annually (2009-2012); EUR 320 000 (DKK 2.4 million) annually in direct funding, as well as EUR 80 000 (DKK 500 000) as a "growth package" for rent and utilities (2013-2016) from the Culture and Leisure Department of the City of Copenhagen.

France
Alter'Incub: A regional incubator

Main actor(s)	Alter'Incub, Languedoc-Roussillon Region, the European Regional Development Fund (ERDF), the Caisse des Dépôts et Consignations.
Level of implementation	Regional.
Implementation date	Launched in 2007; on-going.
Policy area	Business development support; education and skills.
Policy approach	Business incubation; consultancy services; coaching and mentoring; networking.
Objectives	1. To develop a multi-stakeholder response to unmet local needs. 2. To drive the creation of social enterprises that enhance economic, social, and local development, and create jobs.
Rationale	Despite national interest in social entrepreneurship in the early 2000s, barely any support existed in France for social innovation and business creation. Alter'Incub was a pioneer in helping projects take advantage of existing instruments in the conventional economic system.
Key activities	Alter'Incub creates synergies between entrepreneurs, research centres in humanities and social sciences and territories. Its incubation programme lasts 12 months and includes: – Individual support: helping entrepreneurs with networking, market studies, financial and business planning, choice of legal status and management. – Collective support: collective training sessions leading to positive group dynamics; better communication between project initiators; acquisition of strategic, marketing and management skills. – External support: mobilising partnerships with local experts in order to meet the needs of innovative projects in particular when entrepreneurs need specific resources (e.g. specific legal advice, detailed market studies) that would not be available otherwise.
Impact	In less than ten years, Alter'Incub created 250 jobs and 41 social enterprises in the region. It has contributed to defining social innovation and social enterprise in France and has helped define regional and national policies supporting social innovation. It now heads a network of five incubators in three regions of France.
Key challenges	– Establishing broad partnerships takes time: researchers specialising in social innovation are not used to interacting with social enterprises. – Financing higher cost of incubation of socially innovative projects that require longer-term and more complex mentoring than regular projects. – Scaling up the incubator network requires reinforcing the spin-off strategy to increase the number of incubated projects, as well as taking time to promote and co-ordinate the network and its community.
Success factors	– Network of local partners: Alter'Incub has relied on the skills of local actors taking advantage of existing resources. – Skilled mentoring: a project's success depends on the quality of brainstorming amongst entrepreneurs and mentors. – Time, listening skills and strong partnerships are key to determining the strengths and weaknesses of a project, team and/or environment.
Financial source(s)	90-95% from the Occitanie region and the European Regional Development Fund (ERDF); 5-10% from the co-operative movement (URScop or CGScop).
Budget	Approximately EUR 500 000 annually.

France
The Law on the Social and Solidarity Economy (SSE)

Main actor(s)	Ministry of the Economy and Finance.
Level of implementation	National.
Implementation date	Entry into force in July 2014.
Policy area	Legal/ Institutional framework.
Policy approach	Integrated approach.
Objectives	The SSE Law aims to meet the need for recognition of SSE actors; to recognise SSE as a specific model of entrepreneurship; and to complete or reform a range of tools aiming to foster the development of SSE actors.
Rationale	Studies have demonstrated the resilience of social enterprises in the wake of the economic crisis and the SSE potential to respond to economic issues. An integrated and better enabling policy framework was needed to reverse policymakers' tendency to "underestimate" the SSE.
Key activities	Main measures adopted by the SSE Law include: – Structure the network and grant legal recognition to representative SSE institutions, such as the Higher Council for the Social and Solidarity Economy, the French Chamber of SSE and the regional SSE chambers. – Recognise SSE as a specific entrepreneurship model by: proposing a clear definition of the structures included in the SSE; setting precise criteria defining "social innovation" and introducing a "social and solidarity-based enterprises" accreditation for SSE enterprises – Facilitate access to financing and public procurement by: creating tailored financing tools (e.g. solidarity-based participatory loans and dedicated equity capital direct investment); clarifying the legal regime for subsidies to better differentiate it from public procurement; including social clauses in public procurement. – Strengthen the local sustainable development policies and the network approach by: establishing regional ESS conferences; participating in regional chambers in the design of the regional plans for sustainable development and territorial equality; allowing SSE enterprises to constitute their own regional network through a regional economic co-operation hub (called PTCE), in co-operation with all relevant economic and institutional stakeholders. – Facilitate salaried employees to take over an enterprise as a SCOP to preserve or re-establish jobs by: creating a transitional status for seed co-operative and participative companies; introducing mechanisms to inform employees of an upcoming ownership transfer. – Modernise the status of co-operatives by authorising the creation of SCOP groups.
Impact	n/a.
Key challenges	– Network egocentrism. – Limited public financing dedicated to SSE.
Success factors	– Multiple stakeholders approach used in the design phase of the Law. – Adoption of an inclusive definition recognising the specificities of the different SSE "families" (traditional organisations and new social enterprises) and providing them with tailored and innovative tools.
Financial source(s)	Public funding.
Budget	n/a.

Germany
Financing Agency for Social Entrepreneurship (FASE): An intermediary for hybrid financing

Main actor(s)	FASE; fully owned by Ashoka Germany.
Level of implementation	National (and in selected European countries).
Implementation date	Launched in 2013; on-going.
Policy area	Access to finance.
Policy approach	Provision of funding; financial intermediation; investment-readiness support.
Objectives	1. Mobilise growth capital for early-stage social enterprises, to enable them to scale their impact. 2. Develop innovative financing strategies, securing more impact-minded investors, and build a pipeline of investment-ready social enterprises.
Rationale	Early-stage social enterprises face a strategic financing gap when the required investment amounts tend to be too large for private donations or philanthropist organisations, and too small and risky for institutional social investors. This market failure is often termed “the valley of death”: many social enterprises risk failing prematurely due to sheer lack of funding.
Key activities	– Offers transaction and investment-readiness support to social enterprises. – Develops new hybrid financing models. – Builds a network of potential impact investors. – Initiates collaborations between different market players to advance the social finance ecosystem. – Participates in policy initiative. – Disseminates knowledge through best-practice examples, events and case studies.
Impact	FASE has successfully closed 20 transactions, channelling around EUR 8 million (as of December 2016) into the social finance sector and advising approximately 200 social enterprises on the nature, process and requirements of raising growth capital. It has added over 250 current and potential impact investors as part of their network and has published over 30 articles, interviews, and papers.
Key challenges	– Developing a viable, sustainable business model that allows scaling the impact to a higher number of target groups and geographic regions. – Human resource-intensive business. – Limited budgets of social enterprises to pay for external services. – Significant barriers between the mental models of philanthropists and impact investors.
Success factors	– Deal-by-deal matching approach. – Investor coalitions comprising two to investors from different financing “planets”. – A customised “hybrid” approach to financial instruments. – Stringent process management. – Open-source method: sharing blueprints and experiences for replication
Financial source(s)	Income generated from transaction support to social enterprises (45%); project and infrastructure support from the European Commission and private organisations (55%).
Budget	Approximately EUR 200 000 (2015)

Germany
PHINEO: A financial intermediary

Main actor(s)	PHINEO.
Level of implementation	Local, regional and national.
Implementation date	Launched in 2010; on-going.
Policy area	Access to finance; business development support; access to market; visibility.
Policy approach	Financial intermediation; networking; label; raising awareness ; knowledge sharing.
Objectives	To strengthen civil society while improving the impact of non-profit organisations (NPOs) and social-enterprises activity; building bridges among and between donors, social investors, NPOs and social enterprises.
Rationale	PHINEO was established in response to the non-profit and social enterprise sector's lack of transparency and impact assessment, its high transaction costs (e.g. for research and due diligence) and the widely varying degrees of professionalism.
Key activities	– Accreditation and publications: analysing social challenges, examining the NPOs and social enterprises active in these areas, awarding a label to those that have aligned operations with impact objectives, and creating a compendium for social investors to encourage them to invest, partner or implement corporate citizenship activities. – Corporate citizenship: developing and disseminating knowledge on corporate citizenship methods, tools and trends through workshops, studies, guidebooks and market intelligence. – Consulting: offering social investors a range of consultancy services focusing on strategy development; advising NPOs and social enterprises on how to develop sustainable engagement strategies and improve social impact; introducing the Social Reporting Standard (SRS) to NPOs and social enterprises in Germany; – Impact investing: providing impact analyses for specific organisations or issues; access to the tri-sectoral network needed for successful impact investment; helping interested entities develop the ecosystems needed for impact investing.
Impact	PHINEO has succeeded in drawing broad attention to the need to heighten the impact of the social sector, thereby improving the visibility and credibility of NPOs and social enterprises. It has expanded its tri-sectoral network of private, public and civil-society stakeholders from 10 to more than 100 active partners. It has analysed more than 800 NPOs and social enterprises, and awarded the impact label to 200 of them.
Key challenges faced	– First mover in many areas, facing high development costs. – Few strategic donors and partners are willing to invest in intermediaries providing market intelligence: need to proactively demonstrate the value of both its market intelligence and its role in mediating this information. – Divergent ideological views within the non-profit sector itself.
Success factors	– Legitimacy from its multi-sectoral partner group and strong relationships with stakeholders in each sector. – Highly qualified staff. – Collaborative work and knowledge sharing.
Financial source(s)	Shareholders and key partners; project work and consultancy income.
Budget	EUR 2.6 million (2015).

Ireland
Clann Credo: A social finance provider

Main actor(s)	Clann Credo, Social Finance Foundation.
Level of implementation	Local, regional, national.
Implementation date	Launched in 1996; on-going.
Policy area	Access to finance.
Policy approach	Provision of funding; market support; raising awareness; lobbying; research; knowledge sharing
Objective	1. Provide loans with affordable conditions to community, voluntary and social enterprises (CVSEs). 2. Strengthen the regional social investment market.
Rationale	Prior to 2000, Ireland's growing social enterprise sector was not well understood and consequently struggled to obtain capital. Many Irish community organisations, particularly in disadvantaged areas, had no access to mainstream bank finance. Clann Credo was created as a response to these identified market failures.
Key activities	– Providing social finance to CVSEs with favourable conditions: no personal guarantees from project promoters or voluntary board members, no penalties for early repayment, flexible loan-terms to address any difficulties appearing throughout the lifetime of the loan. – Helping organisations build their capacity and skills in project/business planning and management; managing and accessing funds; and identifying areas of social impact. – Researching on social investment with the potential to strengthen the CVSE sector and explore new financial tools. – Informing political institutions about the importance and growth potential of the CVSE sector, including sector financing (e.g. key role in lobbying the Irish Government to introduce a social finance initiative; member of the Social Enterprise Task Force).
Impact	Since its creation, Clann Credo has lent over EUR 82 million to over 800 projects. It currently has a retail loan book of EUR 18.5 million. In 2011, an economic audit found that every euro injected into the economy by a Clann Credo client benefitted the economy by a further 32% (e.g. through wages or purchases of goods and services).
Key challenges	– Difficulty in supporting social enterprises through repayable funding because of their high risk profile. – CVSEs are insufficiently aware of the opportunities provided by social finance or averse to taking on loans. – Clann Credo has limited capacity to fund capital-intensive projects undertaken by CVSEs.
Success factors	– Loan terms and conditions tailored to recipient organisations' needs and capacity. – Provision of non-financial support to customers. – Regionally based staff, accessible to prospective customers. – Funded entirely by private capital, not dependent on government funding. – Strong links and good working relationships within the sector.
Financial source(s)	Private funding (religious charities, mainly the Presentation Sisters; since 2007 Social Finance Foundation).
Budget	n/a.

Italy
JEREMIE Sicily ESF Social Finance: A microfinance scheme

Main actor(s)	Banca Popolare Etica (BPE), European Investment Fund (EIF).
Level of implementation	Regional.
Implementation date	2013-2016.
Policy area	Access to finance; business development support.
Policy approach	Provision of funding; financial intermediation; business consultancy; coaching and mentoring; education and training.
Objectives	Support the creation and development of SMEs and social enterprises dedicated to promote the economic empowerment of vulnerable workers by facilitating access to the labour market through a microfinance scheme.
Rationale	Following the economic crisis, unemployment has increased in Sicily, while SMEs and social enterprises have faced difficulties to access traditional banking loans.
Key activities	– Providing financial services: creation of a portfolio of loans to foster both the consolidation and start-up of SMEs and social enterprises. – Providing business support services (in partnership with a consortium of organisations): orientation to credit and financial services; pre-feasibility analysis, selection and evaluation of business proposals; elaboration and evaluation of business plans; coaching and support services to develop entrepreneurs' skills. – Promoting the programme: communication through newspapers, leaflets, mailing lists; organisation of workshops and promotional events; promotion of the initiative within local and regional networks of enterprises, industries and professional associations. – Monitoring interventions and evaluation, including on the social impact of the financed projects.
Impact	By July 2016, 82 enterprises – 8.14% of applicants– had received individual loans averaging EUR 56 423. Applications that passed the non-financial partners' preliminary appraisal had a higher (73.5%) success rate, proving the partners' ability to generate value and define an innovative business model for the microfinance sector. Each enterprise that received a loan created two jobs on average.
Key challenges	– Insufficient resources to cover the costs of non-financial services, mainly covered by the beneficiaries. – Rigid assessment procedures, resulting in slow evaluation processes. – ESF procedures too complex and bureaucratic for entrepreneurs. – Lack of communication between financial and non-financial partners. – Weak monitoring system.
Success factors	– Strong beneficial impact of non-financial service providers, acting as "filters" and "trust agencies" for the financial intermediary. – Targeting a wide range of entities (from SMEs with a social purpose to social enterprises as such). – Peer-to-peer coaching, as well as networking and the creation of a community of practice among beneficiaries are identified as some of the strengths of the scheme.
Financial source(s)	European Social Fund and Banca Populare Etica.
Budget	EUR 5 million (2013-2016).

Netherlands (the)
Social Impact Factory: A business-support structure

Main actor(s)	The Social Impact Factory; initiated by the municipality of Utrecht and Kirkman Company.
Level of implementation	Local.
Implementation date	Launched in 2014; on-going.
Policy area	Access to market; business development support.
Policy approach	Public-private partnership; networking; raising awareness.
Objectives	1. Inspire, connect and spur businesses to adopt socially responsible behaviours. 2. Create an enabling environment for social enterprises.
Rationale	While conventional companies are increasingly redefining their role to create more value for society, the role of local governments is also evolving towards adopting an increasingly participatory approach. In order to support this process, the Factory aims to tackle miscommunication among sectors (profit, non-profit, public) that have different rationales and languages.
Key activities	1. Social procurement: the Factory developed an online marketplace, called Social Impact Market, for traditional companies willing to purchase social products or services from social enterprises. 2. Impact Challenges: a six-month programme connecting diverse stakeholders around a specific social challenge, submitted by the municipality, to design solutions in an entrepreneurial way. 3. Change-making: communication, research and lobbying efforts to accelerate change towards a society, where doing business fairly, sustainably and inclusively is the standard.
Impact	In 2015, the Factory's network comprised 90 social entrepreneurs, 7 large traditional businesses and 15 municipalities. In the six first months of its existence, the Social Impact Market has led to 21 matches, totalling EUR 75 000 in revenue. In 2015, 10 "complex problems" submitted by the local government were addressed: 75 organisations were involved and the total budget invested amounted to EUR 130 000.
Key challenges	– Balancing a self-sustaining organisation with social goals is difficult. – Despite a shared ambition to foster social entrepreneurship, the distinct nature and specificities of the founding organisations – a public actor and a private company –led to resistance in partnering with some organisations. – The Factory struggled to understand what was possible or prohibited within the current legal framework, particularly for tendering processes.
Success factors	– Foster a culture of inclusiveness and collaboration that welcomes participation from organisations with a shared ambition. – Clarify stakeholders' visions and interests from the beginning to avoid conflicts and work on an equal basis. – Ensure the independent feature of the platform by having its own revenue model.
Financial source(s)	Public source (grants); private contributions (founder contributions); self-generated revenues (services, product provision).
Budget	EUR 45 000 from the founding partners (2015); EUR 200 000 from the Utrecht municipality (2015-2016).

Poland
ES Fund TISE: A loan fund for social enterprises

Main actor(s)	Ministry of Economic Development; Ministry of Family, Labour and Social Policy; BGK; TISE.
Level of implementation	National.
Implementation date	2013; on-going.
Policy areas	Access to finance; business development support.
Policy approach	Provision of funding (loans); business counselling.
Objectives	The programme aims to provide existing social enterprises with repayable financing to foster the investment and job creation necessary to the expansion of their activity.
Rationale	Mainstream finance providers are reluctant to invest in social enterprises and do not offer capital at adequate terms and conditions, while social enterprises lack business skills and struggle to obtain external financing.
Key activities	– Communication and partnerships: for the promotion of the project, TISE initiated 40 partnerships with large umbrella non-governmental organisations, social-economy support centres (OWES), foundations and associations, and individuals, for which it organises trainings and workshops. – Provision of preferential loans: below-market loans (with a maximum individual loan amount of EUR 25 000) at one-half or one-quarter the rediscount rate, with no upfront or administration fee, and no extra charges. The financial intermediary, TISE, is responsible for the entire lending process. – Advisory services: every borrower is eligible to receive up to 30 hours of free advisory services provided by in-house experts or external advisors.
Impact	As of May 2016, TISE had granted 431 loans to 371 social enterprises. The loans appeared to be an effective tool to combat unemployment with the capacity to create (436 new jobs) and preserve workplaces. The post-investment counselling that was provided to 241 enterprises improved the performance of the borrowers and overall effectiveness of the project.
Key challenges	– Difficulty in mobilising the social economy's existing support structures to help beneficiaries participate in the project. – Public stakeholders' lack of experience in implementing financial instruments in social affairs. – Longstanding public procurement regime, which does not leave much room for flexibility to engage with social enterprises.
Success factors	– Suitability to the target group's expectations, particularly in terms of low-cost financing. – Recognition of the programme and equal access throughout the country with a regional allocation and distribution of funds. – Free advisory services to improve the professional skills of social entrepreneurs and increase the probability of loan repayment.
Financial source(s)	Public funding: 85% from European Social Fund (ESF), 15% from national public sources.
Budget	EUR 9.3 million (2013-2016).

Portugal
Portugal Inovação Social: An integrated approach for social innovation

Main actor(s)	Portugal Inovação Social, Government of Portugal, Calouste Gulbenkian Foundation, Laboratório de Investimento Social.
Level of implementation	National.
Status	Launched in 2015; programme fund period 2016-2020.
Policy area	Access to finance; visibility.
Policy approach	Provision of funding; capacity-building; market support; raising awareness.
Objectives	Establish and promote an investment market for social enterprises to catalyse and mobilise EU structural funds.
Rationale	After much advocacy and lobbying efforts (including diverse research papers, feasibility studies and an action plan issued by the Portuguese Social Investment Taskforce) the national government initiated the creation of Portugal Inovação Social to tackle the financing mismatch between supply and demand in the social sector.
Key activities	The EU funding is allocated to four funding programmes expected to be in place from 2016 to 2020: 1. "Capacity-building for social investment" enables social enterprises to access support from specialist providers in areas such as financial management, business modelling, impact measurement, leadership and governance. 2. "Partnerships for impact" promotes venture philanthropy in Portugal through a match-funding system. 3. "Financing instrument of social impact bonds" (SIBs) promotes the importance of an outcome-based focus among public entities. 4. "Social Innovation Fund" is a wholesale fund co-investing in Portuguese social enterprises and social investment products with a demonstrated potential to generate social and financial returns.
Impact	Limited evidence of impact given the very recent launch of the programmes
Key challenges	– Social enterprises marked by a predominantly weak social impact measurement culture, hampering both initial selection and continuous performance management. – Under-developed markets of specialist providers and evaluators, particularly important for the capacity-building and the financing instrument for SIBs programmes. – Relatively short period of time to extract lessons from the market and adapt programmes if necessary.
Success factors	– Diverse funding programmes, meeting the needs of social enterprises at all stages of development. – Strong political endorsement regardless of the partisan structure in place.
Financial source(s)	EU structural funds.
Total cost	EUR 150 million (2016-2020).

Spain
Barcelona City Council Decree for Socially Responsible Public Procurement

Main actor(s)	Barcelona City Council.
Level of implementation	Local.
Implementation date	Launched in 2013; on-going.
Policy area	Regulatory framework; access to market.
Policy approach	Public procurement.
Objectives	Use public procurement to create work opportunities for the most vulnerable members of society and thus improve social cohesion; foster collaboration among different sectors and develop the social sector (employment centres; WISEs; NPOs).
Rationale	The Decree focuses on facilitating employment among vulnerable sectors, specifically unemployed people receiving no form of income (half of all unemployed), unemployed youth (43.6%) and the population below the poverty line (18.3%).
Key activities	The social clauses for public procurement contracts were adopted through a participatory process and include: – Reserved contracts for special employment centres and WISEs, amounting to EUR 8 million per year and allocated through the Barcelona social reserve fund. – Bidding organisations (with 50 or more employees) must prove that at least 2% of their workers experience at least 33% disability; that at least 5% of the awarded companies' staff connected with the contract are people struggling to enter the job market; that at least 5% of the awarded company's contract budget is used to subcontract the services of special employment centres and WISEs. The companies that exceed these targets are awarded higher scores. – Establishment of environmental criteria for all aspects of bidding organisations' operations and purchasing.
Impact	– In its first year of implementation, 75% of all published contracts incorporated the stipulated social clauses and 770 people in situations of social exclusion, or at risk of social exclusion, benefited from the Decree. – The Decree has not yet reached its full impact in particular because many multi-annual city administration contracts will only incorporate the social criteria when they come up for renewal. – Many municipalities in the country replicated the methodology, text and structure applied in Barcelona.
Key challenges	During the design phase of the Decree: – Administrative inertia and resistance to change. – Suspected ideological interests by some political groups, believing that the Decree violated free-market principles. – A corporate sector worried about non-voluntary social commitments, added costs and reduced entrepreneurial freedoms. During the implementation phase of the Decree: – Establishing a uniform system to verify compliance with social clauses. – Perfecting the impact-measurement system. – Including other social criteria (e.g. gender equality, fair trade, labour rights, ethics and fiscal transparency) in responsible public procurement.
Success factors	– Creating a specific forum (the Mixed Commission) to discuss issues and ensure that all stakeholders are equally heard. – Developing shared language and terminology. – Strong leadership and support from the mayor.
Financial source(s)	Public.
Budget	n/a.

Spain
El Hueco: A local incubator

Main actor(s)	El Hueco founded by Cives Mundi (NGO).
Level of implementation	Regional.
Implementation date	2012, Brussels office opened in 2014; on-going.
Policy area	Business development support; access to finance; visibility.
Policy approach	Incubation; mentoring; networking; communication; knowledge sharing; funding; lobbying; raising awareness.
Objectives	Create a favourable environment for the creation and development of social enterprises in Sparsely Populated Areas (SPAs), such as the region of Soria in Spain.
Rationale	The region of Soria is the most depopulated geographical area in Spain. There is a need to retain and attract entrepreneurial talents to develop sustainable economic, social and environmental initiatives generating development and quality jobs.
Key activities	El Hueco's core is a co-working space that offers a wide range of services and activities to stimulate interaction among social entrepreneurs and other stakeholders: – Spanish Social Entrepreneurship Immersion Programme (SEIP): a social enterprise incubator with tailored training and mentoring. – IMPUL/SO: a six-month accelerator programme providing mentoring and funding in the seed phase. – "El Hueco Starter": an annual competition to attract and train potential social entrepreneurs. – Spring meetings: large international events gathering social entrepreneurs, investors and institutions in order to engage in networking and knowledge sharing. – Social Entrepreneurship in Sparsely Populated Areas- (SOCENT SPAs Interreg) Improve the implementation of regional development policies and programmes, in particular programmes for Investment for Growth and Jobs and, where relevant, ETC programmes, supporting SMEs in all stages of their life cycle to develop and achieve growth and engage in innovation.
Impact	In 2015, El Hueco helped to create 22 organisations and 120 jobs, and attracted 115 business advisors. Its co-working space hosted 30 organisations. Through its various events, networking, communication campaigns and media presence, El Hueco has raised awareness of social enterprises and the challenges they face.
Key challenges	– Lack of resources (mainly financial) to carry out activities. – Obtaining support from the public administration and leading private institutions, while establishing its legitimacy in the region and beyond. – Developing and sustaining its activities to support social entrepreneurship through collaborations and partnerships in a region where no other actors provide the same services.
Success factors	– Access to know-how from an established third-sector organisation. – Actively working and communicating with public and private partners.
Financial source(s)	Public and private funding on a project basis; self-generated revenue (rental of co-working space, services to entrepreneurs and private donations) covers operating costs and/or infrastructure investment.
Budget	EUR 349 200 (2015).

United Kingdom
Big Potential: An investment readiness support programme

Main actor(s)	Big Lottery Fund, Social Investment Business (SIB).
Level of implementation	Territorial.
Implementation date	2014-2017.
Policy area	Access to finance; business development support; visibility.
Policy approach	Provision of funding; business counselling; raising awareness; knowledge sharing.
Objectives	1. Help voluntary, community and social enterprises (VCSEs) get ready for investment or win public contracts. 2. Raise awareness of investment approaches for VCSEs.
Rationale	VCSEs at the UK often face barriers that hinder them from accessing investments. Some of these barriers are the lack of suitable financial skills and understanding of social investment, the absence of filtering systems, the poor co-ordination of support providers and the complexity of deals for the amount of finance involved.
Key activities	The Big Potential is a grant programme funded by the Big Lottery Fund and delivered by a partnership led by the Social Investment Business (SIB). It is divided into two strands based on the recipient's level of investment-readiness and the desired investment amount: a. The Breakthrough strand funds specialists help VCSEs embarking on the first stages of social investment undertake in-depth investment-readiness work. b. The Advanced strand supports organisations that are further along on the social investment journey and are seeking investments totalling over EUR 595 000 (GBP 500 000).
Impact	– As of March 2016, Big Potential approved 128 Breakthrough grants (out of 246 applications received) and 23 Advanced grants (58 applications received). – It has gathered and accredited 39 Breakthrough support providers and 24 Advanced ones. – As of June 2015, the Breakthrough programme yielded four successful investments in VCSEs, raising a total EUR 1.2 million in finance.
Key challenges	– Placing charities and social enterprises in the same category, even though they have different cultures and support needs. – Tensions between panel members and support providers over the monetary value of the work to be performed. – Support providers not aligned with VCSEs values.
Success factors	– Appointing an evaluation partner right from the onset, allowing it to introduce changes and improve operations during the course of the programme. – Sharing insights beyond successful applicants by featuring information resources on the website and establishing an online provider marketplace. – Undertaking prior research into the needs of the organisations requiring support and tailoring the programme to the different needs of social enterprises and more traditional charities.
Financial source(s)	Public funding.
Budget	EUR 23.8 million (GBP 20 million) (2014-2015).

United Kingdom (Scotland)
A Partnership for Supporting the Social Enterprise Strategy

Main actor(s)	Scottish Government, Social Enterprise Scotland, Senscot, Social Firms Scotland.
Level of implementation	Territorial.
Date of implementation	Launched in 2011; on-going.
Policy area	Policy framework; business development support; access to markets and to finance.
Policy approach	Integrated approach; networking events; knowledge sharing.
Objectives	1. Inform, encourage and support social enterprises at the grassroots level to raise their profile through policy engagement and communication; recognise and acknowledge the value they bring to local communities and to meeting government objectives at both the local and national levels. 2. Enhance the sector's collective influence and contribution to policy development, both nationally and locally; and strengthen the capacity, membership base and sustainability of the partner organisations.
Rationale	Scotland's many support bodies for social enterprise often have overlapping constituencies, with the result that social enterprises are often confused about selecting the best organisation to turn to for advice and/or support. The Strategy encouraged these bodies to work together to provide clarity and coherence to both the sector and the government.
Key activities	– Advises its members on funding streams and initiatives, and supports the Social Enterprise Exchange event programme, which fosters dialogue, knowledge-sharing. – Contributes to policy development by organising policy round tables featuring practitioners and policy makers, and submitting responses to government consultations, parliamentary questions and motions, monthly e-bulletins to member organisations and parliamentarians. – Showcases and promotes the value of social enterprises to the media and local communities by co-ordinating a national calendar of events and press and public relation activities, and delivering on a communication strategy to raise the profile of social enterprise to a broad range of Scottish and British stakeholders. – Informing, advising and supporting social enterprises at the grassroots level by facilitating social enterprise networks meetings, providing advice face-to-face and electronically (websites, newsletter, study visits, etc.), developing public-private partnerships to boost investment opportunities and social-enterprise engagement.
Impact	The Partnership supporting the Strategy has increased collaborative working, both through intermediaries and across individual social enterprises, at both local and national levels. The "synergy-led business culture" developed through the Strategy has attracted much attention from other business areas and regions. In Scotland, the design of a new strategy is in progress.
Key challenges	– Build trust among participants considering their overlapping member 'constituencies'. – Fractious relationships between local authorities and Scottish Government, leading to inconsistencies across the country. – Maintain strong leadership.
Success factors	– A systemic and holistic approach covering all parts of the social enterprise ecosystem, encouraging connections between stakeholders within and outside the sector. – The close relationships between the principal organising units and the sector facilitators have contributed to the success of the initiative. – The recognition that a range of non-financial resources – social capital, legitimacy and expertise – are vital, and that all partners bring something unique to the table.
Financial source(s)	Public.
Total cost	Approximately EUR 405 000 annually.

Multiple countries, Denmark
Specialisterne & SAP: A partnership for access to markets

Main actor(s)	Specialisterne, Specialisterne Foundation (SPF), SAP.
Level of implementation	Local, national, global.
Implementation date	Specialisterne: 2004; on-going - SPF: 2008; on-going. "Autism at Word Programme" 2013; on-going.
Policy area	Access to market; skills and education.
Policy approach	Multi-stakeholder partnership; coaching and mentoring; education and training; knowledge-sharing; raising awareness.
Objectives	1. Pioneer new ways of harnessing skills of people with Autism Spectrum Disorder (ASD) and empower them by matching them with businesses in need of IT experts. 2. Achieve sustainable procedures and operations, by implementing the SAP mission of thought leadership on global innovation and establishing a learning programme for all stakeholders involved. 3. Re-design and re-orient the SAP human resource policies and processes to fully incorporate neuro-diversity (so that the programme's parallel on-boarding process would no longer be necessary to access the talents of people with ASD).
Rationale	While people with ASD have unique skills (e.g. an outstanding memory, a remarkable eye for detail, a structured way of working), they struggle with social interaction and personal communication. This hinders them from accessing the labour market.
Key activities	SAP (a multinational software corporation) has partnered with SPF to implement the "Autism at Work Programme". Two key activities are undertaken at local level: – Pre-screening process and pre-employment training: together with local partners, local SAP managers identify potential positions to be filled within SAP and develop a pool of candidates. Selected candidates undergo a week of training in "soft skills" to acquaint themselves with a professional workplace' social norms and a six-week pre-employment training to learn about SAP methodologies. SAP also provides extensive awareness and autism-sensitivity training to their teams. – Job matching: local SAP programme managers collect information about candidates' capabilities and match them with available jobs or future opportunities.
Impact	By mid-2016, the SAP's "Autism at Work Programme" operated in 12 SAP offices in 8 countries (Germany, India, Canada, Brazil, the Czech Republic, Ireland, the United States and Australia) and provided work opportunities to more than 100 people.
Key challenges	– Changing mind-sets of decision-makers regarding the skills of people with ASD. – Convincing stakeholders to collaborate in long-term partnerships. – Accessing public subsidies to fund the costs of tailor-made training courses and gaining access to social-impact investors that provide grants or patient capital.
Success factors	– Convergence of objectives, pooling of resources, and strong commitment from both sides. – Collaboration with public and non-profit organisations that help to navigate through public programmes, policies and regulations specific to each location; was instrumental in mobilising funding (public grants, subsidies, donations); enabled the identification of candidates.
Financial source(s)	Private; income-generating activities; (public funds depending on the country).
Budget	Not available.

Multiple Countries
Junior Achievement Europe: An education network

Main actor(s)	Junior Achievement Europe (JA Europe).
Level of implementation	National; European network of 40 national not-for-profit Junior Achievement organisations.
Implementation date	Launched in 2001; on-going.
Policy area	Skills and education; visibility.
Policy approach	Education and training; coaching and mentoring; public-private partnerships; networking; knowledge-sharing; raising awareness.
Objectives	Teaching young people as early as possible about the world of enterprise and entrepreneurship, including social entrepreneurship, by bringing together the public and private sectors into education; to foster innovative thinking and the improvement of work and life skills among young people.
Rationale	The skyrocketing youth unemployment, low uptake of entrepreneurship education and low start-up rates in many European countries encourage JA Europe's activities. Research has shown that investing in entrepreneurship education at school results in higher levels of entrepreneurship activities later in life.
Key activities	JA Europe develops programmes and activities in close co-operation with its national member organisations, which adapt the content to the specific national curricula and conditions. They focus on developing competences such as teamwork, problem solving, leadership, initiative and creativity. They build students' skills in turning ideas into action, analysing information, managing projects or business ventures, budgeting, financial management, marketing and sales. Two main programmes dedicated to social entrepreneurship education are: – Social Enterprise 360 (SE360): year-long activities where students create mini social enterprises, and participate in various competitions organised by JA at the national, European and global levels. – Social Innovation Relay (SIR): Using a dedicated "match-making" platform, JA Europe pairs up teacher-led student teams from several countries with corporate volunteers from NN Group, who help them translate their concepts addressing social needs into viable business concepts.
Impact	In 2014/15, JA organisations reached 3.5 million students in Europe, supported by 117 000 teachers and 164 000 business volunteers. A study on the SIR programme revealed that 78% participating students were more confident in their ability to start a social enterprise; 86% were more aware of the social issues in their own community; 84% were more aware that social and business objectives could be complementary.
Key challenges	– Scaling up the initiative and attracting more volunteer advisors to maximise its impact. – Initiatives are dependent on teachers' motivation and willingness. – Need for more evaluation, assessment tools and research on impact as well as teachers practices.
Success factors	– Low implementation costs. – Raising awareness about the benefits of (social) entrepreneurship education. – Providing relevant training to teachers and head-teachers.
Financial source(s)	82% private funding; 14% public funding; 4% from other revenue sources. Project-based EU funding.
Budget	EUR 8 million (2015).

Multiple countries
NESsT: A multipronged support structure

Main actor(s)	NESsT.
Level of implementation	National (multiple countries).
Implementation date	Founded in 1997; on-going.
Policy area	Access to finance; business development support; education & training.
Policy approach	Provision of funding; business counselling; knowledge-sharing; mentoring.
Objectives	Develop and invest in enterprises from multiple countries that use market-based solutions to create opportunities for viable employment and income generation.
Rationale	In the late 1990s, CSOs in Central Europe were suffering from the consequences of diminishing foreign funding and from an underdeveloped local philanthropy, reluctant to fund organisational development. Moreover, there was an appetite for new and market-oriented approaches; this turned to be a propitious time for social enterprise development.
Key activities	– Capacity building: workshops, portfolio events, conferences, seminars and one-on-one consultations on business planning, financial skills, investment readiness; Business Advisory Network of local and international professionals, who offer expertise and networks on a pro bono basis. – Financial support: 1) financing instruments including recoverable grants for growth plans, patient loans for infrastructure investments, working capital and loan guarantees to help leverage third-party investment sources; 2) blended capital; 3) identification of other financiers who could offer the missing capital as co-financiers. – Impact measurement and management: performance management tool, which sets goals and targets, measures baseline and monitors performance regularly, based on agreed indicators tailor-made to each social enterprise
Impact	By 2015: – Supported 167 social enterprises. – Invested EUR 10 million in financial support and capacity-building. – Provided training in social entrepreneurship and business planning to 12 000 leaders from 5 300 organisations. – NESsT enterprises achieve a 25% revenue growth on average.
Key challenges	During the design phase: – Lack of awareness of social enterprise concepts and scarce partners. – Lack of financial and human resources for social enterprise development. Currently: – Reaching financial sustainability. – Raising funds to invest in the scaling portfolio: limited patient capital on offer in the EUR 25 000-EUR 250 000 range.
Success factors	– Strong leadership and highly skilled, innovative, and committed staff. – Involvement of corporations and foundations being part of an extensive professional network. – Robust methodology in social enterprise development and social impact.
Financial source(s)	Foundations (47%), earned income from consultancy services (32%), corporate contributions (12%), grants from governments and multilateral organisations (5%) and donations from private individuals (4%).
Budget	EUR 2.3 million (2014).

Good practice examples for social enterprise development

Boosting Social Enterprise Development
Good Practice Compendium

Chapter 2

Social Innovation Factory: An early-stage business support structure, Belgium (Flanders)

The Social Innovation Factory is a support structure for early-stage businesses support that also raises awareness about social innovation and social entrepreneurship. The chapter describes the organisation's objectives, rationale and activities. It presents the challenges faced in implementing its programmes and the impact achieved to date. It concludes with the lessons learnt and the conditions for transferring this practice to another context.

Summary

The Social Innovation Factory was established in Brussels (Belgium) in 2013 by a mix of civil-society organisations (CSOs), social enterprises and private companies. Its mission is to raise awareness of social innovation and social entrepreneurship, and to enable its stakeholders to tackle challenges in a socially innovative and entrepreneurial way.

Innovation falls within the competence of Belgium's regional governments. The Factory's main subsidies come from the Agency for Innovation and Entrepreneurship (a recent fusion of the Agency for Entrepreneurship and the Agency for Innovation through Science and Technology), which falls under the authority of the Ministry of Work, Economy and Innovation in the Flemish region. The Factory was initially designed as an Innovation Platform funded by the Agency for Innovation through Science and Technology, which funded various Innovation Platforms acting as support structures to promote innovation in specific sectors such as food, mobility, media and logistics.

In Flanders, "social innovation" was initially defined as workplace innovation (SERV, 2008), but was later expanded to include all innovative answers to societal challenges (VRWI, 2011). One of the Social Innovation Factory's core tasks as an Innovation Platform was to identify and help develop projects falling under the budget earmarked for social innovation. Thus, the Factory should not be perceived as focusing solely on supporting start-up social enterprises.

The Factory's main impact and strength lie in informing and helping people start their entrepreneurial project, without necessarily accompanying them along the entire trajectory, to the launch of their product or service. The Factory offers services such as face-to-face assistance by process managers, enrichment sessions with experienced innovators, workshops and boot camps. It also runs broader communication and awareness campaigns, and organises numerous networking opportunities for all stakeholders involved. It has helped more than 300 innovators test and validate their ideas, and has identified a large number of enablers (funders and experts) who support innovators where needed.

An interesting feature of the Social Innovation Factory is that it works with an alternative barter currency, the SIF. People use Factory services in exchange for helping someone else; all of the transactions in this virtual currency are translated into euros in the financial accounting system, so that in-kind resources are converted into financial resources.

Key facts

The Social Innovation Factory was formally established as an "association without lucrative purpose" (*vereniging zonder winstoogmerk* [vzw], the Flemish legal term for a not-for-profit organisation) in March 2013. The consortium of 17 founding partners were a mix of social enterprises,[1] private companies[2] and CSOs.[3]

The Flemish government committed to funding the Factory with a maximum EUR 640 000 (euros) (80%) per year, providing the Factory raised EUR 160 000 (20%) in co-funding by the end of 2016. This strict 80%-20% budget rule will apply after a period of four years, at which time the percentage of government funding will be reconsidered and will possibly decrease; until then, the balance of funding can vary every year. In 2016, the Factory secured approximately EUR 250 000 in European Union funding[4] for the "Spark Social Enterprise" project running from 2016 to 2019.

The Factory's two constitutive bodies are its board and general assembly, both of which ensured a strict balance of members from (social) enterprises and CSOs over 2013-16. The board comprises 9 members and the general assembly 16 members, equally distributed among representatives from companies and/or social enterprises, CSOs and the government. In April 2016, based on an evaluation of the first three years, and an assessment of future (mainly funding) challenges and needs, the general assembly changed a few of the Factory's statutes and eliminated the strict "balance" requirement in both bodies. Thus, selection of new board members focuses more on individual competencies, rather than professional backgrounds.[5]

The Factory's services mainly target innovators – people who have a concrete idea and want to implement a project. However, the Factory also reaches out to "potential innovators" – people who appear to be in a good position to explore a more socially innovative approach to their work – as well as the broader public and enablers. Over the years, it has built a large network of funders and experts, ready to enable social innovators and social entrepreneurs.

Objectives

Three important principles define the Factory's work. First, the Factory reaches out to all individuals and organisations, whether commercially oriented or not (Social Innovation Factory, 2015a). This allows true involvement of all societal actors, and greatly enriches their knowledge and skills. Second, the Factory works at the early stages of the innovation funnel. Third, the Factory relies on a bottom-up approach.

The Factory's long-term goal is to help all kinds of stakeholders – social organisations, companies, individuals, academia, and government actors – contribute to social wellbeing of the society. To this end, it aims to:

- raise awareness of social innovation and social entrepreneurship
- enable actors to tackle challenges in a socially innovative and entrepreneurial manner.

During its early years, the Factory learned to work with four target groups – the public, potential innovators, innovators and enablers from civil-society groups, social enterprises and companies[6] (Social Innovation Factory, 2016a). While the Factory encourages all actors to build a solid financial basis for their innovations, it does not exclude projects that generate societal gains only, without economic returns.

Rationale

The overall societal context in Flanders has been one of growing awareness of "complex problems", such as obesity, poverty, and environmental challenges. Policy makers and social actors have begun to realise that these problems cannot be solved by known methods or traditional actors only. They require new and innovative approaches.

Subsidy cuts have made the need for social innovation and social entrepreneurship more acute. Many CSOs have faced decreasing subsidies in recent years, and are increasingly exploring ways to generate income from non-governmental sources. At the same time, traditional CSO funders are increasingly focusing on impact measurement, often linked with economic valorisation. The growing exploration of social impact bonds illustrates this trend.

A number of CSOs have paid attention to social innovation for some years, even though innovation policies have mainly focused on technological innovation and its economy valorisation – rather than social gains – first. In a 2009 memorandum to the Flemish government, the CSO umbrella organisation Verenigde Verenigingen defined social innovation as one of the priority working areas of civil society (Verenigde Verenigingen, 2009). Private companies also showed a growing interest in contributing to a better society through "corporate social responsibility" initiatives and networks (e.g. Kauri, and Business and Society, recently merged into The Shift[7]) bringing together civil-society actors and companies.

In 2012, civil society actors (represented by Verenigde Verenigingen) and the social enterprise i-propeller jointly issued an official request to the minister responsible for innovation to fund the Social Innovation Factory. This proposal was welcomed by the government, which saw the need for raising awareness on new concepts such as social innovation and social entrepreneurship. The fact that some large companies backed the demand was probably instrumental in the government's decision. Around the same time, a recently established social impact investment fund (SI2-fund) had collected about EUR 12 million in a very short time – another indication that private funds were willing to jump into the fray.

Activities

The Factory wants to inspire people in different sectors – e.g. sports, youth, culture, education, and companies – to look at the world through the lens of social innovation and social entrepreneurship. People who have an idea or concept can attend an orientation session. Using a standard template, they present their idea to the Factory's process managers, who inform them on access to finance, knowledge and/or contacts. Some of the innovators are referred to follow-up services.

Payment for services: an innovative element is the Factory's use of a virtual currency called the "SIF". An innovator who receives help during an enrichment session must pay a certain amount of SIF, logged in a debit balance; the innovator clears the balance through an in-kind contribution (e.g. helping another innovator enrich a concept, acting as a speaker, or writing a blog post on social innovation) and receives full accounting documentation, with invoices for services received and credit notes for services delivered. A rigorous monitoring system ensures that all balances are cleared within a year, allowing the Factory to manage the learning network's growth. All SIF transactions are translated into euros in the Factory's accounting system. In this way, in-kind resources are counted as privately generated income, and can be used to reach the 20% co-funding requirement. Thanks to the SIF, participants feel recognised and useful, and greatly appreciate this creative and innovative way of working (Social Innovation Factory, 2015b).

Networking (Factory learning network): the Factory engages innovators and enablers in annual events, focus groups, and networking opportunities (such as the Social Pitch Box[8]). It has constructed an extensive database, matching innovators with specific needs with innovators or enablers with the corresponding expertise; both are then invited to participate together in an enrichment session. The Factory also organises workshops (e.g. on pitching, financing and impact-driven business modelling), peer tables (e.g. on food waste or community care) and boot camps on social entrepreneurship.

Knowledge-building: to further knowledge in the field, the Factory has launched an **action research** on measuring and evaluating impact.[9] Along with the European project "Spark Social Enterprise", it aims to improve the capacity of social enterprises, by creating more effective models and support tools. The Factory also takes potential innovators on "field trips" (called "Safaris") to visit innovations related to their sector, and organises "inspiration sessions" that show companies or organisations positive examples of social innovation in their sector.

Communication: in May 2015, the Factory and a number of partners (including the newspaper *De Standaard*[10]) ran the "Radical Innovators" campaign, a large-scale search to identify radical innovations for a better world. The search generated 335 results, from which a panel of judges chose 10 winning innovations. Thanks to the broad media coverage, the campaign informed a wide audience on the concepts of social innovation and social entrepreneurship.

Challenges encountered and impact

Challenges

The Factory welcomes all themes or requests submitted by innovators or enablers, and hence does not impose a specific thematic approach. As a result, some actors – including some ministers in the Flemish government – feared that the Factory would absorb funding that would otherwise have been dedicated to other policy domains. Some CSOs also worried that the inclusion of actors primarily driven by financial gains would jeopardise social innovations that would never generate market revenues. Finally, for-profit actors were concerned about the decrease in innovation budgets initially intended for companies. However, thanks to the boldness and dedication of a small group of committed and well-placed individuals (from major civil-society groups, large companies, pioneering social enterprises and government cabinets), the initial reluctance was overcome in a relatively short time.

The Factory's main mission and strength lies in informing and helping people get started without accompanying them along their entire innovation trajectory. However, defining where exactly it stops providing assistance is challenging. The Factory will need to explore this question in collaboration with a variety of (newly emerging) support structures and intermediary organisations, based on how they perceive their role.

Considering the future decrease in subsidies, the limited participation of larger institutions (both traditional civil-society actors, such as unions and socio-cultural organisations, and social enterprises) in the Factory's network will need to be addressed. The Factory's relationships with these stakeholders are rather weak, probably owing to its strong focus on innovation, as well as newly emerging trends and organisations. Hence, the Factory will need to focus on building stronger relationships with bigger "established" actors working in its fields of activity.

In the same vein, despite large corporations' growing interest in social entrepreneurship and innovation, as well as their initial support of the Factory, few are actually involved in the network. Those companies that do find their way to the Factory often have well developed "corporate social responsibility" strategies, but fail to incorporate social impact directly into their core activities.

Finally, the Factory's funding situation in the near future is at risk. The government believes that companies and civil-society groups themselves are responsible for further developing social innovations, and is gradually pulling out. Even though this evolution is not unexpected, the Factory is under great pressure to find alternative income, e.g. from sponsoring, partnerships, participant fees, speaker fees and fees for service.

Impact

The Factory's first English-language publication (Social Innovation Factory, 2015b) presented an overview of social issues addressed through its network, such as poverty, aging population, climate change, diversity, social cohesion and urbanisation; the bulk of innovators work on establishing new partnerships and connections.

The Factory helps them with business modelling, finding partners, evaluating their impact, upscaling and analysing their target group. To a lesser extent, it also provides support on communication, value proposition, methodology and co-creation (Social Innovation Factory, 2015b).

The Factory has managed to reach a very wide and diverse audience in a relatively short time, raising awareness of social innovation and social entrepreneurship among civil-society actors. Observers notice a cultural shift within civil society, with a new impact-related language and openness to new ways of financing.[11] This can provide an opportunity for further developing the Factory's activities.

More than 400 innovators have tested and validated their ideas with the Factory, which receives a constant influx of new innovators. While most are individuals who are not embedded in an organisational structure, existing social enterprises innovate as well.

The Social Innovation Factory works with a set of key performance indicators (KPIs), which are evaluated every year in the framework of their subsidy agreement with the government. The Factory's 2016 Action Plan presents the following table of expected and actual results on KPIs (Table 2.1.).

Table 2.1. **Social Innovation Factory KPIs**

KPI	2016 target	2013	2014	Expected for 2015	Expected for 2016	2013 – 20 expected total
KPI-1 - Number of companies/organisations contributing financially to operating costs	48	11	48	83	85	227
KPI-2 - Contribution (in EUR) of companies to projects started in this year	8.83M	140 810	1.1M	1.1M	1M	3.37M
KPI-3 - Number of activities and events organised (or co-operated)	204	22	60	65	60	207
KPI-4 - Event participants	6 510	1 005	2 400	2 900	2 400	8 705
KPI-5 - New services and/or products generated by projects	30	/	7	15	10	32
KPI-6 - Number of Flemish companies or organisations involved in Factory projects	256	7	27	87	65	186
KPI-7 - Number of companies and organisations using project results in a commercial or R&D trajectory	96	/	…	58		96
KPI-8 - Number of European project proposals with Factory participation or facilitation	10	1	3	2	2	8

Source: Social Innovation Factory (2016b).

The Factory monitors a range of other output indicators, such as the number of actors reached (7018 in 2015), the number of orientation meetings organised (111 in 2015) and the number of enrichment sessions organised (55 in 2015) (Social Innovation Factory, 2015a).

Table 2.2. presents an analysis of the Factory's strengths, weaknesses, opportunities and threats (SWOTs).

Table 2.2. **SWOT analysis of Social Innovation Factory**

Strengths	Weaknesses
• Wide network, with a broad variety of actors • High output: increasing number of innovations initiated by individuals (not embedded in existing organisations) • Brokering role in an extensive and diverse network • Strong in early phases of the innovation funnel • Lean organisational model, where relatively modest operational costs generate substantial output • Focusing on a brokering role in a huge network to connect innovators with helpers to achieve greater impact	• Lower output: small number of innovations initiated by existing social organisations • Unclear when to stop providing support
Opportunities	**Threats**
• Cultural shift is taking place in CSOs, with a new impact-related language and openness to new ways of financing	• Unstable funding situation • Weak relationships with establishment actors (traditional civil-society groups, large companies)

Lessons learnt and conditions for potential replicability

Lessons learnt

A solid demand needs to exist for supporting social innovation and social entrepreneurship, combined with a critical mass of intermediaries already working on these issues. Without this demand, an initiative such as the Factory runs the risk of being no more than a promotional tool, with its users continuing to do business as usual.

This demand must come from different actors in society. In Flanders, it grew simultaneously within civil-society groups, social enterprises, companies, grant makers and government, leading to a partnership among equals where no one felt manipulated.

In the start-up phase, the civil-society actors and social enterprises involved in the Social Innovation Factory spent considerable time reaching a common understanding of the concepts of "social innovation" and "social entrepreneurship'. When is an action "socially innovative"? Can a non-profit organisation be called a "social enterprise"? The Factory's advisory board developed 13 criteria for scoring a socially innovative concept. However, they also acknowledged that consensus may be hard to reach, which should not hinder taking action.

Conditions for potential replicability

As a support structure, the Factory could be replicated in other countries and regions. However, since it provides only limited direct economic returns, a (local, regional or national) government must step in with funding – at least until most stakeholders widely recognise the added value of social innovation.

The government must also embed a social-impact criterion in its innovation policy. The Factory falls under the innovation policy area of the Flanders region, which was initially mostly technology-oriented and focused on economic valorisation of innovations. Thanks to the Factory, the government innovation agency included a social value-criterion in its list of funding criteria, inviting not only social actors to innovate, but all actors to consider their innovations' social dimension.

The cross-fertilisation benefits derived from uniting civil-society actors and (social) enterprises in a single structure is another interesting element. Because equal importance is granted to an entrepreneurial mindset and skills on the one hand, and knowledge on societal issues on the other hand, the two groups truly meet on an equal footing and can collaborate for the greater good.

Finally, the use of an alternative currency opens the learning network to everyone, valorises all participants' competencies and truly engages all the network members. This innovative feature has good potential for replicability. However, legal and fiscal advice should be sought when establishing an alternative currency, to avoid accusations of fraud or competitive distortion – especially when other market players offer similar services for "regular" payment.

Notes

1. I-propeller, Joker Toerisme; Boobs-n-Burps; Youth & Urban Projects; Social Innovation Accelerator; Triodos Bank.
2. Tessenderlo Chemie.
3. Vlaams Netwerk van verenigingen waar armen het woord nemen; Bond Beter Leefmilieu Vlaanderen; Union Nationale des Mutualités Socialistes-Nationaal Verbond van Socialistische Mutualiteiten; Algemeen Christelijk Werknemersverbond – Mouvement ouvrier chrétien; Federatie van Organisaties voor Volksontwikkelingswerk; De Ambrassade; vzw Samen; Forum voor Amateurkunsten.
4. Within the framework of Interreg 2 Seas 2014-2020, a European Territorial Cooperation Programme covering England, France, the Netherlands and Belgium (Flanders), part-financed by the European Regional Development Fund. For more information, please refer to: *www.interreg2seas.eu/*.
5. Interview with Kaat Peeters, general manager of the Social Innovation Factory.

6. In Belgium, social enterprises operate under various legal structures, such as association without lucrative purpose, co-operative, co-operative with social purpose, company with social purpose, or even regular company. A commercial enterprise can choose to be a "social-purpose company" (*société à finalité sociale/vennootschap met sociaal oogmerk*). These enterprises embed their social goal in their statutes and have restrictions when it comes to paying dividends. At its inception, the Social Innovation Factory decided not to focus exclusively on "social-purpose companies", as not all entities that effectively act as social enterprises have adopted this legal status. Recent research has revealed the need for establishing a better legal and fiscal framework for social enterprises (I-propeller, 2013).
7. For more information, please refer to: *www.theshift.be*
8. For more information, please refer to: *www.socialpitchbox.com*
9. For more information, please refer to: *www.impactnetwerk.be*
10. For more information. Please refer to: *www.standaard.be*
11. Based on a 2016 interview with Anne Demeulemeester.

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Boosting Social Enterprise Development
Good Practice Compendium

Chapter 3

SAW-B: A training and advisory services federation, Belgium (Wallonia-Brussels)

SAW-B is a federation of social economy actors, as well as a research and training centre, offering integrated support to social enterprises and shaping, through lobbying activities, an institutional landscape favourable to their development. This chapter presents the organisation's objectives, rationale and main activities, along with the impact achieved and the challenges faced. It concludes with the lessons learnt and conditions for transferring this initiative to other contexts.

Summary

Solidarité des Alternatives Wallonnes et Bruxelloises (SAW-B) was launched in Wallonia in 1981 as a response to the lack of political support for the growing number of producer co-operatives and work integration social enterprises (WISEs). The federation aimed to bring together social-economy actors, regardless of their sectors of activity, to exchange practices and highlight their concerns at the political level.

SAW-B numbered 124 members (mostly social enterprises) in 2014. Soon after its creation, it broadened its activities to include training, research and advisory activities. SAW-B now offers integrated support to social enterprises, acting at both the micro level (individual enterprises) and macro level (institutions). It is a recognised actor, which grants legitimacy to its members and shareholders in the social-economy sector, ultimately facilitating social enterprises' access to the market and finance.

SAW-B is heavily dependent on public subsidies, which accounted for 87% of total revenues in 2014 (SAW-B, 2015).

SAW-B developed its activity portfolio over time, and therefore falls under various policy areas. It is first and foremost a support structure that advises and represents social enterprises at the political level. Second, it is active in education and training, in a bid to strengthen social entrepreneurs' skills. Third, it grants legitimacy to social enterprises in general, and its own members in particular. Finally, it indirectly fosters access to the market and funding, by entering into partnerships with private and public actors for specific projects aiming to develop social entrepreneurship (for example, SAW-B initiated ImpulCera,[1] a public-private programme allocating grants to nascent social entrepreneurs so that they can perform feasibility studies).

The main impact of SAW-B resides in shaping the institutional landscape, by offering a variety of complementary activities that meet the needs of early-stage social enterprises. Advisory services (e.g. identifying and providing training on issues such as legal forms, financing or volunteer management) anchor SAW-B in the daily life of social entrepreneurs. SAW-B also conducts research that builds on its knowledge to develop practical tools (e.g. a guide on responding to public calls for tenders), and informs its political positioning and lobbying to shape the regulatory environment for social enterprises.

SAW-B could be successfully replicated in other regions, taking into account four critical factors. First, the initiative's geographical scope should not be too broad and should factor in the subsidiarity principle, both to keep the federation close to its advisory and training activities, and to determine which political level has the most influence on social enterprises. In the case of SAW-B and Belgium, the regional level is competent for most aspects of the ecosystem in which social enterprises evolve. Second, activities should be transversal, to embrace the overall social economy and maintain awareness of innovations lying at its frontiers. Third, engaging a wide variety of actors (beyond the sole founders and managers) will contribute to the development of social enterprises. Finally, public authorities should rapidly provide substantial financial support if the replication aims to develop all three activity poles transversally.

Key facts

Solidarité des Alternatives Wallonnes (SAW) was founded in 1981 in response to the emergence of producer co-operatives, as well as new concepts and initiatives (e.g. fair trade and sustainable development) with the goal of pooling organisations intent on building a social economy in Wallonia (Belgium). In 2004, the initiative officialised its presence in the Brussels region and became SAW-B (with B standing for "Bruxelloises").

Over time, SAW-B has broadened its portfolio of activities. It now acts as a federation supporting and lobbying on behalf of social enterprises, as a research, education and training centre, and as an advisory agency. It has entered into a broad variety of partnerships with both traditional partners (including institutional actors, e.g. academic research centres and concertation platforms on the social economy) and innovative actors (e.g. active communities and citizens' initiatives), depending on the activity undertaken. Some partnerships extend its actions (e.g. projects and/or lobbying activities) beyond its predominantly regional scope to the transregional, national and European levels. For example, SAW-B is a member of Social Economy Europe, the European federation of social enterprises and the social economy.

SAW-B is transversal and comprises members from various activity sectors, as well as the social economy at large (Table 3.1.).

Table 3.1. **SAW-B 2014 membership breakdown**

Dimension	Breakdown (124 members)
Legal form	● Non-profit organisations (*Associations sans but lucratif*) – 73% ● Co-operatives –23% ● Social-purpose corporations (*Sociétés anonymes à finalité sociale*) –2% ● Foundations/others – 2%
Size	≤ 10 full-time employees (FTEs) – 43% ≥ 11 and ≤ 30 FTEs – 27% ≥ 31 and ≤ 50 FTEs – 7% ≥ 51 and ≤ 100 FTEs – 11% ≥ 101 FTEs – 12%
Age	< 5 years old –29% ≥ 5 and ≤ 30 years old – 65% > 30 years old – 6%

Source: SAW-B (2015).

SAW-B derives the bulk (87%) of its resources from public sources, only EUR 50 940 (euros) of which (3.9% of total funding) stem from European funds.[2] The SAW-B budget (Table 3.2.) primarily covers human resources (71%), and the organisation of professional and promotional activities (16%).

Table 3.2. **Summary of SAW-B statement of income and expenses (2014)**

Financial structure (2014)	**EUR**	**%**
Sales (advising agency, room rental, etc.)	123 600	10%
Donations, membership	31 000	2%
Structural subsidies (public financing depending on accreditations, e.g. for training and social-economy advising agency)	449 000	35%
Occasional subsidies (public financing for specific projects)	454 700	35%
Subsidies for services (private financing for specific projects)	40 800	3%
Others (tax returns, interest rates, etc.)	192 100	15%
Total	1 291.200	
Expenses (2014)	**EUR**	**%**
Production, activities	202 600	16%
Operations	95 600	7%
Human resources (wages, compensations, etc.)	915 200	71%
Training of SAW-B workers	1 400	1%
Amortisation, etc.	16 800	1%
Other operating expenses	41 000	3%
Financial expenses (interests, bank charges, etc.)	9 400	1%
Total	1 282	

Source: SAW-B (2015).

Objectives

According to the most recent (2004) version of its statutes, SAW-B "aims to pool together, defend, represent, promote and develop enterprises and field actors of the social or solidarity economy in Wallonia and Brussels, in order to develop an economy predicated on human development rather than profit. The association supports groups and individuals who 'take action' in one or several aspects of economic and social life, as well as in the areas of healthcare, education, culture, information, housing, energy, consumption, transports… and this, in a perspective of solidarity, co-operation, sustainable development, self-management, democratic functioning, management transparency and quality of life" (free translation by the authors).

Thus, the support provided by SAW-B to social enterprises is both broader and narrower than that defined by the European Commission's Social Business Initiative (SBI), even though both rely on the EMES network's definition of social enterprises (Borzaga and Defourny, 2001; OECD, 2009). SAW-B encompasses all actors and enterprises in the social economy (including foundations and mutual enterprises, some of which are excluded from the SBI concept of "social enterprise"), and supports all groups and individuals (even non-commercial enterprises) wishing to create a more humanistic and democratic economy. However, compared to the European Commission's SBI, it considers that redistribution of surpluses to owners and shareholders should be made on the basis of stricter considerations than their "mere" social impact. In addition, SAW-B clearly advocates a governance system based on the principle of "one person: one vote" at the general assembly.

SAW-B's policy approach supports the development of social enterprises to effect global change in the economic paradigm and rests on the following objectives:

- demonstrate the viability of the social enterprise model in a broad variety of markets and areas, by covering all actors in the social enterprise ecosystem: social entrepreneurs, managers and workers; political authorities; other support structures (i.e. other federations of social enterprises); and more general audiences (students, citizens, etc.);
- endorse innovative projects, set the groundwork for future similar projects and help social enterprises enter new sectors of activity, by providing business-development services and financial participation in equity shares of individual social enterprises;
- develop the professional skills of both social entrepreneurs and workers through training and education;
- more recently, contribute to social enterprises' rationale and legitimacy on the market by performing research.

Rationale

In the 1970s, numerous bankrupt enterprises in Belgium were taken over by their workers and became co-operatives. Echoing the emergence of 19th-century Utopian movements, they advocated self-management and transforming capitalism. In the early 1980s, initiatives promoting fair trade and WISEs surfaced, but were barely acknowledged by the government or recognised by the two existing o-operative federations (which mainly focused on producer co-operatives). These movements needed a place to meet and share ideas.

SAW was created under Max Delespesse's[3] impulse in 1981 as the first pluralistic federation ensuring representativeness, co-ordination, promotion and development of alternative initiatives (SAW-B, 2006). Its initial objective was to "open people to a state of mind: that of co-operatives" (SAW-B, 2006), by working on the legal framework and garnering support (particularly for socio-professional integration) from both the public and private sectors.

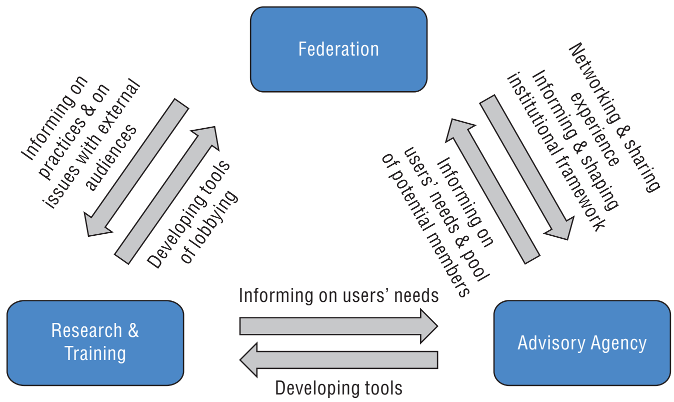
The growing number and diversity of social enterprises in Wallonia created a need to bring public policy closer to the needs and reality of the field. SAW decided to train and educate these "alternative" entrepreneurs, recognising that professionalising the sector would foster their legitimacy as economic actors. The training provided by SAW initially amounted to sharing good practices, but subsequently evolved into formal training programmes (SAW-B, 2005).

In 1985, with the financial support of the Walloon authorities, SAW launched advisory services to drive successful start-ups by alternative entrepreneurs and promote the social economy.

Activities

SAW-B has three broad functions: it is a federation pooling social economy actors, an advisory agency for both nascent and established social enterprises, and a research and training centre. These roles support one another (see Figure 3.1.) and ultimately enhance the role of SAW-B as a major actor in social entrepreneurship.

Figure 3.1. **SAW-B activities**



Federation: SAW-B aims to pool and represent social enterprises in the political arena, and influence the institutional framework by monitoring public policy and engaging in lobbying (for example, SAW-B established a consultative body on social economy in Wallonia[4]).

In addition to active lobbying, SAW-B is sometimes called on to provide advice (for example, it advised the Belgian Federal Parliament in 2015 on a new legal form for worker co-operatives, and counsels public bodies willing to integrate social clauses in their procurement). It also organises awareness-raising activities on social entrepreneurship for citizens and students.

SAW-B provides legitimacy and signals its endorsement by buying shares in some social enterprises. Such funding is quite limited, and is often directed towards innovative initiatives and social enterprises entering less traditional sectors of activity, or very large-scale projects (for example, SAW-B holds shares in New-B, a co-operative ethical bank project).

Training and research: SAW-B has always provided training to social enterprise managers and entrepreneurs; more recently, it began to train their workers. SAW-B is an official "lifelong learning organisation"[5] (since 2009). As such, it receives some funding, providing it organises events, trainings and practice sharing (e.g. on stimulating worker participation), and performs research on a different topic, selected annually. It also publishes around 15 shorter analytical notes every year in the following areas: 1) social economy outlines, objectives and functioning; 2) the social economy and political challenges; 3) the social economy and work; and 4) alternative production and consumption in various fields (culture, food, housing, services, etc.). A recent trend has been to address more specifically what it means to be a social enterprise stakeholder (worker, shareholder, beneficiary, or consumer).

Advisory agency: SAW-B provides advice and business development services supporting social-enterprise creation, scaling and/or restructuring in all activity sectors. Its consultancy services include legal, financial, human resource-related and governance advice, as well as drafting business plans and communication tools, and/or helping to obtain agreements from public authorities. This broad spectrum of services is backed by methodological tools, such as adapted spreadsheets for financial plans, technical notes (e.g. on legal forms), field experience, and the SAW-B network of entrepreneurs and experts. SAW-B does not apply a standardised support track; instead, it tailors advisory activities to each social entrepreneur's needs. Thus, it may provide advice during face-to-face meetings, follow the social entrepreneur on site, organise group discussions with other entrepreneurs with similar or complementary needs, etc.

SAW-B recently started to gather different actors (e.g. a social enterprise, traditional sector actors, social workers and political authorities) around a common project, to identify the necessary actions to institutionalise or develop a new activity sector (for example, social agriculture for the benefit of people at risk of exclusion[6]).

Challenges encountered and impact

According to its managing director,[7] the main challenge for SAW-B lies in overcoming resistance to change (mainly on the part of public authorities) in the face of the initiatives' innovative and alternative character. This struggle for recognition and structuring of the field through dedicated policies (e.g. public funding agreements) and legal acts (e.g. specific legal forms and official recognition of the social economy's role) underpins the existence of SAW-B.

The growing interest of citizens and political authorities in social entrepreneurship has shone a light on the values and dynamics of the social economy, and led to the development of new financial products (e.g. social impact bonds and impact investment). However, the emergence of new actors (e.g. collaborative or sharing-economy platforms) that only partially endorse the values of the social economy and focus on compensating – rather than complementing – public action tends to blur the definition of social enterprise and create confusion with other organisational models. While the ability of SAW-B to collaborate with new actors makes it a central actor in the social enterprise ecosystem, it can also endanger its capacity to defend the social enterprise model. Hence, the challenge lies in taking into account these evolutions, without diluting the principles of economic democracy and limited surplus redistribution.

As a federation, SAW-B has a mandate to co-ordinate actions supporting social entrepreneurship. This may give the advisory agency a competitive advantage, leading to possible confusion over its role (as both a federation co-ordinating various actors and an advisory agency included in the actors to be co-ordinated). SAW-B continuously works on allaying this weakness.

The transversal nature of SAW-B helps innovative social enterprises flourish through tailor-made generalist support activities in a wide array of sectors. In the future, however, this broad approach may render SAW-B incapable of devising more tailored solutions meeting the needs of some social entrepreneurs requiring a higher degree of specialised expertise.

Table 3.3. presents a strengths, weaknesses, threats and opportunities (SWOT) analysis of SAW-B.

Table 3.3. **SWOT analysis of SAW-B**

Strengths	Weaknesses
• Transversal, open character • Complementary activities, also helping SAW-B operations reach a critical size • Funding by public authorities and recognition as a legitimate interlocutor	• Lack of specialisation (causing potential loss of legitimacy) and in-depth knowledge • Potential for principal-agency problem • Fragile financial structure owing to reliance on public funding
Opportunities	**Threats**
• Growing interest on the part of citizens and public authorities in social entrepreneurship • Increased visibility of social economy values and dynamics • Emergence of new actors • New financing tools	• Blurred boundaries in the social-economy sector • Decrease in external funding owing to long-lasting effects of the financial crisis[1]

1. For example, subsidies provided to WISEs for disabled people decreased by EUR 500 000 in 2014 in Brussels (Baele, 2014).

Impact

Although SAW-B regularly evaluates its processes (in terms of human-resource management, production, etc.), no data are available on the cost-effectiveness, efficiency or measured social impact of its actions. Because its action mainly targets the long term and cannot be summarised in yearly analyses (for example, its lobbying activities impact on the legal framework and political support for social enterprises), SAW-B performs an ex-post qualitative analysis of its processes and activities that provide a partial indication of their social impact. Its advocacy work has directly contributed to the establishment of a consultative body on social economy in 1988; the adoption of a legal definition of the social economy, thanks to close contacts with members of parliament; the creation of an organisational legal status (the social-purpose company [*société à finalité sociale*]); and the formulation of public agreements or labels (e.g. WISE).

At the micro level, SAW-B fosters the creation or development of individual social enterprises: an estimated 50 social enterprises benefitted from its advisory services in 2014 (SAW-B, 2015). It also assists with their financing through capital participation, as well as managing grant programmes (e.g. ImpulCera) on behalf of other public and private actors.

Lessons learnt and conditions for potential replicability

Lessons learnt

First, the success of SAW-B highlights the added value of offering a range of complementary services under the same umbrella. SAW-B provides support at different levels of action throughout a social enterprise's lifecycle, enabling it to reach critical size, and reinforcing its legitimacy in the eyes of both social enterprises and external stakeholders.

Second, engaging in collaborative partnerships with other actors has allowed SAW-B to build on their strengths, as well as offer new services and use resources more efficiently, thereby helping to structure the field and attract new actors to the sector.

Conditions for potential replicability

SAW-B is deeply embedded in the Walloon and Brussels regional context, and while it collaborates and shares good practices with other European actors, it has never sought to replicate its model elsewhere.

Nevertheless, its multi-level institutional work supporting social enterprises and social entrepreneurship, stemming from a combination of both bottom-up and top-down activities, seems quite unique (Battilana, Lena and Boxenbaum, 2009). Notwithstanding the principle of subsidiarity, this approach is probably replicable at a regional level, depending on which public authority has the most power on social enterprise development (in Belgium, regional authorities design many policies related to the social economy). The regional level also ensures a degree of coherence among activities conducted as a federation and activities directly targeting social entrepreneurs.

The transversal character of the SAW-B membership and activities (especially its advisory activities) helps it identify areas of innovation, and should be considered for replication.

Actions targeting a broad variety of stakeholders – that is, not only founders and managers, but also workers, public authorities, social-movement actors (e.g. labour unions or activist networks), consumers and citizens – most effectively support the emergence and scaling of social enterprises, and are vital to replication in other contexts.

Finally, some support from public authorities – notably through funding – appears to be a condition for replicating the SAW-B model.

Notes

1. For more information, please visit: *http://www.impulcera.be*.
2. This figure should increase in the 2015 accounts, thanks to a European Regional Development Fund project for research and advising activities.
3. Max Delespesse is a former priest and philosopher; he was an employee of the provincial administration at the time of the founding of SAW. By personal interest, he has always been in close contact with initiatives aiming to support workers, particularly worker co-operatives.
4. As a result of lobbying by SAW, in 1988 the regional authorities established the Walloon Council for Social Economy (Conseil Wallon de l'Économie Sociale), comprising representatives of employers, labour unions, social enterprises and academic institutions who provide advice on policy making affecting the social economy and social enterprises. With this body and in collaboration with scholars, SAW helped delineate an official definition of the social economy and social enterprises in Wallonia. Adopted in 1990, this definition helped structure the field, providing it with legitimacy and ensuring the design of specific policies, including public financial support.
5. *Décret du 17 juillet 2003 relatif au soutien de l'action associative dans le champ de l'Éducation permanente* (French-speaking community of Belgium), consolidated version available on: *http://www.ejustice.just.fgov.be/loi/loi.htm*.
6. *http://www.saw-b.be/spip/Agriculture-sociale*.
7. Interviews were conducted on 22 April 2016 with Marie-Caroline Collard, managing director of SAW-B, and on 22 April and 7 June 2016 with Frédérique Konstantatos, co-ordinator for communication and advocacy. The authors also exchanged several mails with both. A set of 15 newspaper clippings since 2012 was also used as background information.

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Chapter 4

The National Strategy for the Development of Social Entrepreneurship, Croatia

The National Strategy for the Development of Social Entrepreneurship aims to establish an enabling and coherent policy framework for social-enterprise development in Croatia. This chapter describes the Strategy's objectives, rationale and activities. It presents the challenges faced in its implementation and the impact achieved so far. It concludes with the lessons learnt and the conditions for transferring this practice to another context.

Summary

Adopted in 2015, the "Strategy for the Development of Social Entrepreneurship in the Republic of Croatia for the period 2015-2020" represents a seminal document for the creation of a policy framework for social enterprises.[1] The Strategy's main objective is to boost social enterprise creation and growth in Croatia by establishing a more supportive institutional and financial environment.

The Strategy was initiated through a "bottom-up" approach by a network of civil society organisations (CSOs) and social enterprises, in partnership with the government. It is largely aligned with European Union (EU) policies – particularly the Social Business Initiative (SBI). It identifies social enterprises based on nine criteria, and determines the key areas and activities for improving the institutional environment. Its main measures aim to: 1) develop and improve the legislative and institutional frameworks; 2) establish an adequate and supportive financial framework; 3) promote social entrepreneurship through education; and 4) increase social enterprises' visibility.

The Strategy's overall implementation relies on a horizontal and vertical approach bringing together multiple stakeholders: other relevant ministries and national government institutions, as Strategy co-owners; local authorities; local and regional development agencies; CSOs; social enterprises; financial institutions; and academia. The first operational step was the establishment of the government unit in charge of implementing the Strategy and co-ordinating activities among its co-owners.

Several key factors could enhance the transferability of this initiative to other contexts: adopting a bottom-up approach, by developing a network or umbrella organisation representing social enterprises' interests and needs; creating a partnership with the government (as a process owner); creating a transparent and participative model of preparation and implementation, including multi-sector stakeholders and public consultation; and relying on EU strategic documents and policies, thereby ensuring coherence with EU strategic priorities and enhancing access to EU financial resources.

Key facts

The Strategy was drafted by the Ministry of Labour and Pension System (MLPS) and adopted by the Croatian Government on April 2015. The MLPS – which was also the managing authority for the European Social Fund (ESF) in 2007-13 and 2014-20 – established the Department for Preparation and Implementation of the Projects from the Field of Social Entrepreneurship to co-ordinate the Strategy's implementation. The Ministry of Social Policy and Youth, the Ministry of Entrepreneurship and Crafts, the Government Office for Cooperation with NGOs and the National Foundation for Civil Society Development are among the Strategy's most important partners and co-owners. Other co-owners within government include the Croatian Employment Service, the Ministry of Veterans' Affairs and the Ministry of Science, Education and Sport. Partners from other sectors – including research institutes, educational institutions, vocational institutions, regional development agencies, financial institutions, local and regional authorities, CSOs, social enterprises, media and social partners – will also help implement the Strategy.

The Strategy prescribes the establishment of the Council for Social Entrepreneurship Development, an advisory body in charge of monitoring implementation. Council members will be appointed by the government and will include representatives from government institutions, CSOs, social enterprises, financial institutions and academia, who will meet regularly to discuss issues facing social enterprises and offer strategic recommendations for further development.

The measures and activities advocated by the Strategy (e.g. increasing the number and sustainability of social enterprises and their employees) are included in the ESF Operational Programme Efficient Human Resources 2014-2020 and linked to Specific Objective 9.v., "Promoting social entrepreneurship and vocational integration in social enterprises and the social and solidarity economy in order to facilitate access to employment".[2] A total around EUR 37 million (euros) – EUR 32 million from the ESF and the remainder from the public budget – have been allocated to implementing the Strategy. About 60% of this amount aims to improve financial instruments for social enterprises, and will be provided through non-refundable grant schemes. The remainder (40%) will be allocated through non-refundable grant schemes to three other priority areas: educational activities (27.7%), improving legal and institutional frameworks (6.6%), and increasing the sector's public visibility (6%) (Government of the Republic of Croatia, 2015a).

Objectives

The Strategy's main objective is to create a supportive environment for social enterprises in Croatia, thereby decreasing regional disparities, increasing employment and ensuring fairer distribution of social wealth. Fostering social entrepreneurship may also help accomplish other national strategic goals, such as achieving social cohesion, combating poverty, increasing employment, creating new products and services, increasing competitiveness and protecting the environment (Government of the Republic of Croatia, 2015a).

The Strategy is largely founded on EU documents and policies, especially the SBI (European Commission, 2011), whose concept of social enterprises informed the Strategy's understanding and approach.

The Strategy defines social enterprises as "businesses based on the principles of social, environmental and economic sustainability, where profit/surplus is, wholly or in great part, reinvested for community benefit" (Government of the Republic of Croatia, 2015a). Measures to create a more enabling environment focus on four priority areas: 1) developing and improving the legislative and institutional frameworks for social enterprises; 2) establishing an adequate and supportive financial framework for social enterprises; 3) promoting the importance and role of social entrepreneurship through formal and informal education; and 4) increasing the visibility of social enterprises in Croatia. Activities in each area are managed by delegated co-owners or partners and feature defined indicators for measuring implementation, as well as specific time frames and dedicated financial resources.

The Strategy covers several policy areas: 1) **access to finance**, through grant schemes (linked to EU and public funds) to stimulate employment of vulnerable groups, as well as innovative social services and products, a guarantee mechanism/fund to facilitate access to finance, innovative instruments tailored to social enterprises, and other financial incentives; 2) **educational activities**, through both formal and informal educational programmes at different levels of education, as well as trainings, knowledge and skill transfer, and research activities; and 3) **access to the market**, through specific labels and product declarations, such as the EU Ecolabel and the EU Eco-Management and Audit Scheme (EMAS).[3] The Strategy additionally fosters a supportive framework for public-private partnerships, and promotes the use of abandoned public assets and buildings by social enterprises. Its policy approach focuses on the provision of funding, educational programmes and capacities, and research. Additionally, it advocates creating databases, statistical reports, and good practice examples and other knowledge products related to social enterprises in Croatia.

Rationale

The Strategy was developed to acknowledge the unique specificities and needs of the emerging social enterprise sector, and provide incentives and benefits tailored to these. Prior to the Strategy, the policy discourse recognised social entrepreneurship only as a component of civil society, and social enterprises struggled to adjust to unsuitable and sometimes contradictory regulations.

The initiative to develop a national strategic document stemmed from a "bottom-up" approach in 2011. Several pioneering CSOs initially grouped together in 2009 in the Social Entrepreneurship Forum, and later in the Cluster for Eco-Social Innovation and Development,[4] but were hindered by the overall lack of institutional and financial mechanisms to stimulate growth. They saw the strategic document as a crucial step in creating supportive institutions and enabling access to financial sources. Partnering with a committed government partner – the MLPS[5] – made the initiative more explicit and official. Strong co-operation among actors from both the non-profit and public sectors ensured greater commitment to this goal, despite barriers – such as lack of high-level political recognition – that slowed down the of adoption of the document.

The government gave its green light in 2013, and an official working group comprising 44 members from different sectors (government authorities, CSOs, social partners, vocational organisations, development agencies and educational institutions) was established to draft the Strategy. The working group met seven times over 2013-14, drafting suggestions and offering comments until the final version was consolidated. The document was also made available online, so that all interested citizens could add their comments and remarks.[6] In 2014, the draft Strategy became available for public discussion at events organised around the country. This approach contributed to the process's transparency and inclusiveness, and ensured that the final document accurately reflected social entrepreneurs' needs.

Activities

One of the first steps in implementing the Strategy will be to create the official Register of Social Enterprises, managed by the MLPS. Apart from resolving conflicting accounts on the number of social enterprises in Croatia (estimated at between 40 and 150), the Register will provide social entrepreneurs with an official status as a "social enterprise" – a term still used arbitrarily by the actors. Thus, regardless of their legal form, organisations and/or individuals wishing to be considered as social enterprises/entrepreneurs need to fulfil nine cumulative criteria. They should:

1. set balanced social, environmental and economic goals
2. produce goods and/or deliver services, or generate revenues on the market, with a favourable impact on the environment and society
3. generate at least 25% of their annual income from their entrepreneurial activities, based on a three-year operating or planning period
4. invest at least 75% of their profit/surplus in their activities and/or objectives
5. offer voluntary and open membership, and business autonomy
6. not be founded solely by the Republic of Croatia, a local/regional self-government, or a public authority
7. apply rules of democratic governance, where decision-making includes relevant stakeholders in addition to share owners or members
8. monitor and evaluate their social, economic and environmental impact
9. transfer assets to another social enterprise, or a local and regional authority, in case of termination (asset lock).

The "social enterprise" status is valid for three years, during which time the enterprise must submit annual activity and social-impact reports. It must renew its status at the end of the period; failure to do so will result in its removal from the Register. The Register will serve to determine eligibility to apply to calls for tender targeting social enterprises.

The Strategy defines four main measures, each comprising several activities.

The measure concerning **the legislative and institutional framework** involves setting up the institutional unit and official register of social enterprises; conducting an in-depth analysis of the needs of existing social enterprises and the current legal framework, to harmonise legislation and introduce benefits and incentives for social enterprises; providing unused public spaces and buildings for use by social enterprises; developing partnerships between public bodies to support social entrepreneurship; and developing support for qualitative and quantitative research, and social-impact measurement methodology. This measure tends to produce evidence-based findings on the overall impact of social enterprises.

The measure concerning the **financial framework** entails developing a unique guarantee mechanism/fund, providing systematic financial support (grant schemes) linked to EU funds and national budget co-financing; providing loans and other incentives for social enterprises; and developing innovative financial instruments and grant schemes to foster the employment of vulnerable groups, as well as social innovation, community social services and solidarity exchange.[7]

The measure pertaining to **education** focuses on promoting social entrepreneurship at all levels of education, by supporting (both financially and non-financially) educational programmes and lifelong learning projects, and producing informational publications promoting social entrepreneurship; replicating innovative educational programmes; and encouraging further education in social entrepreneurship for teachers, adults, public servants and social entrepreneurs.

Finally, the measure relating to **increasing visibility and information channels** aims to raise the visibility of social enterprises, by informing the media and public of their importance; producing promotional materials and highlighting examples of good practice; fostering joint promotion of social enterprises and their products in the market; and developing social-enterprise market labels.

The document briefly defines a fifth area, **monitoring and evaluation**, which foresees annual Council monitoring meetings and a mid-term evaluation leading to a possible revision of the Strategy.

Impact and challenges encountered

Impact

Since no real implementation has taken place so far, no data are available on the activities' impact, efficiency or cost-effectiveness. Table 4.1. presents the Strategy's strengths, weaknesses, opportunities and threats (SWOT).

Challenges

Several challenges have hampered the Strategy's implementation. The first is the lack of overall commitment on the part of political actors. Social entrepreneurship is still at the margins of the political agenda, as reflected in very slow movement with regard to implementing the strategic measures. While the institutional unit has been established, other activities have not yet begun. In July 2016, the MLPS finally launched the first tender linked to the Strategy, which will allocate the first grants to social enterprises.

The overall process for developing the Strategy lasted longer than expected, mainly owing to the lack of institutional recognition and political will – particularly at the higher levels – and the need to reconcile opposing approaches to social enterprise. A long debate arose around whether to use the terms *socijalno* or *društveno* – both meaning "social", but with different connotations. Even though most actors used *socijalno* before, the Strategy only referred to *društveno* (both terms are still used colloquially). These semantic discussions have not resulted in greater terminological clarity and consistency.

Table 4.1. **SWOT analysis of the National Strategy for the Development of Social Entrepreneurship in the Republic of Croatia**

Strengths	Weaknesses
● Defines the criteria for social enterprise; fosters recognition, raises awareness and helps clarify the sector ● Institutionalises the social enterprise status, reducing arbitrary use or misuse of the term ● Has gained legitimacy from the approval and acceptance ("ownership") of the social enterprise sector ● Creates instruments for drawing financial resources from EU funds and the national budget ● Opens space for changes and improvements in the legislative and fiscal framework ● Introduces a single government unit as a tool for more effective co-ordination over the sector ● Harmonisation with EU priorities enhances support from EU institutions and funds	● Overall lack of public recognition of social enterprises ● Marginalised, low-priority position of social enterprises in the political agenda ● Small size of existing social enterprise sector ● Limited capacity of social enterprises to apply and use financial resources ● Lack of human capacities in public bodies in charge of implementing the Strategy ● Over-bureaucratised procedures for gaining social-enterprise status and providing evidence of meeting requirements ● Lack of commitment of other government co-owners/partners ● Non-specified procedures for co-ordinating and monitoring implementation
Opportunities	**Threats**
● The Register will provide insights on the sector's size and structure ● Accountable and eligible financial resources from the ESF ● Availability of financial resources for social enterprises may increase interest in social entrepreneurship ● Through the Council, the social-enterprise sector will have an opportunity to affect the Strategy's implementation ● Supportive EU policies, thanks to increased popularity of social economy issues in the EU context ● Harmonisation of Strategy's objectives with other national strategic areas	● Majority of existing social enterprises may struggle to meet the nine criteria ● Insufficient human capacities in the sector ● Frequent and unpredictable legislative changes, combined with constant production of strategies, cause insecurity and unwillingness to take business risks ● Political instability, which may slow down the public administration and implementation of the Strategy and related policies ● Potential of attracting opportunistic social enterprises

The lack of understanding of social entrepreneurship means that changing the legislative and fiscal systems to provide support and incentives for social enterprises will certainly face stronger resistance from less knowledgeable sections of government institutions. The small number of officials employed at the new MLPS department charged with co-ordinating inter-ministerial collaboration is not encouraging. Most government institutions involved in the Strategy will probably struggle to ensure the adequate human capacities to implement it.

Finally, the social enterprise sector is still small, with limited capacities. Many social enterprises may struggle to meet the requirements (particularly the obligation to derive at least 25% of their income from economic activities, which is still rarely achieved in the sector) for obtaining the official status and hence, access to finance. On the other hand, the significant amount of resources available to social enterprises may attract more opportunistic individuals and organisations, potentially boosting the number of social enterprises over a short period – without, however, contributing to the sector's long-term development.

Lessons learnt and conditions for potential replicability

Conditions for potential replicability

Several factors may influence the transferability of the initiative to other national contexts, primarily in countries with similar cultural, socio-economic and political backgrounds.

Implement a bottom-up approach: social enterprises should form a network to clearly articulate their needs and interests, as well as identify the types of institutional support, financial mechanisms or legislation they need. By proposing and organising a policy framework, social enterprises would have more influence when advocating institutional changes.

Create a partnership between the social enterprise sector and the government: by adopting this approach, sector actors will ensure that policy tools have an institutional owner or managerial body, and that the sector's needs are accurately reflected.

Establish a highly participatory procedure in the process of developing and implementing the Strategy: the working group – and later the advisory council – should include multi-sector stakeholders; they should also conduct public and online consultation to ensure the final document's legitimacy. Multi-stakeholder co-operation may ensure transparency, inclusiveness and a long-term commitment, based on a sense of "ownership".

Closely connect the strategy with EU documents and policies: such an approach will ensure coherence with broader national strategic priorities, as well as within the European Union; it may also open doors to EU structural funds and facilitate access to financial resources, possibly boosting the sector's size and capacities.

Possible challenges to replication

The lack of overall understanding of social enterprise, and the resulting unwillingness to push it higher up the national policy agenda, may hinder implementing a related strategy. The institutional commitment provided during the strategy's preparation may not be put into action. In addition, the lack of human capacities in the implementing bodies may slow down the process. The activities featured in the strategy should therefore be realistic and proportionate to the available capacities.

Finally, potential changes in the political climate and executive government are unpredictable but important factors influencing the implementation process. Depending on changing political priorities, issues related to social entrepreneurship may rise or fall in the policy agenda. Hence, advocacy efforts should focus on creating the conditions wherein the development of social enterprise will be seen as one of priorities of socio-economic development.

Notes

1. Terminological inconsistences still exist in the Croatian discourse, where the terms social entrepreneurship, social enterprise and social entrepreneur are often used interchangeably.
2. For more information on of the ESF Operational Programme Efficient Human Resources 2014-2020, see here: *http://www.esf.hr/wordpress/wp-content/uploads/2015/02/FINAL-OP-EHR.pdf*.
3. EU Ecolabel and EMAS are voluntary labels or initiatives designating and promoting environmentally friendly products, services and companies.
4. The Social Entrepreneurship Forum is an informal network of social enterprises in Croatia initiated in 2009 to provide support for social enterprises and help develop a more supportive environment. The Cluster for eco-social innovation and development stemming from this initiative in 2012 is an official organisation and its operational body.
5. At that time the Ministry of Economy, Labour and Entrepreneurship.
6. Pursuant to the Amendments to the Law on the Right of Access to Information (Government of the Republic of Croatia, 2015b), e-counselling is a part of the process of the transparent and open government. State bodies are obligated to consult with the public, usually for a period of 30 days.
7. Solidarity exchange refers to direct, non-mediated connectedness between citizens and local producers, based on trust and solidarity, which stimulates, protects and supports local sustainable production and small producers.

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Chapter 5

Copenhagen Project House (KPH): An incubator for social start-ups, Denmark

Copenhagen Project House (KPH) is a local incubator facilitating the entrepreneurial process from idea to action. The underlying business model of the KPH incubator rests on a robust multi-partner mentoring scheme and strong partnerships. This chapter describes KPH objectives, rationale and activities. It also presents the challenges faced in implementing the scheme and the impact achieved. It concludes with the lessons learnt and conditions for transferring this practice to another context.

Summary

Copenhagen Project House (KPH) is a Danish incubator that facilitates the entrepreneurial process – from idea to action – for social enterprises and innovative organisations working on social, cultural and environmental initiatives. KPH supports not only social enterprises (very narrowly defined in Denmark), but also entrepreneurs with a social mission.

KPH was initially fully financed by the City of Copenhagen. It aims to become financially independent by 2021, by developing a business model with membership fees as its core income, supplemented by foundation or consultancy investment, and potentially European Union (EU) financing.

KPH calls itself a "social innovation zone", focusing on social inclusion and social responsibility. Its key objective is to support cultural and social enterprises during the early and scaling stages, so that they can become sustainable businesses and projects. KPH also operates in an open environment stimulating innovation and is based on strong mentorship programmes: all KPH members are contractually obliged to mentor or share their knowledge and experience with new members for a minimum of three hours per month. KPH also offers mentoring by outside experts, as well as a number of activities and networks to support its members.

KPH currently houses over 300 social entrepreneurs, more than 60 companies and organisations, and around 20 permanent cultural events in an organisation called KPH Volume. Over the last 5 years, KPH has hosted more than 2 400 entrepreneurs, working in more than 400 registered creative and social enterprises.

This case study provides insight into the lessons learnt in setting up an apolitical, independent and sustainable incubator for social enterprises, and covers the main factors enabling scaling and growth. Adopting a broad definition of social enterprises, implementing specific governance conditions that allow the incubator to attract further income streams and diversifying its service portfolio are keys to success.

Key facts

KPH is a non-profit organisation established in 2009 by a group of grass-roots youth culture organisations[1] in a deprived area of Copenhagen. KPH rents an old, partly used tram depot, which is being gradually renovated as part of the area's economic redevelopment plan developed by the City of Copenhagen.

From 2009 to 2012, KPH received an annual budget of approximately EUR 400 000 (DKK 2.9 million) from the Culture and Leisure Department of the City of Copenhagen. While KPH was initially designed as an initiative to deliver free services, early evidence showed that maintaining quality was difficult without an income stream. To improve its professionalism, KPH changed its business model to include membership and rental fees for the space provided. This move did not discourage social entrepreneurs; on the contrary, it created a very successful culture of acceleration.

From 2013 to 2016, the second operating agreement with the city reflected this shift through a slight change in the budget structure: KPH received EUR 320 000 (DKK 2.4 million) annually in direct funding, as well as EUR 80 000 (DKK 500 000) as a "growth package" for rent and utilities, to manage the newly established "4th Floor" programme.

KPH is currently preparing its application for the 2017-20 funding period, and plans to become 100% financially self-sustainable and independent of municipal funds by 2021. This requires expanding the workspace and possibly creating a foundation, thereby allowing it to offer different services and accept different funding sources.

Objectives

KPH has adopted an interdisciplinary approach focusing on cultural and social innovation. Its key objective is to create value for society, by helping young entrepreneurs develop non-traditional business models with a social mission at its core. KPH exclusively supports projects and organisations that have a social mission and deliver value in one of the following ways: 1) they deliver a public service in an innovative manner; 2) they create a service that enhances the public-service offering; 3) they can provide considerable savings in public funds, e.g. by delivering preventive services (such as creating employment or entrepreneurship skills for young former convicts); 4) they create employment opportunities for the hard-to-employ (e.g. immigrants); and 5) they develop a social outcome-focused service (e.g. by operating within the sharing economy or minimising food waste).

The initial agreement between KPH and the city of Copenhagen stated the following objectives:

- foster the development of social, creative and traditional enterprises
- contribute to the community socially, culturally and environmentally.
- The management and board of KPH added the following objectives:[2]
- strengthen inter-sectoral partnerships by actively linking the public, private and voluntary sectors
- give Copenhagen a leading role in social, cultural and environmental innovation
- focus on market failure areas where the municipality is not active, but where a need exists for new services.

Rationale

Today, social enterprises enable innovation within the public sector, particularly within social welfare; they address social issues that the public sector has failed to tackle. The European challenge is to grow and support the right kind of support structures for these emerging social and economic players. Incubators and accelerators play a crucial role in fostering, supporting and scaling social enterprises.

The Nordic countries currently face major challenges in maintaining and developing social welfare, and Denmark is no exception. As highlighted by the European Commission (2014), while Denmark has "a long tradition of third sector/voluntary sector involvement in delivering welfare benefits" and supporting the Danish society and culture at large, "the concepts of *social economy* and *social enterprise* are relatively new" to the country. This is reflected in the absence of a common definition for – and consensus on the potential of – social enterprises. The government's National Civil Society Strategy, established in 2010, defines social enterprises as not-for-profit enterprises that:

- have a social, health-related and/or environmental purpose
- sell services and/or products
- reinvest any surplus in the enterprise and its purpose
- are organisationally independent of the public sector
- possess a Central Business Register number (i.e. are formally registered as an enterprise).

This means that Denmark essentially distinguishes between social enterprises, social projects and voluntary organisations that rely entirely on membership contributions and public funding (European Commission, 2014). Enacted in 2013, the Danish Act on Registration of a Social Enterprise reflected this narrow definition and established a voluntary registration system for social enterprises.[3] Yet many social enterprises fear that registering would hinder their ability to attract funding, as many investors, and public and private sector actors, believe social entrepreneurs do not have a strong business sense.[4] In fact, surveys show that most organisations that fit the definition of a social enterprise register under other legal forms, e.g. associations, voluntary organisations, private limited companies, self-governing institutions, funds and foundations.[5]

Attempts have been made to estimate the size and potential of the Danish social enterprise sector, which fluctuates widely depending on the definition used. The most recent estimate suggests that Denmark numbers around 300 social enterprises, with some

3 500 full-time employees (European Commission, 2014). This figure represents only a small share of enterprises and employment in Denmark; it does not reflect the wider social enterprise sector and the total number of volunteering arrangements in the country.

Initially, the social economy had strong national political support, as evidenced by the establishment of both the Centre for Social Entrepreneurship and Centre for Social Economy in the mid-2000s. The new government in place since 2015 has been less eager to provide support, however, owing to the lack of uptake in registering social enterprises and the perceived marginal economic value expected from the social economy. Nevertheless, the government is investigating ways of supporting social innovation (Beck-Nilsson, n.d.), by focusing on a wider definition of social enterprises and their transformative potential – particularly in the context of welfare reform – to enhance social cohesiveness and resource efficiency.

The social enterprise market depends not only on national policy, but also on the willingness of Danish municipalities to procure services through social enterprises. At the municipal level, the stakeholders interviewed for this report[6] felt that multiple silos needed to be overcome to effectively support and develop social enterprises. They pointed to weak collaboration between local/national policies and social enterprise initiatives, hindering their ability to scale. They also noted that municipalities seek to differentiate themselves, rather than collaborate and align, further weakening the impact of social innovation at the regional and national levels.

Activities

In co-operation with the City of Copenhagen, KPH provides affordable workspace and an open interdisciplinary network offering professional training and networking events. New and established businesses, as well as entrepreneurs and public sector actors meet and discuss ideas, often leading to collaborations that produce better solutions for society, as well as new business opportunities for social and cultural entrepreneurs.

The underlying business model of the KPH incubator rests on a robust multi-partner mentoring scheme and strong partnerships. The following key activities in particular support these collaborative partnerships:

- **Integrated support by the city and key relevant partners:** representatives from the private sector and the non-profit community often speak at KPH events and offer guidance to its members. In return, experienced permanent staff from KPH and its incubated social enterprises often help Copenhagen develop approaches to topics such as the sharing economy and green social-business models. Furthermore, the KPH board – which includes members of other relevant incubators, foundations and social finance institutions – offers advice and access to knowledge and information.
- **Business-development services:** the key objective of the KPH programme is to help cultural and social enterprises become sustainable businesses and projects. KPH offers both early-stage and scaling support for more mature enterprises (typically two years old) for a period of four to five years on average.
- **Coaching and mentoring:** Every member of KPH is obligated to mentor peers for three hours per month. Members of the KPH extended network, including experts from both the public and private sectors, also provide mentoring on a case-by-case basis.

KPH offers its services in different buildings and floors, and brands its key activities accordingly:

- The **3rd Floor** is an incubator and accelerator where young social and cultural entrepreneurs (15-30 years old[7]) meet their peers and get help realising their ideas. Each new entrepreneur is assigned a mentor from the 4th Floor who fosters collaboration among the 3rd Floor residents; introduces them to other KPH entrepreneurs, companies and organisations; and ensures they engage in activities and events provided by the KPH network.
- The **4th Floor** is a co-location space for more established social enterprises, presenting a good diversity in terms of company size, business areas and competencies. Its uniqueness compared to other traditional business centres is that its members are required to spend at least three hours every month mentoring new 3rd Floor entrepreneurs. This fosters consistency in the KPH ecosystem, and the sharing of skills and resources.
- **KPH Volume** is a multi-functional event space opened in 2011 that can hold up to 800 participants. KPH members and other external parties can rent the space to organise events aiming to raise awareness and garner support for their projects and enterprises. The space has hosted over 200 events, with 20 000 people participating every year.

Challenges encountered and impact

Challenges

KPH's greatest challenge is to decrease its dependency from the City of Copenhagen, while maintaining strong relations with the public sector. It aims to reach a more balanced and collaborative relationship with the city. The agreement between KPH and the city includes a number of measures and targets for KPH, which are monitored and must be reached every year. KPH would like to introduce mutual targets, which would also concern the municipality, and could include the amount of successful partnerships brokered for social enterprises, services procured by social enterprises, events co-designed with KPH, or mentoring hours provided. KPH also faces increasing competition among co-working spaces. Its core challenges are the necessity to diversify its financial sources, as well as consistently determine the value it brings to society.

Impact

KPH now houses over 300 social entrepreneurs, more than 60 companies and organisations, and around 20 permanent cultural events at KPH Volume. In 2015, 3 740 people (360 permanent social enterprise and KPH employees, 70 interns and over 3 300 volunteers) worked on KPH-incubated projects. Over the last 5 years, more than 2 400 entrepreneurs, working in more than 400 registered creative and social enterprises, have been involved in KPH.

Table 5.1. gives an overview of the number of KPH-supported projects and people employed in these projects, measured in full-time employed (FTE)-equivalent.

KPH activities have had positive impact on network members and the community at large, as described below.

Sparring partners: the extensive KPH network of private partners has helped meet entrepreneurs' small practical needs (e.g. for professional audio and lighting equipment, a van, sponsorship, DJs and even volunteers). The network has also brokered substantial partnerships, yielding opportunities to test ideas in co-operation with experienced entrepreneurs, organisations and businesses, as well as producing new business prospects and investors.

Table 5.1. **Number of projects supported by KPH and people employed in these projects**

Year	Number of KPH-supported projects (including social enterprises)	Number of people employed in these projects (FTE)
2009	33	117
2010	32	127
2011	36	280
2012	87	510
2013	80	500
2014	52	450
2015	90	500

Source: KPH (2016).

Local co-operation: thanks to its physical location in southwest Copenhagen, KPH has established many collaborations with local actors, such as the neighbouring skate park and the street-sport youth organisation GAME. KPH also plans to collaborate with two districts of Copenhagen, the Meatpacking district – renowned for its commercial and cultural life – and Carlsberg City, which is currently developing to attract young creative people. In addition, KPH is considering a partnership with the newly opened Carlsberg Campus of University College UCC.[8]

Networking: KPH social and cultural entrepreneurs have organised more than 400 local, national and international events at KPH and KPH Volume, and over 3 300 events and activities around Copenhagen. KPH has helped create networks, as well as develop new concepts and skills. For example, the Social Business Company has held meetings and mini-conferences at KPH, where networks of corporate social responsibility managers and socially responsible companies develop solutions that create social and business value.

Public-private partnerships: KPH co-operates with a number of public institutions and authorities. It serves as a catalyst for public-private partnerships: its secretariat is both the entrance to the public sector for KPH members, and the broker between public bodies and social entrepreneurs. For example, the "Sharing Copenhagen" project, which provides a framework for green partnerships between the city and its many environmental stakeholders, has engaged in a public-private partnership with KPH. Since 2014, KPH has also built a network of enterprises with a social mission in the Greater Copenhagen area.[9] In 2015, it facilitated various small pre-accelerator programmes for promising social enterprises employing disabled people in Copenhagen.

Mentorship programme: KPH is the manager and facilitator of a mentor programme for seven registered social enterprises, which are matched with ten mentors from the public, private and educational sectors. The goal is to assist social enterprises at a time when they have proved the success of their concepts and are on the way to becoming mature businesses.

Table 5.2. shows an analysis of the strengths, weaknesses, opportunities and threats (SWOTs) facing KPH.

Table 5.2. **SWOT analysis of KPH**

Strengths	Opportunities
• Independent organisational set-up (not set up as part of the municipality) • Co-working space • Knowledge sharing • Application of a "fast acceleration methodology" through its mentoring schemes • Clear contract with members • Diverse business models supported by KPH • Clear outcome goals • Creation of social value • Open innovation culture • Direct partnership with the municipality	• Shift towards self-sustainable business model • Growth through creating more space for social enterprises • Future approach may include a franchise concept for other municipalities in Denmark or internationally • Creation of an innovation fund • Better promotion through strategic use of social media • Higher impact by fostering more collaboration between KPH members and the public and private sectors • Focus on students across different educational tracks (including vocational training) • Focus on unemployed youth • Alignment with other policy priorities in Copenhagen, such as the creative industries, the sharing economy, the circular economy and educational start-ups; emphasis on resource efficiency and green lifestyle • International collaboration
Weaknesses	**Threats**
• Too little emphasis on branding, public relations and communication • Partnership agreement gives the municipality too many rights, hindering other potential partners or investors • KPH is located in an area that was part of the city's development plan priorities before 2016 • KPH Volume is not insulated, can only be properly used in the warm months and has a single toilet, meaning it cannot be used for commercial purposes • KPH name is too city-focused and is therefore a barrier to franchising the approach • Lack of expertise in fundraising	• Possible cuts in city funding • High competition for municipal funds • Other emerging co-working spaces • No long-term agreement with the city regarding the building and facilities • Lack of a national policy focus on social enterprises • Politicians could decide to bring in-house KPH satellite services funded by the municipality

Source: interview with founder and director Anne Katrin Heje Larsen on 22 March 2016.

Lessons learnt and conditions for potential replicability

KPH is a story of continuous innovation and learning. KPH was created thanks to a strong partnership with the Department for Youth, Work and Culture of the City of Copenhagen. In the early stages, KPH missions had to correspond to this department's working programme. In the future, KPH hopes to work with various departments at both the city and national levels, depending on the best policy fits.

Lessons learnt

In the process of establishing an independent incubator for social enterprises, KPH has derived the following key lessons:

- **Independent organisational set-up**: to protect itself from changing political priorities that may lead to a restructuring of the city administration, KPH plans to become 100% financially independent by 2021.
- **Allow mix of funding streams**: KPH has evolved. It now has different funding streams from the city and other municipalities; it also derives income from rental of its office space and other commercial activities.
- **Access to wider funding options due to a hybrid business model**: as a non-profit actor, KPH can apply for foundation funding, private investment or EU financing instruments (e.g. structural funds or Horizon 2020). If KPH was part of the municipality umbrella of cultural institutions, it could not create a hybrid business model.

- **Work across departments within the city silos**: KPH has contributed to regenerating buildings and an entire district and as such, has managed to work across city departments. As a separate institution acting on behalf of its members, it is in a stronger position to mediate across different departments.
- **Build partnerships with businesses in multiple ways**: KPH has achieved impact by bringing individuals into the mentorship schemes and arranging sponsorships for individual courses or events.
- **Demand-driven strategic vision**: by staying true to its public service vision and mission, KPH ensures that it answers to both its membership base and funders. Its strategic vision is founded on the concrete social impact it can achieve in the City of Copenhagen.

Conditions for potential replicability

An incubator wishing to replicate the KPH model would do well to:

- **Determine how to measure social value**: as social enterprises are in a position to drive economic growth and job creation, incubators need to determine how to measure the value they bring to society. Very little systematic research currently exists in this area (Denmark, for instance, has not yet surveyed social enterprises), which merits particular attention.
- **Be part of the wider start-up ecosystem:** incubators should collaborate closely with other private start-up environments (e.g. co-working spaces).
- **Be experimental**: KPH is currently setting up a social economic fund and a "FabLab",[10] and is also considering strategic new projects with key national and international actors.

A municipality considering supporting an initiative such as KPH should:

- **Support an incubator with a sustainable business model targeting self-sustainability:** funding for incubation services can come from many sources, including public funds, foundations, social financing, or consultancy services run in parallel.
- **Work in a real partnership:** social enterprises should be able to access municipal budgets and national budgets as service providers or grant recipients. While funding is vital to such initiatives, municipalities should also remove administrative burdens (e.g. review certifications and registrations), provide in-kind funding for new social business ideas, and lend credibility to social enterprises by hiring and/or promoting them.
- **Drive change across city administrations:** social entrepreneurship is cross-cutting: it can involve new welfare issues, education, youth activation, immigrant issues, social cohesion, or social reinsertion of former convicts. Municipalities should consider creating a "single-portal" approach for social entrepreneurs/enterprises, where they co-ordinate the social-innovation agenda horizontally across municipalities and vertically within sectors through digital platforms or partnerships (such as KPH). They could also provide a contact person, who works with social enterprises to identify the right accelerators, incubator events and spaces.
- **Consider strengthening the ecosystem:** social entrepreneurs need a vibrant ecosystem offering financing options, networking, mentoring and support. Other actors can provide this in addition to incubators.

Notes

1. GAME, Bureau Detours, Supertanker, Republikken and Copenhagen Unfair.
2. Interview with Anne Katrine Heje Larsen on 16 August 2016.
3. The Danish Act on Registration of a Social Enterprise (L 148 Forslag til lov om registrerede socialøkonomiske virksomheder) was enacted in 2013. For more information, see: *http://www.ft.dk/samling/20131/lovforslag/l148/index.htm*.
4. Interview with the founder and director Anne Katrine Heje Larsen on 16 August 2016.
5. See: *http://socialvirksomhed.dk/filer/anbefalingsrapporter-og-bilag/appendiks-2-kortlaegning-af-socialokonomiske-virksomheder-i-danmark.pdf*.
6. Interviews were conducted with Anne Katrine Heje Larsen, founder of KPH, and Karsten Frølich Hougaard, co-author of *Sammen om velfærd - bedre løsninger med social innovation* [Creating Welfare Together: Better solutions for Social Innovation] (2014).
7. KPH deliberately allows students as young as 15 to apply for workspace. Their applications are generally for after-school hours and weekends; applicants also include school dropouts who want to set up a project or company.
8. The partnership with the Carlsberg Campus could use the KPH model for temporary incubators in vacant buildings in the neighbourhood.
9. This network includes social enterprises, foundations, private sector actors and municipal actors.
10. Fabrication Laboratory.

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Boosting Social Enterprise Development
Good Practice Compendium

Chapter 6

Alter'Incub: A regional incubator, France

Alter'Incub is the first regional incubator driving the creation of social enterprises in France. It develops a multi-stakeholder response to unmet local needs and establishes an enabling the ecosystem for social enterprises. This chapter presents the objectives and rationale behind Alter'Incub's creation, along with its main activities and impact. It discusses the challenges faced when implementing the support structure, the lessons learnt and the conditions for transferring this approach to other contexts.

Summary

Alter'Incub[1] is the first regional incubator dedicated to social enterprises in France. The scheme was launched in 2007 by the Regional Union of Co-operative Companies of Languedoc-Roussillon (URScop-LR),[2] in partnership with the Regional Council of Languedoc-Roussillon[3]. Both shared the ambition of supporting the social and solidarity economy (SSE) sector, and the creation of social enterprises.

Like every incubator, Alter'Incub's main mission is to assist entrepreneurs and offer them legal, financial and commercial support to create socially innovative enterprises. It also helps them establish partnerships that master the necessary competencies to launch their enterprise. Alter'Incub emphasises partnership-building, participative management, democratic governance and profit-sharing.

Alter'Incub is a "social-innovation think-and-do tank". Not only has it led to the creation of new social enterprises and jobs, it has also fostered a better understanding of the sector in France. To exchange practical experiences with other European countries and experiment new ways of promoting social innovation, Alter'Incub organised the first International Conference on Social Innovation in Montpellier in 2013, as well as another conference on financing social innovation in November 2015. It also participates regularly in major international events.[4] In 2016, Alter'Incub joined the European Social Innovation Accelerators Network co-ordinated by BENISI, thereby gaining international visibility.

Alter'Incub conceived its own replication pattern and now heads a network of five incubators in three regions.[5]

Key facts

Alter'Incub arose from a partnership between the Languedoc-Roussillon Region, the European Regional Development Fund (ERDF), the Caisse des Dépôts et Consignations (a public financial institution) and several major stakeholders in the SSE sector, including the co-operative movement, mutual funds (Macif Foundation) and co-operative banks (Caisses d'Épargne). Alter'Incub was the first SSE programme in France financed by the ERDF as an innovation project.

Alter'Incub's annual budget amounts to nearly EUR 500 000 (euros), 70% of which is used to support projects and 30% to co-ordinate the scheme.

The average cost of an incubated project is about EUR 22 000 a year, half of it spent on external consultancy (market analysis, legal advice, etc.).

The Languedoc-Roussillon region and ERDF provide 90-95% of Alter'Incub's financial support, and the co-operative movement – either URScop or CGScop – funds 5-10% of the scheme through self-financing.

The combination of public and private funds has helped embed Alter'Incub in the regional and institutional ecosystem. Alter'Incub works with other technological incubators and accelerators promoting innovation and the SSE sector. It also collaborates with social science research centres and universities (e.g. Montpellier and Aix-Marseille), to ensure that entrepreneurs benefit from the most up-to-date scientific research.

Alter'Incub is run by 5 URScop employees: 1 chief executive officer; 2.5 full-time equivalent mentors in charge of assisting social projects (2 mentors in the pre-launch phase and 1 in the start-up stage, working part-time at Alter'Incub and part-time at URScop); and 1 part-time employee working on communication and administration.

The organisation relies on three committees:

- The steering committee comprises financiers (bank representatives and investors) and the Languedoc-Roussillon Innovation (LRI) regional academic incubator, and determines Alter'Incub's strategic orientations.
- The selection panel comprises about 20 professionals from different horizons, e.g. the public sector, the SSE sector, technological/academic incubators and researchers.
- The technical committee comprises four to five people at the heart of the scheme (URScop, Region, LRI), who decide whether or not to select a project.

In addition, Alter'Incub has brought together a group of academic researchers in management and economics. They analyse Alter'Incub and similar schemes from a local, national and European perspective, focusing more on the conditions promoting the emergence of ecosystems than on the projects' social impact. Postgraduate and PhD students also perform continuous appraisal of the project.[6]

Since 2007, Alter'Incub has received 275 applications from people wishing to create socially innovative enterprises, yielding 138 entrepreneur interviews, more than 88 mentoring sessions and 41 social enterprise creations.

Objectives

Alter'Incub has three main objectives:

First, it aims to drive the creation of social enterprises that enhance economic, social, and local development, and create jobs. The Languedoc-Roussillon region has the highest unemployment rate in France, and most of its revenues come from wealth distribution mechanisms. In this context, supporting the development of the SSE sector and the creation of social enterprises – regardless of their legal status – helps meet local needs. Responding to this common interest is the condition for public sector investment in Alter'Incub economic model.

Second, Alter'Incub links locally identified social needs with humanities and social sciences research, and entrepreneurship opportunities. This interaction allows social projects to benefit from scientific research and become more innovative; it may also facilitate technological incubators' entrepreneurial development. More broadly, Alter'Incub develops a multi-stakeholder response to locally unmet needs and strengthens the ecosystem for social entrepreneurship. In this context, the co-operative model (e.g. *sociétés coopératives d'intérêt collectif*[7]), which emphasises governance, and involves employees, as well as public and private stakeholders, appears to be a relevant status for the social enterprises created.

Third, like any incubator, Alter'Incub supports entrepreneurial teams in developing innovative and economically viable answers that will result in the creation of social enterprises by the end of the incubation period. The goal is to take advantage of all possible synergies to transfer social innovation from the theoretical to the economic sphere in sectors such as housing, environment and consumption. Regardless of their legal status, all the projects must have a viable business model and a social and/or environmental purpose. In accordance with Alter'Incub's hallmark co-operative model, they must also feature participative management and a limited pursuit of profit, ensuring employees' long-term wellbeing, and profit distribution between employees and stakeholders.

Rationale

Social innovation appears when various actors with heterogeneous skills work closely together to create solutions for poorly met or unmet social needs.[8] More specifically, the synergies between territories (which have a close understanding of the population's needs), humanities and social sciences, and entrepreneurs should lead to socially innovative entrepreneurial solutions. Academic incubators focusing on business-oriented innovation greatly influenced the design of Alter'Incub. The idea was to transpose the existing model to a new kind of innovation – social innovation – in the French context.

Despite national interest in social entrepreneurship in the early 2000s, barely any support existed in France for social innovation and business creation. Alter'Incub was a pioneer in helping projects to take advantage of existing instruments in the conventional economic system. As a test project, Alter'Incub helped develop policies supporting social-business initiatives. Both Avise (the agency for the promotion of socio-economic initiatives, created in 2002) and the Mouvement des entrepreneurs sociaux (the social entrepreneurs' movement, created in 2010) pointed to the Alter'Incub model to highlight social innovation, thereby contributing to its recognition, development and legitimacy.

As the SSE sector was barely institutionalised, URScop-LR acted as a unifying interface between stakeholders. The lack of social enterprises and co-operatives in the region of Languedoc-Roussillon encouraged URScop-LR to boost their development. Rather than promote its own co-operative network as initially intended, URScop-LR gradually started to promote the development of the regional SSE sector and the overall regional economy. So far, these inclusive positions, based on common values and close personal or institutional relations, have prevailed over the struggle for influence and resistance to change.

Alter'Incub contributed to creating an overall ecosystem supporting social enterprises at every step of their creation, in a context where the Regional Council of Languedoc Roussillon was willing to support all innovative business initiatives. Indeed, its policy strongly favoured organisations and programmes that helped creating innovative enterprises, such as the Business & Innovation Centre, the academic incubator LRI and the Synersud network, which brings together incubators and accelerators. Benefitting from the regional network of universities and research centres, these organisations and programmes were included in the Regional Strategy for Innovation,[9] and a social innovation department within the Regional Agency for Innovation was established. Step by step, this ecosystem was extended to encompass social enterprise and SSE in a broad ecosystem,[10] and two incubators were created: Alter'Incub (supporting projects in the "pre-launch" phase) and Realis (a social economy and entrepreneurship centre helping projects in the "start-up" phase). Thus, Alter'Incub has allowed mainstream business support schemes to become involved in socially innovative projects.

Activities

The overall Alter'Incub process lasts 15 months.

The **pre-incubation period** lasts three months, during which the entrepreneurial team, its mentor and an external consultant carry out a strengths, weaknesses, opportunities and threats (SWOT) analysis of the project and collectively decide whether it qualifies for the second phase.

At this point, a selection panel evaluates the project for the second time and decides whether to usher it through to the 12-month **incubation process**, where it receives individual, collective and external (complementary) expert support.

To be selected, projects must meet the following four requirements:

- target a new or existing market in an innovative manner and offer goods and services, always keeping in mind the public interest
- opt for a collective form of management – either co-operative (e.g. Scop or Scic) or including users and/or local authorities – without, however, limiting entrepreneurs to a particular legal status
- lead to the creation of more than one quality job offering a good salary and good working conditions.

In recent years, Alter'Incub has provided entrepreneurs not only with technical support, but also access to new opportunities and resources: regional partners see admission to Alter'Incub as a "quality label", since the project goes through a strict selection process to enter the incubator.

The Alter'Incub incubation package includes:

- Individual support: helping entrepreneurs with networking, market studies, financial and business planning, choice of legal status and management

- Collective support: collective training sessions leading to positive group dynamics; better communication between project initiators; acquisition of strategic, marketing and management skills; and understanding of what being an entrepreneur means
- External support: mobilising partnerships with local experts to meet the needs of innovative projects in particular, when entrepreneurs need specific resources (e.g. specific legal advice, detailed market studies) that would not be available otherwise.

Challenges encountered and impact

Alter'Incub was created at a time when no public policy or common definition of social enterprises existed. Despite this adverse environment, Alter'Incub helped define social innovation and social enterprises in France, as well as launch new public actions at the regional level to build an ecosystem.

Challenges

At a time when the SSE sector was not yet formalised, the region opted for an original plan of action, opened to all types of enterprises – including those not operating in the SSE sector. Three challenges arose for Alter'Incub from this inclusive stand: combining economic performance and social responsibility, welcoming all kinds of economic models and stakeholders, and helping local projects reach national scope.

To muster skills, expertise and funds, Alter'Incub initiated wide partnerships at the regional and national levels. However, its plan to mobilise researchers specialising in social innovation – who are not used to interacting with enterprises – is still proving difficult to implement; organising broad social partnerships takes time. Alter'Incub also had to convince its partners that socially innovative projects require longer-term and more complex mentoring than regular projects, and thus increase the cost of incubation.

Today, Alter'Incub faces two new challenges. First, scaling up the incubator network requires reinforcing the spin-off strategy, which includes formalising methods and practices (business, model, process and skills) to increase the number of incubated projects, as well as taking the time to promote and co-ordinate the network and its community (i.e. the incubated projects and businesses). Second, scaling up the social enterprises that have been created implies designing new tailored financing instruments.

Table 6.1. presents an analysis of Alter'Incub's strengths, weaknesses, opportunities and threats (SWOTs).

Impact

Alter'Incub could not have been created without strong co-operation between a private SSE player at the forefront of business creation and a public institution intent on developing social enterprises.

In slightly more than eight years, Alter'Incub has enhanced the deployment of SSE in Languedoc-Roussillon and involved historical SSE actors in developing the regional economy.

The incubator's activity has had great impacts:

- It has contributed to defining social innovation and social enterprise in France, and helped define regional and national policies supporting social innovation.
- It has helped reduce the distinction systematically made between SSE enterprises and regular enterprises, and has had a positive impact on the local development strategy.

- Its scaling-up and spin-off strategy has led to the creation of five Alter'Incub incubators in three other regions.
- It has led to the creation in the region of 250 jobs and 41 social enterprises combining a social purpose with a viable business model.

Table 6.1. **SWOT analysis of Alter'Incub**

Strengths	Weaknesses
External: ● Network of local partners ● Alter'Incub network is the first national network of social incubators ● National recognition (Mouves, Avise) ● Contributed to public recognition of social entrepreneurship and social innovation ● International visibility ● Synersud – Alter'Incub partnership Internal: ● Skilled teams ● Professional mentoring ● Formalised practices and methods with skill bases and body of knowledge elaborated within Alter'incub	● Financial dependence on regional and European authorities ● Difficulty in mobilising researchers in humanities and social sciences ● High incubation costs (EUR 22 000 per year per project) ● Risk of shifting from projects seeking limited profit to projects with high economic potential: a "creaming-off" justified by the need for performance
Opportunities	**Threats**
● 2014-20 European scheme supporting social innovation and entrepreneurship ● Dynamic network of innovation incubators and accelerators in Languedoc-Roussillon ● Building a community of innovative social entrepreneurs; networking ● Think-and-do tank resulting in the creation of new tools to develop social innovation (e.g. a dedicated accelerator)	● Alter'Incub creates tensions within ESS because it upends conventional paradigms; some actors in the ecosystem have a narrow vision of entrepreneurship ● Lack of recognition of social innovation and social enterprises in public policy and the world of enterprise creation ● Few financing schemes dedicated to social enterprises

Lessons learnt and conditions for potential replicability

Lessons

Alter'Incub has drawn the following lessons from its experience in the Languedoc-Roussillon region, which it put to good use in setting up its subsequent incubators in the Poitou-Charentes and Rhônes-Alpes regions.

First, the incubator needs to **know its regional and local environment**, and take advantage of all existing resources (local partnerships and infrastructures, regional subsidies) to take root locally. Rather than insourcing skills, Alter'Incub has relied on the skills of local actors since the beginning. For example, when entrepreneurial projects require technological skills, they are automatically assisted jointly by Alter'Incub and a technological incubator, or the Regional Agency for Innovation.

Second, the incubator needs to be **skilled at mentoring** entrepreneurial projects. Technical guidance during the pre-launch and start-up stages is not enough; a project's success depends on the quality of entrepreneurs' brainstorming with their mentors.

In a nutshell, time, listening skills and strong partnerships are the key factors that enable Alter'Incub to point out the strengths and weaknesses of a project, team and/or (local or familiar) environment.

Conditions for potential replicability

Two years ago, Alter'Incub decided to replicate its model, formalising its processes and practices in a guide (Alter'Incub and Union Régionale des Scop Languedoc-Roussillon, 2013). The CEO of Alter'Incub provides strategic coaching for the replication, underlying the central role of partnership and a consistent ecosystem. Today, the scheme runs in three regions and is expanding rapidly.

The conditions for replication to other regions relate to the previously mentioned challenges:

- The scheme should not be limited to social enterprises in the SSE sector, but should also include the new model of social enterprises recognised by the 2014 Law on the Social and Solidarity Economy.
- The ecosystem should be based on wide partnerships, and build synergies with existing schemes.
- The incubation phase needs to last longer, as socially innovative projects require more time to combine their social purpose with a viable business model.
- The business and networking skills required to run the scheme must be formally defined.
- The incubator needs to create an evaluation framework to measure its impact. This assessment should not focus solely on immediate job creation, but should also include indicators on the human and financial resources, and the quality of partnerships both in the SSE and mainstream sectors. Medium-term indicators should also be developed, as projects need to be given enough time to become fully operational.

Notes

1. For more information, please refer to: *www.alterincub.coop/*.
2. URScop is a trade union supporting regional productive co-operatives (Scop and Scic). All URScops are part of the General Confederation of Co-operative Companies ("CGScop" in French).
3. When Alter'Incub was created the name of the region was Languedoc-Roussillon, but it changed to Occitanie in January 2016, after the territorial reform.
4. For example, the 10th Annual Meeting of the OECD LEED Forum on Partnerships and Local Development (Stockholm, April 2014); Social Innovation in Europe: Exploring social innovation ecosystems (Berlin, June 2015); and BENISI final event: Scaling Social Innovation (Brussels, March 2016).
5. Alter'Incub Rhône-Alpes was created in 2011, Alter'Incub Poitou-Charentes in 2013, and Alter'Incub Midi-Pyrénées in 2014 and Alter'Incub Auvergne in 2016.
6. A postgraduate student currently doing an internship at Alter'Incub is studying how to better mobilise regional financing tools for socially innovative projects. Another PhD student is analysing Alter'Incub's work and writing a thesis on the role of incubators in co-creating social innovation.
7. Community interest co-operative companies, a new status introduced by the 2001 law.
8. Here, "social" is understood as "societal": the needs do not only concern vulnerable or excluded population, but also encompass sanitary, environmental and cultural dimensions, etc. (see examples in Frame 2). This definition is aligned with the SSE law of 31 July 2014.
9. One of the five objectives of the "Entrepreneuriat et Innovation" strategy was to establish the Languedoc-Roussillon region as a model for supporting innovation and social entrepreneurship. For more information, please see: *http://www.3s-en-lr.com/entrepreneuriat-et-innovation*.
10. It has also inspired social economy policies in several other French regions.

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Chapter 7

The Law on the Social and Solidarity Economy (SSE), France

The French Law on the Social and Solidarity Economy (SSE), adopted in 2014, provides an enabling and encompassing regulatory framework to better support traditional SSE organisations and new social enterprises. This chapter describes the objectives and rationale of the Law, along with its main measures. It identifies some strengths, weaknesses, opportunities and threats that have come to light, despite its recent implementation. Finally, it features some lessons learnt and conditions for potential replicability.

Summary

Described during the opening of parliamentary debates as a "founding act" by Benoît Hamon, then deputy minister in charge of the social and solidarity economy, and consumption, Law No. 2014-856 of 31 July 2014 on the Social and Solidarity Economy (SSE) aimed to:

- meet the need for recognition of SSE actors
- recognise SSE as a specific model of entrepreneurship
- be part of an approach initiated at the European level
- complete or reform a range of tools aiming to foster the development of SSE actors, particularly by facilitating access to financing and public procurement, consolidating the network of SSE actors, facilitating the return to work of salaried employees, modernising the legal status of co-operatives, and strengthening sustainable local-development policies.

The Law's specificity lies in the construction of a new conceptual framework encompassing more than the traditional statutory actors (i.e. co-operatives, mutual societies, associations and foundations), until now designated as "SSE organisations". While recognising these historic actors, the Law also includes in its purview a number of commercial enterprises, provided they respect specific principles, such as conducting a social utility purpose activity or directing profits towards this activity. Even though initiatives taken at the European level in the context of the "Social Business Initiative" (SBI) may have exacerbated the existing schism at the national level between traditional SSE actors and new social entrepreneurs, they have also had a positive impact on the evolution of the SSE ecosystem, as witness the adoption of the French Law. After the 2012 presidential election, the French government considered the elaboration of a law defining a common conceptual framework for all SSE organisations, and applicable to different sectors, as a political and economic opportunity. Indeed, several studies have demonstrated the resilience of social enterprises in the wake of the economic and social crisis of the early 21st century, thanks to their emphasis on social values, as well as their local roots and capacity to seed different fields of activity.

Key facts

When the draft SSE Law was launched in 2012, data on the SSE sector only covered its traditional statutory forms. According to the 2012 *Panorama* produced by the national SSE Observatory (Observatoire national de l'économie sociale et solidaire, 2012), in 2012 these organisations represented 10.3% of total employment and 13.9% of private employment in France. Associations accounted for the highest employment rate (accounting for 78.6% of total salaried employees in the SSE sector), followed by co-operatives (13.1%), mutual societies (5.4%) and foundations (2.9%).

Some activity sectors are predominantly staffed by enterprises operating in the SSE sector. This is particularly true of the social sector (63% of sector jobs), and sports and leisure (56 %), but also applies to financial, banking and insurance activities (30%), culture (29%) and teaching (19%). The numbers are completely different, however, in the productive sector. Thanks to the agriculture sector and agricultural co-operatives, SSE structures in the food industry account for 4.6% of sector employment.

Both the study published by the SSE Observatory in October 2012 (Observatoire national de l'économie sociale et solidaire, 2012) and the study published by the Research & Solidarity Institute in June 2012 (Institut Recherches & Solidarités, 2013) show the potential of the SSE sector in terms of job creation: employment in these structures showed great resilience during the 2008-10 crisis, and generational renewal may produce an additional 600 000 jobs between 2012 and 2020.

Rationale

Deputy minister Benoît Hamon put forward the initiative of legislating the SSE and social entrepreneurship on 29 May 2012 at a meeting of the Office of the Higher Council on the Social Economy (Bureau du Conseil supérieur de l'économie sociale).[1] Several working groups within the Council had already begun to study the feasibility of a legislative project, following the publication in April 2010 of a report by parliamentarian Francis Vercamer produced at the request of then-prime minister François Fillon. The important research performed on the occasion of this report (Vercamer, 2010) highlighted that SSE actors wished for an ambitious policy to be implemented. After several weeks of concertation with actors and administrations, about 50 propositions were formulated. They aimed to obtain better statistical knowledge on the SSE economy, modernise and simplify the legal environment, expand the range of financing tools, and recognise and integrate the SSE at different levels (national, regional, local) of public policy. Thus, as indicated in an OECD study (Mendell, Enjolras and Noya, 2010) commissioned by the Interministerial Delegation for

Innovation, Social Experimentation and the Social Economy (Délégation interministérielle à l'innovation, à l'expérimentation sociale et à l'économie sociale), it was necessary to reverse policymakers' tendency to "underestimate" the ESS.

After the 2012 change of government, this previous work provided a framework for part of the legislation's preparatory work by seeking to address economic issues. This is evidenced, for instance, by the Law's intent to provoke a "co-operative shock" in the face of difficulties encountered by enterprises that fail to successfully transfer ownership, or whose business activity sharply declines, leading to liquidation procedures. In both cases, the co-operative model could provide a solution to help maintain activity. The goal was to double the number of co-operatives over a period of three years.

Legislating on ownership transfers was long presented as one of the Law's highlights. The objective was not only to respond to a significant economic problem – the National Institute of Statistics and Economic Studies noted a continuous drop in business acquisitions between 1998 and 2010 (Ministère de l'économie et des finances, 2013) – but also to illustrate a reversal in the prevailing ideology, by focusing on collective enterprises that prioritise human capital over economic and financial capitalisation, in order to allow them to maintain or improve their activity.

The upswing in social entrepreneurship at the European level, recognised and encouraged by the European Commission, had already resulted in the adoption of the SBI, led by Commissioner Michel Barnier in October 2010, which identified a social enterprise as "an operator in the social economy whose main objective is to have a social impact rather than make a profit for their owners or shareholders. It operates by providing goods and services for the market in an entrepreneurial and innovative fashion, and uses its profits primarily to achieve social objectives. It is managed in an open and responsible manner and, in particular, involve employees, consumers and stakeholders affected by its commercial activities" (European Commission, 2011).

However, this evolution created some tensions between traditional SSE actors and new social entrepreneurs. Following the principle that "status does not signal virtue", these new entrepreneurs have kept the same legal (particularly associative or co-operative) status, but have endeavoured to defend an entrepreneurial approach distinct from the traditional entrepreneurship model, and characterised by a social commitment and purpose. While certain stakeholders have chosen to remain publicly funded operators, others have applied management criteria more in keeping with the traditional entrepreneurial model.

Even though the European influence (particularly the adoption of certain directives) has somewhat divided SSE actors in France, it has also steered the Law in several respects – particularly with regard to public procurement and the conditions allowing SSE structures to access the public authority market – by advocating for the inclusion of social clauses.

Objectives

The French Law primarily intends to respond to traditional SSE actors' aspirations, within the framework of the European SBI, by recognising their contribution to economic growth and social cohesion. It intends to be the first "inclusive" law that sets a common framework encompassing multiple organisations with diverse legal statuses. In France, organisations comprising the current SSE ecosystem are governed by a number of longstanding legislative texts.[2]

The Law's objectives are clearly expressed in the legislator's text – particularly in Article 1 – which, by explicitly defining a "specific mode of entrepreneurship", meets the desire for recognition of SSE actors. By opening this "mode of entrepreneurship" to commercial companies, the text is also aligned with the European SBI.

The legislator, however, did not wish to limit the Law to mere declarations of intent. Through specific measures targeting different categories of enterprises, the Law aims to complete or reform a set of tools fostering the development of SSE actors. Among these tools, the Law intends to encourage the creation of enterprises and the development of activities, particularly by:

- consolidating the network of SSE actors to reinforce their legitimacy in the public debate
- facilitating their access to financing and public procurement
- facilitating employees' takeover of their companies to preserve jobs
- modernising the status of co-operatives, e.g. by allowing them to band together for increased efficiency.

The Law also aims to enhance local sustainable development policies, particularly to incentivise the creation of jobs that cannot be outsourced, e.g. by relying on the territorial hubs of economic co-operation (*pôles territoriaux de coopération économique*). In this manner, the legislator demonstrates the capacity of the SSE to generate new forms of partnerships and employment, thereby reflecting the recommendations of the OECD (Mendell, Enjolras and Noya, 2010).

Main measures of the SSE Law

Structure the network and grant legal recognition to representative SSE institutions: the ambitious and innovative Law of 31 July 2014 has far from yielded its full potential, and several related tools – particularly the advisory bodies, e.g. the Higher Council for the Social and Solidarity Economy (*Conseil supérieur de l'économie sociale et solidaire*) and the Higher Council for Co-operation (*Conseil supérieur de la coopération*) – were developed over a year after it was enacted. Each of these bodies has an essential role in structuring the network and setting the legislative provisions ensuring legal recognition of SSE institutions.

Headed by the minister in charge of SSE, the Higher Council for the Social and Solidarity Economy develops a national SSE development strategy every three years. For example, it adopted the guide on "defining the conditions for continuous improvement of good practices" (Ministry of the Economy, Industry and Digital Technology, n.d.), whose application as of July 2016 will help reinforce and clarify the governance principles ruling social economy enterprises, as defined in Article 1 of the Law. The Council is also expanding its scope to consider transversal questions, e.g. the status of gender equality in the workplace and the dissemination of SSE principles among young people.

The Higher Council for Co-operation, for its part, acts as a watchdog responsible for establishing the procedural principles and standards governing the co-operative review procedure, to re-ingrain co-operative principles at the heart of co-operative governance.[3]

These two councils highlight one of the Law's major objectives, i.e. formal co-construction of a public policy with the representatives of the traditional SSE organisations, as well as the new social enterprises. Each council brings together representatives from these two "families", along with SSE experts and government officials operating in the relevant sectors.

Along with these councils, a newly instituted French Chamber of the Social and Solidarity Economy ensures a strengthened representation and promotion of SSE enterprises at the national level.

The regional SSE chambers (*Chambres régionales de l'économie sociale et solidaire*), which have existed for a number of years, have been confirmed as representatives of enterprises at the regional level. The new territorial organisation makes them major regional actors for economic development, thanks to:

- their co-organisation of regional conferences, to be produced jointly by the decentralised government and the region, with the goal of establishing a "regional SSE strategy"
- their compulsory consultative role during the drafting of regional economic development plans – key instruments for implementing each region's economic competencies.

Recognising SSE as a specific entrepreneurial approach: the Law proposes a clear definition of the structures included in the SSE perimeter, allowing explicit recognition of this model of entrepreneurship, and enhancing both public and private funders' understanding of the SSE economic model. Thus, this new framework includes long-standing statutory stakeholders (co-operatives, mutual societies, associations and foundations) and commercial companies with a social purpose (i.e. respecting principles such as the pursuit of an activity with a social utility, or directing profits to this activity). The Law also sets precise criteria defining "social innovation", thereby facilitating recognition by funders.

Furthermore, in an effort to reorient solidarity savings exclusively towards companies with a strong social purpose, the Law now reserves the "social and solidarity-based enterprises" accreditation for SSE enterprises whose activity presents a significant social impact. While this accreditation is neither a brand nor a label, it recognises enterprises belonging to an alternative development model, thereby facilitating their access to solidarity-based employee savings schemes.

Facilitate access to financing and public procurement: it is still too early to estimate the impact of the measures promoting the financing of SSE enterprises – especially the establishment by the public investment bank Bpifrance of the Social Innovation Fund (*Fonds d'innovation sociale*), endowed with a EUR 40 million budget targeting major actors of social innovation who struggle to obtain financing at normal market conditions. The first experimental phase, spanning eight regions, mobilises EUR 10 million of that total budget. The rest of the budget will be awarded depending on the assessment results of this first experimental phase.

However, it should be noted that Bpifrance has established solidarity-based participatory loans and dedicated equity capital direct investment. In June 2015, the loan reserved for SSE enterprises (*prêt économie sociale et solidaire*) was the first measure offering SSE enterprises a non-guaranteed loan up to EUR 100 000.

The Law also improves associative bonds, and creates mutualist and joint development certificates, thereby allowing associations, foundations and mutual societies wishing to expand to avail themselves of the relevant financing tools.

Another public funding body, the Caisse des Dépôts et Consignations (CDC), was entrusted with managing the EUR 100 million "Investing for the Future" programme (*Programme d'investissements d'avenir*) from 2010 to 2015. Along with public and private stakeholders, on 30 June 2016 the CDC launched a new EUR 100 million investment fund to support SSE enterprises, NovESS – Le Fond ESS. NovESS also establishes a social-impact measurement and monitoring tool, MESIS (Caisse des Dépôts, 2016).

The Law also clarifies the legal regime for subsidies, by building on the jurisprudence criteria that differentiate it from public procurement, thus protecting this vital financing model for the associative sector.

Finally, to facilitate SSE entities' access to public procurement, the Law promotes the use of social clauses in public procurement, making them obligatory for municipalities and regions whose annual public procurement exceeds EUR 100 million.

Strengthen the local sustainable development policies and the network approach: another characteristic of the SSE Law is that it strengthens the network approach, by taking into consideration the new territorial organisation and facilitating exchanges among different public policy levels in the regions. The establishment of regional ESS conferences, and the participation of regional chambers in the design of the regional plans for sustainable development and territorial equality (*schémas régionaux d'aménagement de développement durable et d'égalité des territoires*), are cases in point.

The SSE Law also reinforces proximity and support mechanisms, such as the local support mechanism (*dispositif local d'accompagnement*). Above all, SSE enterprises can now constitute their own regional network, through a **regional economic co-operation hub** *(pôle territorial de coopération économique* [PTCE]), and implement common development and innovation strategies, in co-operation with all relevant economic and institutional stakeholders. By supporting these original projects, which bring together traditional companies and SSE enterprises, communities, training centres and research centres, the government fosters the creation of jobs that cannot be outsourced. The second call for projects for PTCEs, issued in April 2015, was endowed with a EUR 2.5 million budget, jointly financed by several ministries. This innovative mechanism had first been experimented prior to the adoption of the Law, whose implementation strengthened the mechanism's governance – particularly from the standpoint of the project's legal framework – and resulted in a 20% decrease in the number of eligible projects.[4] The actual quality of the projects will, however, only be determined at the end of the experiment, in 2018-19.

Facilitate employees' takeover to preserve or re-establish jobs: other directly applicable and innovative mechanisms have had some media impact. The creation of a transitional status for seed co-operative and participative companies (*statut transitoire de société coopérative et participative d'amorçage* [SCOP]) is one such novelty, which has contributed to the "co-operative shock" called for by minister Benoît Hamon. This status allows salaried employees to take over an enterprise as a SCOP by initially owning a minority share in the capital while having the majority vote. The idea was predicated on the simple observation that too many companies – particularly small and medium-sized enterprises – do not plan for their succession; the political objective was to promote the purchase of these companies by their employees. These new modalities are the direct consequence of the introduction in the Law of mechanisms to inform employees of an upcoming transfer of ownership: henceforth, the head of the company is obligated to inform employees at least two months prior to any sale, and employees must be kept informed regularly, to facilitate the purchase when the time comes.

Modernise the status of co-operatives: the Law authorises the creation of SCOP groups that were previously forbidden by the law of 1978.[5] Prior to the adoption of the 2014 SSE Law, SCOPs wishing to expand and remain competitive had to create classic branches unrelated to the co-operative model.

The Law also promotes the development of "activity and employment co-operatives" (*coopératives d'activités et d'emploi*), which allow an entrepreneur to launch an activity within the framework of a co-operative while benefitting from the status of salaried employee of the co-operative on permanent contract.

Challenges encountered and impact

The Law was enacted less than two years ago, and the regulatory texts were adopted only a few months ago – indeed, some only went into force on 1 January 2016. Hence, its relative novelty permits neither a quantitative study nor a qualitative evaluation of the overall initiative. Nevertheless, Table 7.1. presents an analysis of the strengths, weaknesses, opportunities and threats (SWOT) that can already be identified regarding its implementation.

Table 7.1. **SWOT analysis of the Law the Social and Solidarity Economy**

Strengths	Weaknesses
• Framework law • Carried by a ministry • Transversal policy • Implementation of various measures, tools and institutions promoting SSE development	• Weak administrative capacities • Limited public financing dedicated to SSE
Opportunities	**Threats**
• Gratitude of SSE actors for the political action undertaken • Regional structuring of PTCEs and regional SSE chambers	• New political organisation of French regions can slow down implementation of some measures provided for in the Law • Network egocentrism • Difficulty in accessing financing owing to permanent divide between funders and organisations

Lessons learnt and conditions for potential replicability

While the SSE Law was described as a "founding law" (Blein and Fasquelle, 2016), which included for the first time in the legislation the notion of an alternative economy within the larger context of a pluralistic vision of the economy, it can also be considered the legal culmination of a long process aiming to recognise traditional SSE actors.

The Law promulgated on 31 July 2014 undeniably owes its success to the will of its proponent, Benoît Hamon, and to the work of the parliamentary assemblies. The project's overall coherence – particularly the inclusive definition provided in Article 1 of the Law – might not have been possible without the collaborative work of the different SSE "families". The desire to respect the specificity of each stakeholder category allowed everyone to emerge from the legislative process with innovative tools. Indeed, the Law stipulates specific mechanisms for different types of SSE enterprises, as well as new financial tools (mutualist certificates, associative titles, foundation bonds, subsidies), thereby consolidating its transversal approach.

Thus, the Law cannot be reduced to the social entrepreneurship principle advocated by the European Commission. Indeed, an "anglicising" of the Law that would cover only social enterprises, would destroy its inclusive nature. The French Law imposed itself precisely because it combined homogeneous values with diverse statutes, purposes and goals – a philosophy that should allow it to resist passing fads.

Nevertheless, the wavering around the concept of social entrepreneurship and social enterprise is still cause for concern. While at the European level, the Commission in place since October 2015 is steering away from the directions established by the Barnier initiative, a new discourse is developing, which inverts the conception of Article 1 of the Law: it would no longer be a matter of SSE including social enterprises, but rather, of social enterprises including all co-operatives, mutual societies, associations and foundations.[6]

If this new direction is confirmed, the Law of 31 July 2014 would no longer relate to the SSE economy, but rather to social enterprise itself. Faced with the reticence of numerous stakeholders, the secretary of state responsible for the SSE has reverted to the project of "developing the social economy in Europe"[7] – a philosophy in line with the "open and inclusive" vision advocated by the SSE Law.

This debate shows that despite the collaborative work undertaken, the Law of 31 July 2014 has not resolved the divergences among the various SSE stakeholders, many of whom are unhappy with the number and diversity of bodies that can lay claim to the SSE status today. Thus, ancient cleavages between an altruistically driven economy and co-operative enterprises that have leading positions in competitive markets are reaffirming themselves.

Notes

1. Advisory body established in October 2006, which in 2010 became the Higher Council for the Social and Solidarity Economy (Conseil supérieur de l'économie sociale et solidaire).
2. Firmly established in the French landscape, mutual societies and co-operatives were governed by a legal structure as early as the 19th century; co-operatives were given a new legal regime in 1947. As for associations, they were governed by the founding law of 1901.
3. Established in October 2015, in just a few months this Council was able to establish the framework for recognising "reviewers", i.e. the persons in charge of drafting reports on co-operative practices implemented by the company; this form of audit should lead to an appraisal of co-operative practice.
4. Decree No. 2015-431 of 15 April 2015 on the call for projects by regional economic co-operation hubs, particularly Article 3.
5. The law of 1978 aimed to facilitate cooperatives' creation by employees, particularly by allowing the creation of SCOPs in the form of Limited Liability Companies. However, the law forbids a SCOP from holding majority voting rights in another SCOP (Ministère de l'économie, de l'industrie et du numérique, n.d. b).
6. This reversal was expressed by the French representative to the Expert Group on Social Entrepreneurship (GECES), during the Plenary session of GECES on 14 April 2016: "We recognise ourselves in the term 'social enterprises' because we use in France the term 'social enterprise" to designate the French concept of SSE, which encompasses all at once associations, foundations, co-operatives, mutual societies and commercial companies that have a socially beneficial activity and respect certain clearly defined management rules and apply democratic governance modes. With a common European terminology for social enterprises we propose that, by the principle of shared recognition, these two words reflect the diversity of concepts in the different Member States."
7. Speech delivered by Mrs Martine Pinville on 17 June 2016 on the occasion of the launch of the "Scale me up" project.

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Good Practice Compendium

Chapter 8

Financing Agency for Social Entrepreneurship (FASE): An intermediary for hybrid financing, Germany

The Financing Agency for Social Entrepreneurship (FASE) is a financial intermediary providing hybrid financing to social enterprises. It uses a highly tailored, "deal-by-deal" approach in order to design innovative financing schemes that match the needs of social enterprises and impact investors. FASE objectives, rationale and key activities are presented together with the challenges faced in implementing the scheme and the impact it has achieved to date. Lessons learnt and conditions for transferring this practice to another context are also included.

Summary

The current challenges and opportunities in the European social finance market call for new initiatives. On the one hand, many social enterprises are not yet investment-ready and rely heavily on grants or donations, while searching for business models that generate revenue streams and attract larger, repayable forms of capital. On the other hand, funders are increasingly interested in impact investments, but face numerous hurdles – including the absence of a pipeline of investment opportunities allowing them to engage directly with investment-ready social enterprises. The Financing Agency for Social Entrepreneurship (FASE) was founded to provide new solutions for the social enterprise financing gap and mobilise hybrid growth capital across the often rigid boundaries between donors, investors and the public sector.

Using and creating innovative financing models that meet the various needs of all parties involved, FASE provides investment-readiness and transaction support to social enterprises with a strong positive impact. Many of these models are hybrid in nature, combining different types of financing instruments and funders in a single, tailored deal. These models acknowledge the fact that many social enterprises choose to operate as "structural" hybrids, with non-profit as well as for-profit organisational subsidiaries. Hybrid social finance is smoothing the way for social enterprises wishing to scale, opening up the full spectrum of funding sources and bringing all types of investors and risk-return profiles to the game.

In the current ecosystem, investor traction has to be actively built. Although a recent study on the German social impact investing market (Bertelsmann Foundation, 2016) finds that investment amounts have almost tripled – from EUR 24 million (euros) in 2012 to around EUR 70 million by the end of 2015 – the market is still nascent. Investor allocations for impact represent only a small fraction of the overall assets ready to be deployed. This is especially true of direct investments in early-stage social enterprises, which many investors perceive as too risky. This prompted FASE to establish a brand new network of 250 active impact investors and potential funders – from wealthy investors, philanthropists and foundations, to institutional investors, banks and public bodies – across various European countries.

In 2013, the European Commission (EC) launched an initiative to "support the demand and supply side of the market for social enterprise finance" (European Commission, 2013). FASE created and piloted several new financing and co-operation models in the context of this initiative (FASE, 2015), yielding a wealth of case studies and lessons learnt that offer powerful opportunities for replication.

Several case studies of German and Austrian social enterprises (FASE, 2013) show that deal-by-deal support can be a very impactful mechanism for mobilising social finance. As of December 2016, FASE has completed 20 transactions, channelling approximately EUR 8 million in new resources to the social finance ecosystem. Knowledge dissemination is another vital component: FASE attends or organises 30 sector events per year on average, investor panels and social finance roundtables, openly sharing its findings and reaching out to a growing number of social enterprises and impact investors. The Agency has also prepared more than 30 proprietary case studies and industry reports, and contributed to newspaper articles, industry reports and scientific papers. These insights, together with the financing models developed, provide powerful blueprints for social finance newcomers and experts alike.

Key facts

FASE was formally established in 2013 after a period of incubation by Ashoka[1] Germany. The idea was to create the first – and leading – financial intermediary in Germany designed to help early-stage social enterprises with strong positive impact raise growth capital. Today, FASE is registered as a private company and fully owned by Ashoka Germany. Its mandates for investment-readiness and transaction support now include both Ashoka Fellows and social entrepreneurs outside the Ashoka network. The FASE business model relies mainly on revenues generated from transaction support.

FASE is currently expanding and building a sustainable business model. The team comprises at least eight professionals with expertise in social finance and social entrepreneurship; business consulting and financial modelling; and venture capital and investor relations[2]. A board of six senior advisors supports the team.

Along with other actors, FASE has helped expand the social investment market in Germany. With the exceptions of Ashoka and BonVenture, most key players were only established after 2009 (Bertelsmann Foundation, 2016).

Objectives

The main objective of FASE is to mobilise growth capital for early-stage social enterprises, to enable them to scale their impact. The main target market was initially Germany, with one early mandate coming from Austria.

While FASE is positioned at the intersection of the social enterprise and impact investor spheres, activities have also spread to other policy areas. For example, FASE participates in initiatives fostering the entire impact investment market. As a member of the German National Advisory Board (part of the G7 Social Impact Investment Taskforce) as well as the European Commission's Expert Group on Social Entrepreneurship (GECES sub-group WG1, "Improving access to funding"), FASE openly shares its practical experiences of financing social enterprises. Below is a brief summary of its core functions:

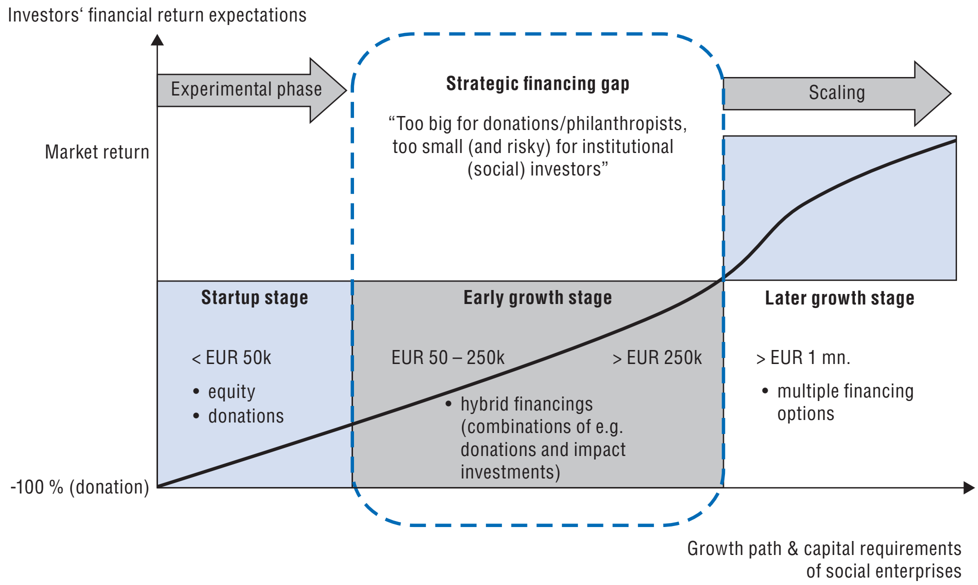
1. offers transaction and investment-readiness support to social enterprises
2. develops new hybrid financing models
3. builds a network of potential impact investors across the entire spectrum
4. initiates collaborations between different market players to advance the social finance ecosystem
5. participates in policy initiatives
6. disseminates knowledge through best-practice examples, events and case studies.

Rationale

A social enterprise's lifecycle usually involves a diverse group of funders. Most projects initially rely on friends and family, or philanthropic seed capital; this is often referred to as "venture philanthropy". In later stages, some social enterprises become very attractive investment candidates, and institutional impact investors, social venture funds or even banks are interested in being involved. However, many investors fail to meet the funding needs of a specific group of companies – early-stage social enterprises, which typically require EUR 100 000-500 000 to scale, and are generally unable to cover more than 75% of their operating costs with revenues. Most impact investors are waiting at the very end of the investment pipeline, for mature social enterprises that have already broken even. The result is a strategic financing gap for early-stage social enterprise finance: the required investment amounts tend to be too large for donations or philanthropic foundations, and too small and risky for institutional social investors. This calls for developing innovative financing strategies, securing more impact-minded investors, and building a pipeline of investment-ready social enterprises.

This market failure is often termed "the valley of death": many social enterprises risk failing prematurely due to sheer lack of funding. Ashoka Germany launched FASE in 2013 to bridge the gap between capital supply and demand, so that social enterprises are able to scale their impact.

Figure 8.1. **The strategic financing gap**



Activities

As illustrated in Figure 8.1., a complete set of activities and approaches is needed to address the social enterprise financing gap. The section below highlights two activities carried out by FASE – new collaborative funding models and a lean, transparent transaction management – that are probably the most innovative features and, therefore, offer a high value added.

New collaborative funding models: during the EU project (European Commission, 2013), FASE developed seven innovative collaborative financing models, which can be assigned to three basic categories: 1) tailored financing models; 2) hybrid co-operation models; and 3) innovative financing vehicles (FASE, 2016). The section below describes five models in these three categories.

Tailored financing models: this group includes three financing solutions that are specifically designed for hybrid social enterprises with both non-profit and for-profit subsidiaries ("structural hybrids"). In general, while non-profit legal entities are able to accept donations or public grants, the most appropriate financing instrument for-profit subsidiaries is typically quasi-equity (e.g. mezzanine capital). Two basic models fall within this first group of innovative financing vehicles:

Mezzanine capital with revenue participation and social impact incentive does not include loss participation, featuring instead a fixed interest rate coupled with a revenue share. The basic intention is to define a target return for the investor while capping the revenue share amount at the onset, enabling the social enterprise to develop in its first years. In the end, investors are entitled to catch up on their claims to achieve their target return.

Mezzanine capital with profit participation and social impact incentive follows essentially the same structure as the first, with the difference that it features a profit-participation mechanism combining a fixed interest rate with a share in the enterprise's profit (earnings before interest and tax). Like the first model, this model can additionally feature a social impact incentive in the form of a one-time final payment dependent on the enterprise's impact. To avoid any misinterpretations, this impact goal should be defined as precisely as possible.

Hybrid co-operation models

This second group features two solutions combining different types of investors in a single deal. This is another effective way of mobilising more capital for social enterprises: instead of having different financing "planets" with their own unique but separate cultures, an entire universe becomes accessible.

Equity donation with impact investment combines philanthropic funders with investors. A foundation, philanthropist or group of private donors contribute part of the overall financing by making a donation to the non-profit entity of a social enterprise with a hybrid organisational structure. This donation then increases the non-profit's capital stock and enables it to hand over capital to the second entity, a fully owned for-profit subsidiary. This step opens up even more funding opportunities: to further support the financing of the for-profit subsidiary, impact investors can now inject additional growth capital, typically in the form of quasi-equity. This impact investing part is very flexible, and can also include features such as revenue or profit participation.

Crowd investment with impact investment combines crowd funders with investors. The crowdfunding is very beneficial as it is highly flexible: the crowd can either finance the non-profit entity through donations, or support the for-profit organisation with investments. The impact investment part is meant for the for-profit entity, and can be structured with the typical features and rights described in the first three models.

Innovative financing vehicles

Two additional co-operation mechanisms address gaps in the social finance ecosystem, but require a separate financing vehicle. **The early-stage co-investment fund** is the most advanced such vehicle. The fund, which is currently in the pre-marketing stage, will address a systematic market failure – namely, how to secure more financing for early-stage social enterprises – by offering impact investors access to a diversified portfolio of early-stage deals. The fund will be linked to the FASE open pipeline of investment opportunities in social enterprises and will co-invest on the exact same terms and conditions defined by the respective lead investors. To enhance its attractiveness, the fund will be passively managed, and administered by an experienced partner. Moreover, it will apply for a newly established EU guarantee program (EU Programme for Employment and Social Innovation)[3], compounding its potential to improve the risk-return profile for investors.

Lean transaction management

One of the key success factors of transaction management is to ensure a lean and transparent process. It has to be reliable, well-structured and efficient, for both social enterprise and potential investors in order to build trust. All participants need to know they will save time, money and hassle by engaging with an experienced financial intermediary, such as FASE. The process typically begins with initial discussions and ends with the successful closing of a transaction.

Figure 8.2. below illustrates the main steps of a transaction process from the perspective of a social enterprise. Even in a perfect setting, approximately six months may pass until the financing finally arrives in its bank account.

Several reports, case studies and articles provide concrete examples of the process.[4] The third component of the FASE mission is to disseminate as much knowledge as possible in order to forge an evolving market for social finance.

Figure 8.2. **FASE lean transaction process management**

The Financing Agency for Social Entrepreneurship (FASE) supports the entire transaction process

Tasks	Preparation phase	Investor approach	Due diligence	Signing
Social enterprise	• Completing the business plan for the coming 3-5 years	• Preparing the information memorandum • Preparing and holding management presentations	• Providing information for due diligence by investor(s)[1] • Negotiation of terms & conditions with investor(s)[2]	• Signing the financing contract with investor(s)
FASE	• Review of business model and plan • Identifying and designing suitable financing instruments (incl. potential cooperation models between different investor types)	• Identification of potential investors based on profiling • Preparation of teaser to approach investors • Contacting investors (individually and through networks)	• Supporting the social entrepreneur in: • coordinating the due diligence process • negotiating the contract	• Communication of deal structure and success factors to provide blueprints with pilot character for the entire SE sector

1 with potential involvement of external advisors for financial due dilgence

2 with potential involvement of external legal and/or tax advisors

Source: FASE (2014).

Challenges encountered and impact

Quantifying the effects of a financial intermediary on the social enterprise finance market is by no means a trivial endeavour. Resolving a systematic failure requires putting together a full “package” of activities addressing several parts and players in the ecosystem. Where FASE is concerned, impact is best measured in terms of: 1) the number of transactions closed and total amount of financing channelled into the market; 2) the number of social enterprises advised on transaction support and investment readiness; 3) the size of the actively built investor network; and 4) the scope of knowledge disseminated through various communication channels.

As of June 2016, FASE has:

- successfully closed 14 transactions, channelling approximately EUR 5 million in fresh money into the social finance sector
- advised about 200 social enterprises on the nature, process and requirements of raising growth capital
- added over 250 current and potential impact investors as part of their network, including many first-time impact actors and established European players, from foundations and private philanthropists, through business angels, (ultra) high net-worth individuals, family offices and asset managers to institutional social investors, alternative banks, impact funds and venture capital firms
- signed 24 transaction mandates (14 closed transactions, 8 ongoing mandates for transaction support, and 2 terminated transactions[5]) and closed 3 investment-readiness packages.
- realised nearly EUR 10 million in total transactions to date, including EUR 5 million already closed (i.e. EUR 5 million in progress) (FASE, 2016).
- Among other noteworthy results, FASE has:
- organised and attended approximately 40 sector events, workshops and panels

- published over 30 articles, interviews and papers (most notably a study entitled *Achieving impact for impact investing – a roadmap for developed countries*, prepared by FASE, McKinsey and Ashoka, 2016)[6].

Like any initiative striving to change existing market patterns, FASE faces a number of challenges, similar to those encountered by social enterprises, in developing a viable, sustainable business model that allows scaling the impact to a higher number of target groups and geographic regions. Given its limited team size and budget, the secret lies in bundling competences, resources and knowledge by building partnerships, joint ventures and co-operations. Recent initiatives include: 1) a financing partnership with a German alternative bank, providing a platform for engaging more foundations to finance social enterprises; 2) a social investment club, to be set up with a private bank; and (3) expanding FASE to other European regions, either as regional hubs or as joint ventures with local sector experts. FASE is also designing several other projects with its partners and other key market players. These include:

Pilot projects for pay-for-success models: FASE is at an advanced stage of piloting a direct pay-for-success model, the first of its kind in Germany, with a local social enterprise. Unlike a the concept of the social impact bond, the idea is to remunerate a social enterprise directly for the impact achieved by engaging a philanthropic player, who will pay the social enterprise based on pre-defined outcomes, thereby increasing the enterprise's revenues and helping it become sustainable.

A crowd-investing platform for social enterprises: FASE is in an early stage of discussions with an experienced provider concerning the establishment of a "social" crowdfunding platform. FASE plans to contribute its unique expertise, network and mandate pipeline to this collaboration.

A SWOT analysis of FASE (Table 8.1.) may be helpful to better grasp the challenges faced by an intermediary in the current social finance ecosystem:

Table 8.1. **SWOT analysis of FASE**

Strengths	Weaknesses
• Proven concept and impact • Pioneer in deal-by-deal syndication • Strong partnerships and network • High recognition among social enterprises • Track record of successful transactions • Skilled and experienced team • Proprietary network of impact investors from all financing "planets" • Innovation leader for hybrid financing models • Open-source approach: sharing blueprints and experiences for replication • Social enterprise mindset and focus • Independence from specific investor groups	• Still on the way to building a sustainable business model and breaking even • Human resource-intensive business with transaction support on a deal-by-deal basis • Long process to convince philanthropists and traditional investors to start investing for impact • Limited budgets of social enterprises to pay for external services
Opportunities	**Threats**
• Substantial demand for transaction support among social enterprises • Increasing appetite of all types of investors for impact • Significant potential to build a functioning social finance ecosystem in Germany • Huge market opportunity in other European countries • High level of transaction experience enabling scaling and expansion • Innovative hybrid finance models as powerful blueprints for replication	• Most impact investors unwilling to invest in early-stage social enterprises • Two dominant mental models of financiers: pure philanthropy, or investment model at market-rate or even higher financial returns • High amount of time and effort required to build a functioning social finance market • Risk of "impact-washing" • Difficult replication in other countries with different frameworks or mindsets • Adverse policy; legal or tax changes • Dependence on social finance-friendly policies and frameworks

Lessons learnt and conditions for potential replicability

FASE has learnt many useful lessons in the past three years:

- Intermediaries who link potential investors and donors on the supply side with social enterprises on the demand side are a critical success factor for a thriving ecosystem.
- Significant barriers exist between the mental models of philanthropists and impact investors: social enterprises that provide a -50% to +5% annual return potential tend to be too commercial for philanthropists and too financially unattractive for most impact investors.
- Transaction costs are disproportionally high for social enterprises raising finance between EUR 100 000 and EUR 500 000, prompting institutional impact investors to move increasingly towards later-stage investments. The strategic financing gap for early-stage social enterprises could widen as a result.
- A pure market-based solution for financing early-stage social enterprises seems impossible in the current market. Most impact investors do not sufficiently value the positive external effects created by these social enterprises, and target financial returns at – or even above – market rates (J.P. Morgan and Global Impact Investing Network, 2015). Hence, public and philanthropic money will remain key to supplying early-stage social enterprises with sufficient capital to survive and thrive.

The deal-by-deal matching approach also provides important insights. These may serve as valuable sources for best practice, but also as a reminder of obstacles to overcome, for any player wishing to replicate the model.

- Intermediaries in the area of early-stage social finance struggle to develop an economically sustainable business model. Transaction costs for smaller deals are high, and many early-stage social enterprises also struggle to pay for external services. Hence, intermediaries need public or philanthropic money, in addition to proprietary earned income, to cover their costs.
- Matching investors and social enterprises on a deal-by-deal basis is time-consuming, but highly effective. This approach: 1) creates the most suitable combination of investors is created; 2) customises each investor coalition to match each social enterprise's specific needs; and 3) makes it easier to meet impact investors' specific sector preferences.
- A deal-by-deal approach allows impact investors from different financing "planets" to invest in the same social enterprise. FASE generally builds investor coalitions comprising two to four types of investors.
- A deal's financial risk-return profile is highly dependent on the social enterprise. FASE typically supports high-risk, early-stage social enterprises yielding financial returns well below risk-adjusted market-rate returns.
- A customised approach to financial instruments is key. FASE usually designs financing models based on quasi-equity (e.g. mezzanine) for hybrid organisations and on equity for entirely for-profit business models. These basic elements can then be combined with grants, loans, guarantees and co-investments, with additional features such as social impact incentives and profit or revenue participation agreements.
- FASE has observed three types of investor attitudes to impact return, focusing on: 1) impact only (typically grants); 2) impact first (reduced return expectations); and 3) finance first (market-rate return targets). Most investors FASE works with are impact-first investors:

they support the enterprise's social mission and expect a sustainable business model that can at least return capital, and ideally provide a low, single-digit interest rate.

- Stringent process management is imperative: when preparing a transaction, a financial intermediary must apply pressure on both social entrepreneurs and impact investors. This is one of the major benefits of hiring an intermediary: the entire process becomes much more efficient, reliable and time-saving.

An overall lesson so far is that gaining access to the right type of capital and saving time during the transaction process allows social enterprises to focus on their mission: creating as much impact as possible for society.

Notes

1. Founded by Bill Drayton in 1980, Ashoka has provided start-up financing, professional support services and connections to a global network across the business and social sectors, as well as provided a platform for people dedicated to changing the world. Ashoka is the largest network of social entrepreneurs worldwide, with nearly 3 000 Ashoka Fellows in 70 countries changing ideas into practice. For more information, please visit *www.ashoka.org*.
2. For more information, please visit *www.fa-se.de/en/*.
3. European Investment Fund, "EaSI Guarantee Financial Instrument", *http://www.eif.org/what_we_do/microfinance/easi/*.
4. For more detailed and practice-driven information, please visit *http://fa-se.de/en/press-links/* for papers and articles (English and German) and *http://fa-se.de/en/case-studies/* for detailed case studies with social enterprises.
5. In the course of the transaction process, one enterprise became insolvent and the other realised that it was too early-stage to raise growth capital.
6. A full list of publications (in German and English) can be found on the FASE website at *http://fa-se.de/en/press-links/* and *http://fa-se.de/presse-links/*.

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Chapter 9

PHINEO: A financial intermediary, Germany

PHINEO is an intermediary providing market intelligence relevant to non-profit organisations and social enterprises seeking financing, as well as to social investors seeking a project. It also raises awareness of impact measurement as a useful function in substantiating and improving non-profit activity. This chapter describes the objectives and rationale of this intermediary, along with its key activities. It presents the impact it has achieved and the challenges it has faced. It concludes with the lessons learnt and conditions for potential replicability in other contexts.

Summary

As an intermediary organisation with think tank and consultancy capacities, PHINEO provides information (i.e. market intelligence) relevant to the social sector.[1] It builds bridges between social investors (e.g. donors, foundations and corporate-citizenship[2] or corporate social responsibility programmes), non-profit organisations (NPOs) and social enterprises to enhance social impact. Unlike some other European countries, Germany has no specific legal form for social enterprises, which can take a variety of forms: foundations (*Stiftungen*), non-profit corporations (gAG), voluntary associations (*Vereine*) and non-profit limited liability companies (gGmbH). Hence, this contribution refers to both NPOs and social enterprises.

PHINEO was established in 2010 to meet the German non-profit and social enterprise sector's need for more transparency in finances and impact assessment. Drawing on the lessons derived from private sector market analyses, PHINEO's founders sought to analyse the non-profit and social enterprise sector to identify which organisations and activities achieve their objectives. PHINEO then developed an impact-assessment methodology and impact certification label called "Impact" ("Wirkt!").

PHINEO operates as an intermediary between private, public and social sector stakeholders active in a broad range of areas, including disaster relief, social inclusion, refugee support, intergenerational justice, impact investment and corporate citizenship. It seeks to improve the political, social and institutional environment so that NPOs and social enterprises can promote social cohesion and inclusive growth. Its activities focus on analysing social challenges; examining the NPOs and social enterprises active in these areas, highlighting those that have achieved significant impact; and creating compendia for social investors. PHINEO also serves as a consultant for stakeholders in the public, private and social sectors, helping them to better realise their potential impact. It addresses a variety of policy areas in line with the European Commission's Social Business Initiative (SBI), including access to finance, brands and labels, skill development, support structures and access to market.

Since its founding, PHINEO has succeeded in drawing broad attention to – and support for – the need to heighten impact in the German social sector, thereby improving the visibility and credibility of NPOs and social enterprises. It has expanded its tri-sectoral network of private, public and civil society stakeholders from 10 to more than 100 active partners. It has analysed more than 800 NPOs and social enterprises, and awarded the impact label to 200 of them. PHINEO's efforts to improve organisations' impact monitoring could be transferred to other contexts, although this would require adapting analytical methods to the local environments.

Key facts

PHINEO was initiated by Dr Andreas Rickert and incubated at the German foundation Bertelsmann Stiftung. It was launched as a non-profit corporation in 2010 under Bertelsmann Stiftung organisation's and Deutsche Börse AG's leadership. These two supporting structures are its principal shareholders, holding 12% of the shares each.

Based in Berlin, PHINEO focuses on the German non-profit and social enterprise sector, and works primarily with organisations and companies based or registered in Germany. As a non-profit corporation, PHINEO derives its financing primarily from its shareholders, although it also draws support from strategic partners in civil society and the business sector. PHINEO's shareholder structure was designed from the outset to include a consortium of shareholders (48%), entrusted with managing non-allocated shares intended for future shareholders. In addition to Bertelsmann Stiftung and Deustche Börse AG, key partners providing primarily financial resources include KPMG AG (4%), Stiftung Mercator GmbH (4%), PricewaterhouseCoopers AG (4%), Aktive Bürgerschaft e.V. (4%), Stifterverband für die Deutsche Wissenschaft e.V. (4%) and New Philanthropy Capital (4%). Other strategic partners helping to develop and share content include Deutsche Spendenrat, Stiftung Charité and Heidelberg University's Centre for Social Investment and Innovations.

In 2015, PHINEO's budget totalled EUR 2.6 million. The organisation receives funding from three sources: shareholders and key partners, project work and consultancy income.

At the project level, PHINEO's broad network of partners and sponsors comprises more than 100 organisations from the private and public sectors (including federal ministries, e.g. the Ministry of Family Affairs, Senior Citizens, Women and Youth; and the Ministry of Labour and Social Affairs), and the social sector. An expert advisory board provides additional counsel.

Objectives

PHINEO's key mission is to strengthen civil society while improving the impact of NPO and social enterprise activity in Germany, with a focus on the following areas:

- improving civic engagement by creating and sharing knowledge
- enhancing the impact of NPO and social enterprise activity
- fostering transparency and impact orientation among NPOs and social enterprises (e.g. through easy access to information)
- creating faith and trust in NPOs and social enterprises, by showcasing effective non-profit work, promoting professionalism and exchanging best practices
- building bridges among and between donors, social investors, NPOs and social enterprises
- promoting an enabling environment for social investors, NPOs and social enterprises, by raising public awareness and understanding of these organisations' activity (i.e. agenda-setting).

PHINEO has designed its activities in a way that recognises these four areas' interconnectedness.

PHINEO operates at the local, regional and national levels. Its activities address several policy areas aligned with the European Commission's SBI, including access to finance, brands and labels, skill development, support structures and access to market. Many of these activities address multiple policy areas simultaneously. For example, by identifying and granting the PHINEO "Impact" label to projects with a significant capacity to effect social change (thereby proving their effectiveness in achieving their goals), PHINEO promotes the mobilisation of public and private funds in the social sector (access to finance), and raises the visibility of NPOs and social enterprises (brands and labels). Other issue-driven activities – such as studies and workshops on improving labour-market access for women and migrants – strengthen cross-sectoral networks (support structures) and facilitate public-private partnerships (access to market). Drawing on the diverse set of collated data it has gathered, PHINEO provides NPOs and social enterprises with information and training for skill development.

PHINEO also provides market intelligence relevant to both NPOs seeking financing and social investors seeking an appropriate project or organisation. In compliance with its overall objective of improving impact, PHINEO acts as a matchmaker, bringing together NPOs with potential investors.

Rationale

The German social sector comprises more than 600 000 organisations, including social enterprises (Krimmer and Priener, 2013). PHINEO was established in response to the sector's fundamental lack of transparency, high transaction costs (e.g. for research and due diligence) and widely varying degrees of professionalism. Despite their considerable collective economic and social significance, no infrastructure was in place to facilitate information sharing among these organisations and social investors. Moreover, far too little information was available regarding their specific activities and how they went about achieving their goals, preventing potential social investors from making informed decisions and fostering public perception of civil society's ineffectiveness.

PHINEO began by developing a rating service to provide market intelligence and help assess the activities undertaken by NPOs and social enterprises. However, PHINEO faced two initial challenges: 1) a lack of key performance indicators typically used to evaluate the activities of NPOs; and 2) deeply held ideological views within the social sector itself. For example, stakeholders working in the field feared that focusing on impact measurement would draw attention and resources away from efforts directly targeting social change. Many stakeholders worried that NPOs would be subjected to costly and ultimately ineffective monitoring standards, and expressed scepticism that impact could be measured in the first place. Moreover, in a country whose government has traditionally assumed many of the responsibilities associated with social welfare, involving the private sector in efforts to promote the common good was – and continues to be – met with considerable distrust.

As a result of these challenges, PHINEO recognised the need to collect, organise and disseminate as much information as possible on social impact, help different stakeholders act upon this information to improve their own impact, and communicate the difference between impact as a goal and impact analysis (instead of impact measurement). Analysing impact is not an end in itself; rather, it has a useful function in substantiating and improving non-profit activity. PHINEO established a research framework facilitating broad-based studies of Germany's social sector, and contacted public, private and social stakeholders to build consensus. PHINEO's chief operating officer met with over 200 opinion leaders across Germany in a bid to tackle misconceptions, cultivate an environment conducive to information sharing, and develop a better understanding of stakeholders' expectations in terms of co-operation and impact assessment. These discussions demonstrated the need for an organisation (such as PHINEO) that could serve civil society and the social sector by improving impact, and a considerable body of stakeholders agreed to support PHINEO's efforts. PHINEO continues to develop and expand this network, to facilitate a tri-sectoral consensus on impact-related issues.

Activities

PHINEO's activities aim to tackle specific social challenges. They take place on three levels:

1. **Agenda-setting:** promoting civic engagement, and organising workshops and conferences on new social sector trends (such as social enterprises and the use of market-based approaches by NPOs).
2. **Developing an institutional infrastructure for information sharing:** enhancing efficiency and reducing transaction costs on a broad scale, by increasing transparency within NPOs and social enterprises, providing market intelligence and matching projects with donors.
3. **Supporting donors and project leaders**: direct provision by PHINEO of tools, workshops and consultancy services.

Accreditation and publications: PHINEO conducts initial research on the root causes of social challenges (e.g. children living in poverty, climate protection and the school-to-work transition), the actors involved and successful actions undertaken, that informs PHINEO's agenda-setting and support strategies, and serves as a contextual basis for its NPO assessments.

After issuing a call for NPOs and social enterprises to participate in a PHINEO impact assessment, PHINEO conducts a no-fee and risk-free analysis of those organisations that meet its feasibility, monitoring and transparency criteria. It begins with an online questionnaire that allows an organisation to provide information about its activities, projects and non-profit status. Drawing on this basic data, PHINEO analysts then ask the organisation to submit further information and documentation, such as white papers, bylaws and annual reports. In a third step, the analysts assess this information, conduct further desk research on the organisation, and carry out an onsite visit. The evaluation criteria are designed to capture and express information relevant to the overall non-profit activity – not solely concrete outcomes. Thus, various criteria examine the organisational and financial structures, vision, strategy and potential impact of an NPO, and its ability to provide evidence of results. PHINEO's analysts then submit documentation on those organisations they deem effective in achieving their goals to its panel of external academics and practitioners.[3] Following approval by this committee, the organisation receives an official (and permanent) PHINEO "Impact" ("Wirkt!") seal of approval. PHINEO also distils the information in issue reports (e.g. on promoting social inclusion among people with disabilities, strengthening diversity and tackling the challenges posed by the refugee crisis in Germany) which describe goals, challenges and effective approaches, provide practical tips on identifying and supporting projects, and describe organisations awarded the "Impact" seal. The primary goal is to expand social investors' awareness of the broad range of opportunities available and encourage them to invest, partner with an NPO or implement corporate-7 citizenship activities (e.g. skill-based volunteering).

PHINEO's research efforts additionally address a variety of other issues. One study, *Transparency among Charitable Organisations in Impact Reporting* (PHINEO, 2014b) assessed the publicly available social impact reporting practices of 50 of Germany's largest charitable organisations; of the 24 who contacted PHINEO after the report was published, 22 said they planned to improve their activity's transparency. In addition, PHINEO publishes a series of guides on various aspects of social entrepreneurship and philanthropic activity (e.g. corporate-volunteering programmes, microfinance and sustainable-consumption practices) that would otherwise go unnoticed. Drawing on the experiences of 800 German NPOs and social enterprises, *Social Impact Navigator – A Practical Guide for Organisations Targeting Better Results* (PHINEO, 2016[4]) offers a variety of tools, including checklists, templates and step-by-step instructions. The original German-language guide has resonated strongly in the German social sector, with more than 20 000 downloads from the PHINEO website, and is available in English and Spanish.

Corporate citizenship: PHINEO's dedicated working group develops and disseminates knowledge on corporate-citizenship methods, tools and trends through workshops (e.g. on developing an effective strategy, integrating impact targets in daily operations and conducting impact analysis on limited budgets), studies, guidebooks and market intelligence. The group also promotes and expands information-sharing networks in the private, public and civil society sectors.

Consulting: PHINEO offers social investors a range of consultancy services focusing on strategy development. It helps them define their vision and mission statements; identify societal challenges relevant to their interests, based on needs and contextual analyses; develop an engagement profile tailored to their risk tolerance and goals; identify and establish dialogue with potential high-impact partners; and ensure that their activities and investments produce effective social impact. PHINEO helped introduce the Social Reporting Standard (SRS) in Germany,[5] which streamlines the reporting information social investors require of NPOs and social enterprises to enhance the system's efficiency and transparency. PHINEO worked closely with a number of stakeholders[6] to promote broad acceptance of the SRS throughout the country.

PHINEO also advises NPOs and social enterprises on developing sustainable engagement strategies and improving social impact through engaging images, concepts, strategies, projects and programmes; identifying potential partner organisations; developing internal processes tailored to organisational needs; and promoting institutional learning through assessment indicators.

As part of its consultancy activities, PHINEO helps companies develop corporate-volunteering strategies. In partnership with BMW's Herbert Quandt foundation and Auridis gGmbH, PHINEO introduced the Proboneo initiative in Germany, which provides a platform matching volunteers with NPOs in need of specific expertise, thereby ensuring NPOs the tailored support they need to achieve their objectives. Most recently, PHINEO has begun helping private sector companies seeking to expand their impact, as well as advising the German government on related issues

By supporting the development and dissemination of information easily accessible to all stakeholders, PHINEO aims to empower them to promote social good more effectively. PHINEO applies these principles to itself as well, by ensuring full financial transparency and tracking the outcomes of its activities.

Impact investing: PHINEO has begun taking an active role in the nascent field of impact investing, where its expertise enables it to address three key areas. It can produce impact analyses for specific organisations or issues; provide access to the tri-sectoral network needed for successful impact investment; and help interested entities develop the ecosystems needed for impact investing. These activities are in line with PHINEO's holistic approach in ensuring that grants and philanthropic funds are deployed to achieve the greatest possible impact.

Challenges encountered and impact

Table 9.1. below presents a strengths, weaknesses, opportunities and threats (SWOT) analysis of PHINEO.

Table 9.1. **SWOT analysis of PHINEO**

Strengths	Weaknesses
• Legitimacy from its multi-sectoral partner group • Clearly mission-driven • Strong relationships with stakeholders in each sector • Reputation for delivering relevant knowledge • Highly qualified staff • High capacity to learn and be innovative • Provides unique information and services relevant to stakeholders in all three sectors • Able to demonstrate compliance and impact	• First mover in many areas, facing high development costs • Many services and tools urgently needed and requested by target groups lacking the willingness or ability to pay
Opportunities	**Threats**
• Increasing role and importance of social sector and cross-sectoral approaches • High demand for the services provided • Openness to collaborative work and knowledge sharing	• Reluctance among investors and potential funding sources to invest in intermediaries • Scepticism/fears regarding application of market analysis to NPOs and social enterprises

Challenges

In its first years of operation, PHINEO realised that providing high-value information was not enough to bring about change among the resources' recipients and donors. While it invested considerable resources in gathering information on the objectives, activities and funding of German NPOs and social enterprises, it realised that far too few organisations effectively used this information to attain tangible incomes. The organisation responded by refocusing on agenda-setting, creating the infrastructure for sharing information as a public good, and providing financial and non-financial support directly to organisations. These activities have helped demonstrate more clearly what stakeholders have to gain (e.g. enhanced legitimacy, broader public support and improved investment impact) by applying the information provided, and what they have to lose by ignoring it. By incorporating an increasing number of stakeholders into its network, PHINEO has also managed to mitigate fears regarding private-sector involvement in philanthropic activities.

PHINEO applies the principles of transparency and impact evaluation to itself as well. This involves ensuring full financial transparency and maintaining oversight in tracking the outcomes of PHINEO activities. While PHINEO's financing is stable and sustainable, relatively few strategic donors and partners are willing to invest in intermediaries that provide market intelligence. PHINEO must continue to expand its network, and proactively demonstrate the value of both its market intelligence and its role in mediating this information.

Future challenges include drawing policy makers' attention to the issue of social impact and advising them on policies that facilitate more effective social sector activity. This goal is driven by the conviction that change agents in government and policymaking institutions, civil society and the private sector must work collaboratively to resolve social challenges. PHINEO is committed to working with the German government to develop policies that create an environment in which tri-sectoral initiatives can gain traction and expand their reach, while maintaining full transparency and oversight to achieve greater impact. Communicating on these efforts will require considerable sensitivity to each sector's needs and expectations.

Impact

In a follow-up survey on PHINEO's "Impact" ("Wirkt!") seal, the 15 organisations awarded the seal reported that their interactions with PHINEO had helped them improve their impact by raising knowledge and awareness within their organisation, leading to further discussion and practical applications. Three organisations stated they had taken measures to improve impact analysis; five had improved transparency; four had improved their general activities and strategy; one had reoriented its fundraising towards impact goals, and intended to engage in evaluation; and two had secured funding thanks to PHINEO's "Impact" seal. Regarding overall satisfaction and lessons learned, 76% of survey participants expressed high satisfaction with the networking opportunities afforded by the process; 63% said they were able to build on the contacts made; 41% developed concrete ideas for co-operation as a result of the experience; 66% expanded their knowledge thanks to the workshops; and 57% returned to their organisations with concrete recommendations for change.

Following is a selection of the qualitative and quantitative results associated with recent PHINEO activities:

- In 2010, Germany's social sector rarely addressed the issue of impact monitoring and assessment. Today, all stakeholders prioritise efforts to improve impact; PHINEO has played a key role in developing this awareness.
- Since 2010, PHINEO has, together with partners, introduced in Germany major initiatives such as the SRS or Proboneo, which serves to match skill-based volunteering with NPO needs.
- Since 2010, PHINEO's staff has expanded from 8 to 45 employees.
- Since 2010, PHINEO's network has expanded from approximately 10 to more than 100 active partners.

- Since 2010, PHINEO's consultancy portfolio has grown to 70 regular clients, including major corporations, foundations, ministries and high net-worth individuals.
- Since 2010, PHINEO has analysed 800 NPOs and awarded the "Impact" label to more than 200 NPOs.

Lessons learnt and conditions for potential replicability

Lessons learnt

PHINEO recognises the need to strengthen interaction in two areas: promoting experience and information sharing among NPOs (partly by drawing on impact analyses), and enhancing co-ordination among donors working as partners to tackle social challenges. Co-operation in these areas will require considerable information and knowledge gathering, as well as openness among all stakeholders, to foster social-sector legitimacy, integrate partners in decision-making processes, and cultivate a culture of exchange and debate. Like any organisation with similar aims, PHINEO must proactively and transparently demonstrate its mission-driven nature to counteract suspicions of a hidden agenda. Finally, patience and persistence are key features of a successful intermediary organisation: market development takes time.

Conditions for potential replicability

Researching and analysing NPOs based on their realised and potential impact may be the most clearly transferrable aspect of PHINEO's work. However, care must always be taken to understand and respect differences in local environments: standards of transparency, as well as financial and personal privacy, may differ from one country to another. Other transferable aspects include building bridges between the public, private and social sectors, as well as creating a regulatory framework conducive to the social economy or non-profit activity. These, too, must be carefully localised to reflect national and regional norms.

Specific activities that could be replicated in other national contexts include helping organisations develop and conduct impact assessments; establishing an "impact" seal, recognised by social investors, for non-profits and social enterprises; and providing guidance (through workshops, publications and conferences) on integrating monitoring mechanisms into an organisation's operations.

The long-term goal for such work would be to establish impact-governance frameworks worldwide. Greater transparency within the global social sector, enhanced use of evidence-based outcome tracking, and improved tri-sectoral and international co-operation on issues transcending national borders would help NPOs and social enterprises achieve greater net impact globally. Such co-operation is particularly important in light of the increasingly global nature of economic activities and the resulting social challenges.

PHINEO's activities in Germany could provide some inspiration for moving forward in this regard. For example, regional and international co-operation could be facilitated by establishing an "Impact" seal of approval across borders, partly based on EUROSTAT data, to track or monitor social impact. The certification process could be scaled by identifying or creating organisations and/or frameworks similar to PHINEO in other countries, and encouraging them to share best practices. Moreover, sector reports and NPO analyses could be conducted to promote transparency, allowing actors to take decisions based on unbiased information. Finally, organisations could introduce management tools (such as the Social Impact Navigator or the SRS) to ensure they are targeting impact.

Notes

1. Here, the social sector refers to any organisation working to provide benefits for society or the environment. This includes foundations, charities, voluntary associations and other non-profit organisations, as well as organisations with a legal form allowing them to earn and distribute profits.
2. Here, corporate citizenship refers to an organisation's actions that are ethical, acknowledge its responsibility as a social actor, comply with the law and are consistent with the interests of sustainable development.
3. For more information, see the German-language factsheet on the recommendation at: *www.phineo.org/phineo/analysemethode#c9855*.
4. Available online and free of charge.
5. *www.social-reporting-standard.de/en/*.
6. Ashoka; Bonventure; Auridis; PriceWaterhouseCoopers; the German Federal Ministry of Family Affairs, Senior Citizens, Women and Youth; and the Vodafone Foundation.

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Boosting Social Enterprise Development
Good Practice Compendium

Chapter 10

Clann Credo: A social finance provider, Ireland

Clann Credo is a social-finance provider that mobilises private capital and provides retail loans to social enterprises. It aims to increase access to finance and strengthen the social investment market in Ireland. This chapter describes the organisation's objectives and rationale, and provides an overview of its key activities. It also presents the impact and challenges faced, and features a discussion of the conditions for transferring this practice to another context.

Summary

Clann Credo provides retail loans, knowledge and expertise to the community, voluntary and social enterprise (CVSE) sector in Ireland. Clann Credo played a key role in lobbying the Irish government to introduce a social finance[1] initiative. This led to the establishment of the Social Finance Foundation, which provides wholesale loans to community organisations such as Clann Credo. Neither Clann Credo nor the Social Finance Foundation receive any government funding towards their operating costs or capital base.

Prior to 2000, Ireland's growing social enterprise sector was not well understood, and consequently struggled to obtain capital. Many Irish community organisations, particularly in disadvantaged areas, had no access to mainstream bank finance. In response to these identified market failures, the Presentation Sisters,[2] an international Roman Catholic congregation, set up Clann Credo in 1996 as a way to deepen social justice and further its mission of social transformation. Other religious charities also provided capital.

Since its creation, Clann Credo has lent over EUR 82 million (euros) to more than 800 projects. It has also developed other activity strands addressing wider societal issues; for example, it assessed the viability of the social impact bond (SIB) concept through a pilot that secured private capital to help homeless families move into long-term accommodation.

An important pre-condition for transferring such an initiative to other countries would be to identify a market failure in the provision of loans to community organisations and social enterprises. These initiatives are driven by people who are willing to establish one or more non-governmental organisations (NGOs) (including social enterprises) and have the ability to raise capital from investors (e.g. religious charities, philanthropic foundations or private investors). The NGOs require staff possessing a knowledge and understanding of the CVSE sector, as well as the skills necessary to assess both the credit risks and potential social benefits. In Ireland, the government used its influence with the banking industry to obtain private funds to set up a new wholesale social-finance provider, the Social Finance Foundation. In other countries, governments might decide to invest directly in these types of initiatives.

Key facts

According to Forfás (2013), the social enterprise sector employs an estimated 25 000-33 000 people and posted an annual income of around EUR 1.4 billion in 2009. Social enterprise is a relatively new concept in Ireland. The idea of running a business for social purposes rather than profit can be counter-intuitive and difficult to explain. Accessing funds – whether donations from the general public, loan finance from mainstream lending institutions or government grant aid – can be challenging.

Clann Credo[3]- the Social Investment Fund – is a social enterprise, charity and company limited by guarantee without share capital. It receives no government funding. Its initial sources of finance (EUR 1.9 million) came from the Presentation Sisters.[4] Other religious charities subsequently invested in Clann Credo; their combined investment now stands at over EUR 10 million. Since 2007, the Social Finance Foundation has also provided funding to Clann Credo.

Clann Credo operates at the local, regional and national levels; the Social Finance Foundation operates at the national level.

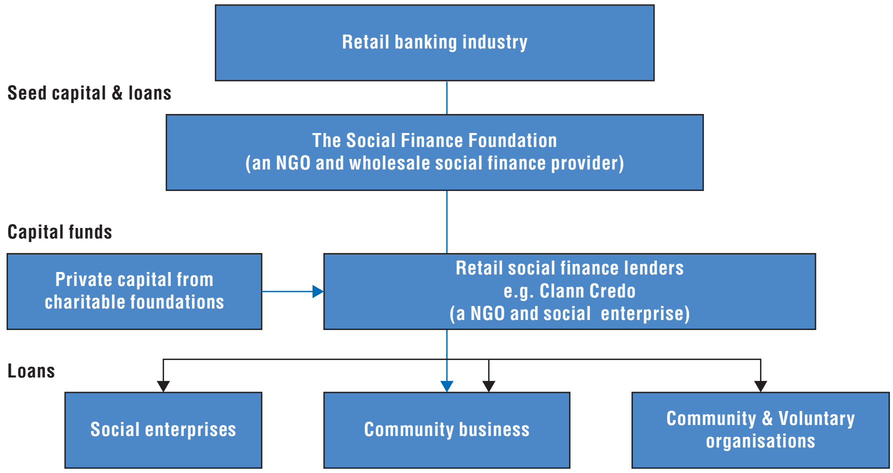
Clann Credo has lent over EUR 82 million since its creation, supporting more than 800 community organisations and social enterprises. It currently has a retail loan book of EUR 18.5 million (Clann Credo, 2016).

Clann Credo loans span 3 months to 15 years and vary from EUR 10 000 to EUR 500 000; the average loan amount is EUR 120 000. For loans with a term of five years or more, the current typical interest rate is 4.95% per year variable. For shorter-term loans, the current typical interest rate is 6% per year fixed. Conditions include no personal guarantees from project promoters or voluntary board members and no penalties for early repayment, even for fixed-rate loans.

In 2006, in response to advocacy by Clann Credo and others,[5] the Irish government encouraged the banking industry to set up a social finance wholesale provider. The Social Finance Foundation was established as a not-for-profit company in 2007. Twelve Irish retail banks[6] provided seed capital of EUR 25 million, with contributions proportionate to each bank's market share. In 2009, the banks provided an additional EUR 72 million through commitments, at a preferential interest rate, over the following 12 years. This has been implemented through lending EUR 6 million per year.

Figure 10.1. outlines the flow of capital in the Irish social finance model.

Figure 10.1. **Flow of capital in the Irish model**



Objectives

Clann Credo aims to build stronger communities. It provides social finance to help groups and organisations build their capacity and skills in project/business planning and management; manage and access funds; and identify areas of social impact. It supports organisations that address particular issues of disadvantage, such as drug addiction, early-childhood education, unemployment and housing. It provides loans to develop community infrastructure, e.g. childcare facilities, community enterprise centres, amateur sports facilities and new community-based services.

In addition, Clann Credo performs research on social investment with the potential to strengthen the CVSE sector and explores new financial tools (e.g. SIBs) to develop innovative solutions to social issues. It informs political institutions on the importance and growth potential of the CVSE sector. Finally, it works with the Social Finance Foundation to ensure that the social-finance sector remains viable and has adequate resources to support the CVSE sector independently of government funding.

Rationale

Created in 1775, the Congregation of the Presentation Sisters traditionally responded to society's needs by sending its members into the field to address the issue. Due to the institution's aging and diminishing demographic, this model was no longer deemed viable; the Sisters decided to use the funds more effectively, by supporting development opportunities for disadvantaged communities. Sister Magdalen Fogarty, the Sisters' Bursar General, was charged with turning this vision of social justice into reality. Clann Credo was the culmination of this work.

Within a few years of Clann Credo's foundation, it became apparent that new sources of funding would be required to meet growing demand. Through roundtable events and commissioned research (TSA Consulting et al., 2013), Clann Credo and other organisations[7] lobbied the government to establish a wholesale social finance provider. Recognising the contribution of social finance to developing social capital and community infrastructure,[8] the government committed to examining ways to expand social finance provision[9] and worked with the banking industry to set up the Social Finance Foundation.

Activities

Clann Credo provides loan finance to CVSEs that meet its key lending criteria. Clann Credo's social finance executives evaluate the proposals based on the promoters' skills, experience and plans for the organisations' future development; the loan's size and duration, relative to the size of the social enterprise; the enterprise's financial position and repayment capacity; the social issue it aims to address; and the anticipated social benefits. They then submit a detailed report to Clann Credo's evaluation sub-committee, which decides whether to approve the loan.

Once the loan proposal is approved, Clann Credo seeks wholesale funding from the Social Finance Foundation,[10] whose credit-review committee may on occasion decline a loan application: while both organisations have similar assessment criteria, their perceptions of risk and social benefit may differ. Clann Credo pays an interest rate on the loans it receives from the Social Finance Foundation, and consequently charges a margin on the loans it makes to social enterprises and community organisations. In the event of a loan default, Clann Credo and the Social Finance Foundation share the loss equally.

Once the loan is approved, Clann Credo sends a letter of offer to the social enterprise's promoters, outlining the terms, conditions and repayment schedule. When the offer is accepted, the necessary mechanism for drawing down the loan is put in place.

Clann Credo's social finance executives and risk-advisory committee (comprising volunteers with knowledge and experience in banking, risk assessment and the social sector) conduct formal lending reviews. They remain in touch with the promoters throughout the lifetime of the loan, to ensure that any difficulties are recognised and addressed early – e.g. by rescheduling loan payments, extending the loan period, converting bridging loans to term loans, or nominating someone to the social enterprise's board.

Finally, Clann Credo performs research on issues of relevance to social finance provision and the CVSE sector. Clann Credo and the Social Finance Foundation are founding members of the Social Enterprise Task Force, established in 2009 to promote the development of national policy and strategy for social enterprise, including sector financing.

Challenges encountered and impact

Table 10.1. summarises the strengths, weaknesses, opportunities and threats (SWOTs) for Clann Credo.

Challenges

In its early years, Clann Credo made a small number of ultimately unsuccessful private-equity investments. A key lesson was that it had insufficient experience and expertise to assess, manage and monitor such investments. As a result, the Clann Credo board decided the organisation would focus on CVSE lending.

Lending prudence dictates that not all social enterprises can be supported. Social enterprises (especially start-ups) that depend substantially on trade have a high risk profile. Statutory and/or EU support – e.g. through implementation of the European Programme for Employment and Social Innovation loan guarantee scheme in Ireland – would enable greater access to social finance for these riskier projects.

Montague and Middlequarter (2015) determined that CVSEs were insufficiently aware of the opportunities provided by social finance. Some organisations that could benefit from social finance are averse to taking on loans – perhaps because they lack borrowing experience, or fear they will be unable to repay the loan, or have a risk-averse culture.

Table 10.1. **SWOT analysis of Clann Credo**

Strengths	Weaknesses
• Twenty years' experience in lending to the CVSE sector • Regionally based staff, accessible to prospective customers • Ongoing relationships and provision of non-financial support to customers • Funded entirely by private capital; not dependent on government funding • Engages in prudent lending practices; structures are in place to assess risk • Strong focus on projects' social dividends • Loan terms and conditions tailored to recipient organisations' needs and capacity • Volunteer board and sub-committee members with social and financial knowledge and experience, providing effective oversight • Use of a volunteer recruitment and selection committee, with nominees approved at the annual general meeting, gives Clann Credo access to external expertise from the financial, enterprise and community sectors at no cost • Exploring how best to fulfil the core mission through innovative solutions to social needs • Strong links and good working relationships within the sector	• Greatest individual loan Clann Credo can grant any organisation is EUR 500 000, with a 15-year maximum term, limiting its capacity to fund capital-intensive projects (e.g. social housing) • Early-stage CVSEs unable to access social finance because of their risk profile • Social finance provides insufficient margins to support large public awareness campaigns on availability of social finance
Opportunities	**Threats**
• Cutbacks in government funding may encourage more organisations to seek social finance to develop commercial activity • Collaborating with others to provide non-financial support to social enterprises before and after they receive a loan to reduce the risk of failure • Collaborating with others to provide start-up capital, working capital and term loans to organisations wishing to develop hybrid ventures • Collaborating with other social finance providers to promote the availability of social finance	• Increased competition from mainstream commercial lenders • Mainstream banks "cherry-picking" the best social enterprises, leaving social finance providers with the riskier projects • High failure rate of social enterprise start-ups could result in more loan defaults

In the longer term, close attention should be paid to nurturing the key relationships between social finance providers (such as Clann Credo) and the organisations that fund them (such as the Social Finance Foundation and charitable foundations), as well as between the Social Finance Foundation and its funders (the banks).

Impact

Over the years, Clann Credo has commissioned three studies to demonstrate its impact. The first report, a social audit by the National University of Ireland Galway (Curtin, 2006), showed that 80% of respondents decided to proceed with a particular project based on the possibility of funding from Clann Credo; 33% actually set up a business upon receiving such funding. A number of project managers indicated that social finance played a critical role in helping them overcome financial challenges.

The second report, an economic audit by the long-established economic research firm DKM Economic Consultants (2011), found that Clann Credo loans contributed a total EUR 63 million to the Irish economy in 2010. Every euro injected into the economy by a Clann Credo client benefitted the economy by a further 32% (e.g. through wages or purchases of goods and services). In 2011, projects supported by Clann Credo loans employed 820 people full-time and 670 people part-time; the loans helped maintain 630 jobs and create 260 new jobs.

The third report by Clarke (2015), an independent evaluator, focused on the impact of bridging finance provided by Clann Credo to projects seeking LEADER grants. Clarke found that between 2007 and 2013, Clann Credo disbursed EUR 34 million in loans to 319 LEADER applicants, leveraging a further EUR 42 million in LEADER grants. These projects created around 1 000 new jobs and maintained a further 600 jobs; they also supported an additional 1 400 temporary jobs (e.g. related to facilities construction).

The Social Finance Foundation has approved EUR 97 million in lending since 2007, of which over EUR 60 million has been drawn down. Table 35 shows the range of organisations ultimately supported after disbursement by retail social finance providers (such as Clann Credo).

Table 10.2. **Projects supported by the Social Finance Foundation's wholesale lending to social finance providers**

Sector	Percentage of wholesale lending
Community centres	31%
Community sports facilities	25%
Social enterprises and community businesses	14%
Community arts and tourism	11%
Elder care, health care, child care, disability care	9%
Other causes	8%
Total	100%

Source: Social Science Foundation (n.d.), *http://sff.ie/social-dimensions/*.

Lessons learnt and conditions for potential replicability

Using private capital and the banking industry to provide wholesale and retail social finance to social enterprises is an innovative approach that could be replicated in other countries. Core components of this model include:

- one or several NGOs – which could also be social enterprises – that provide finance to community projects and social enterprises
- an NGO that acts as a wholesaler and intermediary between social-finance providers and private capital sources.

Ireland has made significant progress in addressing the financial exclusion of community organisations and social enterprises. With a population of 4.6 million, Ireland now has EUR 100 million in social finance to lend, thanks to joint work by the government, banks and NGOs.

A number of preconditions need to exist to enable replicability:

1. The first prerequisite is a clearly identified market failure that is not being met by either the government or mainstream financial institutions, with the result that social enterprises are struggling to access funds – specifically loans by mainstream lending institutions. The existence of this market failure enabled Clann Credo and its partners to make a strong case to the government for implementing new mechanisms supporting social finance.
2. Prior to engaging in strategic advocacy, Clann Credo developed a proven operating model over many years before advocating for expanding social-finance provision. It informed the government's decision-making process through its own research and analysis, which it shared in roundtable discussion events.

3. The third prerequisite is the existence of interested individuals or NGOs willing to invest in social finance and establish social finance providers, so as to provide greater choice and competition. Clann Credo's early investors showed patience and commitment to the idea of social finance and believed it could make a difference in providing access to capital. This enabled Clann Credo to explore innovative solutions.
4. Social finance providers need to have or develop core competencies, such as the ability to raise capital from investors (e.g. religious charities, philanthropic organisations or private investors). They also need a knowledge and understanding of the CVSE sector, and the skills necessary to assess both the credit risk and potential social benefit.
5. A fifth prerequisite is the existence of key champions in the political system, the civil service and the banking industry who are committed to expanding social finance provision. In the case of the Social Finance Foundation, the government played a key role as a catalyst in encouraging the banking sector to fund a wholesale organisation at a very reasonable cost. As a result, funds were made available to the CVSE sector at interest rates and conditions that facilitated – rather than hindered – access to finance.
6. Finally, an existing retail distribution infrastructure developed by social finance providers, such as Clann Credo, can benefit/facilitate the development of wholesale providers such as the Social Finance Foundation. Barring that, wholesale social-finance providers would have to hire their own staff to identify potential projects, assess loans and support projects. In effect, they would have to become retail providers of social finance, thereby increasing the cost of providing loans to customers.

Notes

1. The Government of Ireland (2006) defined social finance as follows: "Social finance applies financial instruments to the task of combatting social exclusion through the provision of repayable finance to community focussed enterprises at all stages of development including start-up. Social finance complements the range of measures in place to promote and assist community infrastructure and local development."
2. For more information, please refer to: *http://www.pbvm.org/*.
3. For more information, please refer to: *http://www.clanncredo.ie/*.
4. Over the centuries since its foundation, the Presentation Sisters' funds accumulated through public donations, property acquisition and the Sisters' donation of the salaries earned when they worked in the publicly funded education system.
5. Dublin Employment Pact, Westmeath Employment Pact and Area Development Management.
6. Bank of Ireland, Allied Irish Bank, Irish Life & Permanent, Ulster Bank, Anglo Irish Bank, Irish Nationwide, EBS, ACC Bank, Danske Bank, Bank of Scotland Ireland, KBC Bank Ireland and Postbank.
7. Dublin Employment Pact, Westmeath Employment Pact and Area Development Management.
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Chapter 11

JEREMIE Sicily ESF Social Finance: A microfinance scheme, Italy

JEREMIE European Social Fund Social Finance is a financial instrument designed to improve access to finance for small and medium-sized enterprises and social enterprises in Sicily through a microfinance scheme. It aims to support the creation and development of organisations that promote the economic empowerment of vulnerable workers by facilitating access to the labour market. This chapter presents JEREMIE's objectives, rationale and key activities, together with the challenges faced in implementing the scheme and the impact achieved. It also features the lessons learnt and the conditions for transferring this practice to another context.

Summary

JEREMIE Sicily European Social Fund (ESF) Social Finance is a financial instrument activated by agreement between the European Investment Fund (EIF) and Banca Popolare Etica (BPE). It is part of the larger Joint European Resources for Micro to Medium Enterprises (JEREMIE) framework initiative launched by the European Commission and European Investment Bank (EIB) to improve access to finance for small and medium-sized enterprises (SMEs). The instrument aims to support the expansion of two kinds of enterprises located in Italy's Sicily region:

- SMEs, including micro, small and medium enterprises (MSMEs), operating with a social purpose[1]
- social enterprises: operators in the social economy whose main objective is achieving social impact, rather than maximising profits for owners or shareholders.[2]

JEREMIE Sicily supports the creation and development of SMEs and social enterprises promoting the economic empowerment of vulnerable worker categories by fostering access to, and sustainable inclusion in, the labour market through a microfinance scheme. The initiative comprises a complete system of integrated services, including fund provision, business development services, coaching and mentoring, business incubation programmes, and education and training. It operates in Sicily, a territory characterised by the lowest employment rate (42.4%)[3] of all European regions and the unstable financial situation of public institutions, as well as private and public bodies supporting entrepreneurship.

Managed by BPE, which acts as a financial intermediary and co-ordinator, the initiative draws on a combination of public-private funds to provide microloans. To minimise risks for both beneficiaries and the bank, the consortium has partnered with the "Microcredito Siciliano" guarantee fund to finance SMEs with lower credit ratings. The consortium partners are a diverse mix of financial and non-financial entities performing several fundamental activities: engaging with territorial hubs, co-working and incubation spaces; promoting the initiative within local and regional networks of enterprises, industries and professional associations; and providing funds and non-financial services to support beneficiaries' sustainable and ethical growth.

JEREMIE Sicily ESF Social Finance is a pilot initiative, which in many respects may be further refined to ensure greater effectiveness and impact. The provision of non-financial services has been vital, and has contributed to defining a new value chain within the microfinance model.

With 1007 applications in total and only 8.14% of the applicants financed, the overall success rate remains relatively low. Not all of the applications were managed by the consortium partners; those that passed the non-financial partners' preliminary appraisal had a higher (73.5%) success rate, proving the partners' ability to generate value and define an innovative business model for the microfinance sector.

Key facts

JEREMIE Sicily is a 24-month programme launched in December 2013, with an initial closure date set for December 2015. Its initial budget was EUR 12.4 million (euros): EUR 7.2 million co-financed by the ESF, and EUR 5.2 million to be co-financed by the project co-ordinator, BPE. At the end of 2015, an evaluation of the programme's performance (BPE, 2015) showed that BPE had approved only EUR 3.8 million in investments[4] over two years of activity. As a result, the budget was renegotiated and reduced to EUR 5 million, and the closure date postponed to 31 July 2016.

The low performance can be attributed to the rigid assessment procedures imposed on the financial intermediary, resulting in slow evaluation processes (up to 120 days on average). The quality of the applications also had a strong influence: applications that had undergone preliminary appraisal by non-financial partners were considered suitable for assessment, with evaluations lasting up to 60 days; those submitted directly by the entrepreneurs were often incomplete or poor quality, causing considerable waste of time and resources, with evaluations lasting up to 240 days.

The project consortium comprised five partners:

1. BPE: the project co-ordinator, a financial institute comprising a popular base of members who support economic activities with ethical values
2. The Hub Sicilia Aps: a centre for social innovation specialising in business-support services

3. Microfinanza Srl: an advisory company for technical support and financial services
4. Sol.Co. Catania: a consortium of social enterprises promoting innovative forms of welfare
5. Consorzio L'APE: a development agency promoting employment in the co-operative sector.

Key figures

In 2013-16, JEREMIE Sicilia received 1 007 funding applications. By July 2016, 82 enterprises (8.14%) had been financed, with an average individual funding of EUR 56 453 and a total budget of EUR 4.7 million (Incorvati, 2016). In May 2014, a EUR 1 million guarantee fund was established to minimise risk for both beneficiaries and the bank.

The Hub Sicilia Aps handled the preliminary appraisal and submission process for 49 funding applications; 36 applications (73.47%) were successfully financed, 9 were rejected by the bank, and 4 were withdrawn by the applicants.

Objectives

JEREMIE Sicily ESF Social Finance is managed by the EIF and co-funded by the ESF under the Regional Operational Programme for 2007- 2013, Axis III – "Social Inclusion" (Specific Objective G). The initiative supports the creation and development of enterprises specifically aiming to improve access to finance for social enterprises and SMEs. It is implemented in Italy's Sicily region, which has a population of more than 5 million; its goal is to make a positive social impact on the territory, particularly with regard to social inclusion.

The initiative's main policy area was providing access to finance through a combination of public and private funds (EIF and ESF, supported by a guarantee fund provided by Movimento 5 Stelle[5]). The partners also provided extensive non-financial services (business development, coaching and mentoring, incubation, acceleration, and education and training) through local business support structures.

The scheme mainly targets enterprises dedicated to furthering vulnerable categories, i.e. people not in education, employment or training; unemployed young people; immigrants; ex-offenders; people with disabilities; and women seeking self-employment. By providing funding, support and mentoring activities, JEREMIE Sicily aims to improve access to employment and foster sustainable inclusion in the labour market by focusing on the following actions:

- promoting self-employment
- creating new enterprises, including co-operatives
- transitioning non-profit organisations into social enterprises[6]
- improving the quality of work and support services for workers and individuals who are not self-sufficient
- strengthening existing enterprises operating in the social sector and pursuing activities targeting social improvement.

JEREMIE Sicily's beneficiaries were SMEs, social enterprises and the stakeholders directly affected by their business activity. The supported enterprises targeted not only financial sustainability, but also environmental and social impact. Thanks to the resources made available to them, they were able to develop or consolidate their organisational structures, start new businesses and hire new employees.

Rationale

The economic recession provoked by the 2008 financial crisis (Azevedo, 2015) resulted in a very difficult phase for Sicilian SMEs and social enterprises in 2013. Although the data collected by Unioncamere Sicilia (2013) on their performance in 2013 shows that the number of new business registrations (29 198) exceeded the number of business closures (28 296), the regional labour market conditions worsened. Istat Labour Force Survey (Istat, 2015) shows that the overall employment rate for Sicily's population decreased by 5.3% in 2013 compared to 2012; only 39% of individuals aged 15-64 were in employment. That same year, bank loans to SMEs and social enterprises operating in Sicily decreased by 3.8% on an annual basis; according to the Bank of Italy, the proportion of red loans rose to 10% (Banca d'Italia, 2014).

When social enterprises compete – even with difficulty – within traditional economic sectors, they have proved successful with regard to access to finance, job creation and distribution of wealth. Financial crises drive the non-profit sector to adopt more cost-effective management models. Shrinking resources are progressively channelled towards more sustainable products and processes, and economic viability is considered together with the environmental and social long-term impact. In such a challenging socio-economic context, developing social enterprises and social innovation processes is fundamental. It requires new policies, incentives and legislative regulation to promote the sector's growth, and facilitate administrative tasks and duties. Social innovation is often one of the benefits generated by the coaching, mentoring and other support services provided by non-financial partners. In Sicily as in other European regions, social innovation emerged in several domains, some of them unexpected.

Banking loans are critical tools for promoting social enterprise. Enterprises that take on loans increase their level of indebtedness and are perceived as untrustworthy, because their operating margins do not always allow them to cover the loan burden. Yet many enterprises cannot rebalance their financial flows through loans, because they cannot sustain the loans costs or provide the organisational and economic guarantees demanded by the banking system. The revolving nature of the JEREMIE Fund helped reach even more entrepreneurs than traditional grant schemes, thanks to its emphasis on social improvement and social inclusion. Sicily was chosen to be a pilot example for other Italian regions, promoting social improvement and social inclusion through microcredit schemes and social microfinance products for SMEs, with the specific goal of fostering employment and growth.

A financial instrument such as JEREMIE Sicily, which combines soft loans, non-financial services and guarantee funds, helps minimise risks for both banks and enterprises.

Activities

To reach potential entrepreneurs, facilitate network activities and create help desks for final beneficiaries, BPE established strategic partnerships with The Hub Sicilia Aps, Microfinanza Srl, Sol.Co. Catania and L'APE. The goal was to create a network capable of performing four main actions:

- providing financial services
- promoting the programme
- providing non-financial services
- monitoring interventions.

Financial services: as a lending institution specialising in financing social-sector projects and enterprises, BPE managed the lending activities. A portfolio of loans was created for

Sicilian social enterprises, co-financed by JEREMIE Sicily and BPE. In collaboration with its partners, BPE prepared a business-plan template to facilitate submitting loan requests.

Loans provided by the JEREMIE Sicily financial instrument aimed to help both consolidate and start enterprises, as well as improve their quality and professionalism. The priority sectors and areas of activity were: social services, health, welfare and education (also provided by private actors); skill enhancement and support for social enterprises developing innovative projects; and identifying new market opportunities. The loans financed mainly investments in tangible and intangible assets related to starting up new activities. The investments in SMEs focused on promoting initiatives with a high and well-balanced level of financial, social and environmental sustainability. Applications for funding were evaluated on the basis of the following criteria: the investment proposal, planned expenditures, and level of co-financing of SMEs and social enterprises; the economic-financial investment feasibility analysis on a three-year basis; and the project's social impact.

Guarantee fund: in May 2014, a EUR 1 million guarantee fund established by the Italian political movement Movimento 5 Stelle was combined with the JEREMIE programme. The fund, called "Microcredito Siciliano", was donated to the Sicilian microcredit foundation Fondazione di Comunità di Messina. Its main goal was to facilitate access to credit for SMEs; the fund guaranteed 100% of the loans requested from BPE, ranging from EUR 5 000 to EUR 25 000. In 2015, the guarantee fund helped 15 social enterprises (out of 82) access JEREMIE loans.

Promotion: promoting and disseminating the programme and its products entailed strengthening collaboration with local social enterprise networks, by connecting beneficiaries with established entrepreneurs, foundations and associations; raising awareness through newspapers, leaflets, posters and mailing lists; organising workshops and promotional events on a bimonthly basis (with an average 40-50 participants); and promoting the programme through each partner network.

Non-financial services: non-financial services played a crucial role in ensuring the programme's success. The services, which were available to all potential beneficiaries (although not mandatory), aimed to help enterprises strengthen their organisational structures and facilitate access to credit. Enterprises could apply directly to the financial intermediary, but early-stage MSMEs and social enterprises were advised to apply through help desks.

The services provided by Hub Sicilia aps, Microfinanza srl, Sol.Co Catania and L'APE to Sicilian enterprises included:

- orientation to credit and financial services
- pre-feasibility analysis, selection and evaluation of business proposals
- elaboration and evaluation of business plans
- coaching and other support services.

This approach helped JEREMIE perform well in Sicily, since BPE rejected only 29% of the loan requests. A consortium made up of a financial institution (BPE), innovation centres and non-financial service providers created the right mix of expertise to reach the programme goal. The technical assistance provided by the partners improved the final beneficiaries' access to credit, since 63 requests for credit received positive assessments. It also facilitated the role of BPE in evaluating credit-worthiness: the partners acted as intermediaries between beneficiaries and BPE, reducing the risks for both the bank and the enterprises – proof that an accurate analysis and work on business plans often results in an increased loan-repayment ratio.

Monitoring and evaluation of interventions: Microfinanza srl carried out monitoring activities on a monthly basis, using a set of indicators pertaining to:

- the number of applications funded
- the amount of resources assigned and amount of co-financing by beneficiaries through private resources
- the loan repayment performance
- the social impact of the financed projects, measured through indicators such as the number of jobs created, the beneficiaries' age and the enterprises' mission.

The collected data were used for internal reports.

Challenges encountered and impact

Table 11.1. presents an analysis of the strengths, weaknesses, opportunities and threats facing JEREMIE Sicily.

Table 11.1. **SWOT analysis of JEREMIE Sicily**

Strengths	Weaknesses
• Beneficial impact of non-financial services: orientation to credit, preliminary appraisal, assessment of business projects, elaboration and evaluation of business plan, coaching • Integrated approach, comprising financial and non-financial services • Strong economic and social impact • Networking and creation of a community of practice among beneficiaries • Targeting a wide range of entities, from SMEs with a social purpose to social enterprises as such • Synergies with a guarantee fund provided by the public sector to foster entrepreneurship • Peer-to-peer coaching and inspiration, motivational aspects and dedicated training	• Insufficient resources to cover the costs of non-financial services, mainly covered by the beneficiaries as services paid to non-financial partners or external entities • Lack of budget provision for awareness raising and training activities on access to finance • Short timeframe: 24 months, including preparation phases • High entry barriers (guarantee required on funding, excessive documentation) for enterprises • ESF procedures too complex and bureaucratic for entrepreneurs • Rigidity and excessive duration of assessment procedures; lack of flexibility on rules and use of funds • Lack of integration and communication between financial and non-financial partners. • Weak monitoring system, lacking Specific Measurable Assignable Realistic Time-bound (SMART) indicators and objectives for the beneficiaries.
Opportunities	**Threats**
• Fostering self-employment through access to finance and incentives • Switching from a mindset of grant funding to credit and microloans • Increased attractiveness of Sicily for young people in search of opportunities • Opportunity to embrace social innovation as a driver for empowering and enhancing local enterprises' competitiveness • A new business model for the microfinance sector, wherein banks and non-financial organisations support enterprise growth and scale	• Frustration of applicants owing to excessive duration of the assessment process • Short duration of the initiative (24 months + 6-month extension) and abrupt return to previous financial schemes, with higher interest; no amortisation period or support • Scarce-risk attitude by banks, and reluctance to grant credit to SMEs and social enterprises • Low recovery rate; absence of resources for the non-financial entities to monitor and support the post-credit phase • Lack of legislative support for tax reduction, subsidies and incentives for social enterprises

Challenges

In July 2016, JEREMIE disbursed EUR 4.7 million to beneficiaries. The help desk received 1 007 official financing requests; 900 (89%) were discarded before they could proceed to a later evaluation stage. The main reasons were:

- the lack of willingness of the applicants to fill out the detailed information request forms (42%)
- the absence of formal requirements (i.e. enterprise not yet established) (24%)

- the absence of a social purpose (21%)
- the application's incompatibility with the fund's objectives (10%)
- absent or incomplete business plan (2.9%)
- enterprises focusing on ineligible sectors (i.e. agriculture) (0.1%).

At the end of July 2016, the help desks had evaluated 88 requests; 29% were rejected owing to negative assessments of the projects' economic and financial sustainability: funding these enterprises would have aggravated their debt situation, as they would have been unable to repay the loan. The remaining applications (71%) received positive appraisals and were forwarded to the bank for final evaluation.

By July 2016, 82 beneficiaries (including 32 start-ups) had received individual loans averaging EUR 56 423; in other words, only 8.14% of applicants had received funding. This low percentage stems from the help desk's filtering process of the incoming requests, and highlights the complexity of the selection and management processes for soft-loan programmes. Rejecting requests at this early stage helped the bank and the help desk optimise their time and costs. Most of the funded enterprises were co-operatives (36%), limited companies (26%) and sole proprietorships (14%) operating in the social (32%), trade (24%), catering (21%), service industry (14%), tourism (6%) and handicraft (3%) sectors.

The analysis of Sicily's socio-economic context (Part 4) shows that this region, which is primarily characterised by "traditional" businesses, is still at an immature stage of development. Social and innovative enterprises are very scarce compared with the rest of Italy and Europe, and the traditional banking system does not foster their development. Enterprises struggle to obtain financing, and requirements and procedures are often complex and slow. As a result, Sicilian entrepreneurship is stagnating. The main problem, however, is the lack of entrepreneurial education and the absence of an "ecosystem" that can ensure support.

The help desks highlighted the main challenges facing Sicilian entrepreneurs:

- difficulty in properly filling out the request forms
- lack of strategic planning and focus on short-term survival
- low motivation in completing the request, owing to excessive documentation requirements
- difficulty in developing a sustainable business model.

In response to these difficulties, the help desk adopted a different approach: in addition to verifying the formal requirements, it offered coaching and support to improve business plans and motivate the applicants. This proactive approach facilitated access to credit, and supported the creation and development of sustainable businesses, demonstrating the fundamental role of non-financial services in microcredit schemes such as JEREMIE.[7] Since the programme ended in July 2016, the evaluation process is not yet complete. Unpublished data, however, indicate that each enterprise that received a loan created two jobs on average.

Lessons learnt and conditions for potential replicability

Lessons

In its 2.5 years of operation, JEREMIE Sicily showed the importance of structuring an innovative network to support financial programmes in areas – such as Sicily – with complex social, economic and cultural contexts.

Credits and loans are sensitive processes that can often amplify – rather than alleviate – financial crises. Lenders and evaluators have a great responsibility to understand whether or not an entrepreneurial venture presents the fundamental elements of sustainability that guarantee not only regular loan repayments, but also the use of credit as a lever for successful development. JEREMIE Sicily paid particular attention to these aspects, starting with the vulnerability of individual beneficiaries in traditional financing circuits. As the project was a pilot experience, many aspects can be improved to improve the scheme's effectiveness, particularly by empowering non-financial services.

Conditions for potential replicability

For similar initiatives to succeed in other regions, the following critical factors need to be replicated:

- the activities of non-financial partners, who had a fundamental role both as "filters" and "trust agencies" for the financial intermediary
- due diligence in facilitating the evaluation phase for the financial intermediary, avoiding an excessive workload and significantly reducing application timelines for the beneficiaries
- establishing a solid and structured help desk, with dedicated human resources, an online platform, coaching services and precise monitoring activity.

Finally, the following recommendations and suggestions will help maximise the future impact and effectiveness of such financial instruments:

- design and activate an internal information system, so that partners can easily share and access sensitive data and information, such as the number of deliberate practices, details about the financed enterprises and the ratio of loans repaid
- allocate adequate financial resources to non-financial service partners, which are crucial to ensuring the quality of the initiative
- reduce procedure length and prolong deadlines to strengthen the financial intermediary's operational capacity to evaluate funding requests and remain accountable to beneficiaries
- in addition to other non-financial instruments, engage in credit education, mentoring and awareness-raising, to strengthen the help desk and enhance the project's performance.

Notes

1. Definition of SMEs and MSMEs according to European Commission (2003): medium-sized: staff < 250; turnover ≤ EUR 50 million; balance sheet total ≤ EUR 43 million; small: staff < 50; turnover ≤ EUR 10 million; balance sheet total ≤ EUR 10 million; micro: staff < 10; turnover ≤ EUR 2 million; balance sheet total ≤ EUR 2 million.
2. Definition of social enterprise according to European Commission (2011).
3. According to Eurostat (2015), Sicily is the European region with the lowest employment rate (42.4%) of people aged 20 -64 years (Eurostat, 2015).
4. The rest of the fund was transferred back to the EIF.
5. Movimento 5 Stelle is an Italian party funded in 2009.
6. Some of the potential beneficiaries were non-profit organisations, which have turned into legal enterprises in order to access to credit. This transformation was also possible because their business activities were solid enough to justify the setup of an enterprise.
7. The success rate of the requests evaluated by the help desks and the bank is 73%, as mentioned in Part 2.

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Chapter 12

Social Impact Factory: A business-support structure, Netherlands (the)

The Social Impact Factory is a business-support structure that aims to spur social enterprise creation and embed more socially responsible behaviours in businesses. It fosters multi-stakeholder and cross-sectoral partnerships to tackle social challenges. This chapter describes the organisation's objectives, rationale and activities. It also presents the challenges faced in implementing the structure and the impact achieved. It concludes with the lessons learnt and conditions for transferring this practice to other contexts.

Summary

Doing business sustainably and fairly is becoming commonplace in many organisations. Social enterprises are leading this trend, by developing sustainable business concepts that value social impact over financial return. At the same time, governments face "complex problems" – such as unemployment, poverty and climate change – that require new solutions. To bring these public and private entities together, in 2014 the municipality of Utrecht and Kirkman Company initiated the Social Impact Factory.

The Social Impact Factory is a foundation predicated on a holistic policy initiative extending across multiple policy areas. Its objective is to inspire, connect and spur organisations to embed socially responsible behaviours and create an enabling environment ("ecosystem") for social enterprises. Any organisation that actively commits to this objective can join the network. The Factory acts as a connector and conductor, federating the ecosystem by aligning its members' efforts and actions through its three different service pillars: social procurement, impact challenges and change-making.

Social procurement. In January 2016, the Social Impact Factory launched the “Social Impact Market”, an online business-to-business (B2B) marketplace for companies (including social enterprises) seeking opportunities to purchase social products or services. Over 90 social entrepreneurs currently offer their services on the Market; 21 matches have been realised, with a total value of EUR 75 000 (euros).

Impact Challenge. The Social Impact Factory has designed a model that connects different stakeholders to solve a specific societal challenge in an entrepreneurial way, thereby achieving social impact. The Factory has generated innovative and entrepreneurial solutions for ten “complex problems”.

Change-making. This pillar integrates the Factory’s various efforts to accelerate achieving a society that encourages doing business fairly, sustainably and inclusively. The Factory organises events on social entrepreneurship, including boot camps and a masterclass series that teach social entrepreneurs the fundamental oft business strategy, marketing, social media, branding, growth strategy and financing. The Factory has co-organised over 20 change-making events with its active partners, reaching more than 2 000 people.

Since mid-2015, the Social Impact Factory has built a network of over 90 social entrepreneurs, 7 large traditional businesses and 15 municipalities across the Netherlands. Its achievements have been recognised by the Dutch Government.[1]

Key facts

The Social Impact Factory was launched in late 2014 as a joint initiative of the municipality of Utrecht (the fourth largest city in the Netherlands) and the consultancy firm Kirkman Company, the “founding fathers”.[2] Based in Utrecht, in 2015 the Social Impact Factory gained a legal status as a *stichting* (a foundation) with a supervisory board. Its “founding partners” comprise a group of traditional businesses, social enterprises and one community organisation, each contributing time and financial support, according to its capacity.[3] The University of Utrecht is also closely involved in the project, through its Social Entrepreneurship Initiative.[4] In addition to the founding partners, over 100 organisations (including social enterprises, traditional enterprises and municipalities) participate in the Factory’s activities as consumers or service providers.[5]

The Social Impact Factory received EUR 200 000 (euros) in start-up funding from the municipality of Utrecht, paid over a period of three years, as well as EUR 45 000 from its founding partners[6] for the first year. Other partners[7] pay financial and in-kind contributions related to their annual turnover. The Factory receives a percentage of any business (turnover) it generates for its partners as payment for its brokerage services. It also receives a fee for each product and service delivered.

The Factory’s target budget for 2016 is EUR 750 000, of which 80% will be covered by fees for product and services delivered by the Factory, as well as partner contributions, and 20% will derive from grant funding. The Factory has built its own revenue model, and aims to be financially independent from grant funding for its core activities within the next three years.

Though the concept of the Social Impact Factory was first developed in Utrecht, the aim is to offer nationwide coverage, and share knowledge and practices across the country. Indeed, the Factory now delivers its services to 14 other municipalities in the Netherlands. Moreover, 16 of the 32 largest cities in the country have expressed interest in adopting the model created by the Social Impact Factory.

Objectives

The Social Impact Factory was created as a platform to connect and inspire organisations to become more social responsible, and accelerate creating a society that values doing business fairly, sustainably and inclusively.

The Social Business Initiative (SBI) launched by the European Commission in 2011 identifies social enterprises as "independent companies that primarily pursue a social or societal objective" (European Commission, 2011). This definition is supported by the Social and Economic Council of the Netherlands (Sociaal-Economische Raad, 2015).

The Social Impact Factory is a holistic and inclusive policy initiative extending across multiple policy areas. Any organisation that actively commits to its objective can join the network. The Factory believes that social enterprises can only thrive in an enabling ecosystem.[8] Hence, it focuses not only on social enterprises, but also on bringing together a large and diverse group of organisations to create such an ecosystem. The idea is that connecting social initiatives driven by citizens, social enterprises and traditional businesses can achieve significant socio-economic impact, especially when supported by the local municipalities.

Though the concept of the Social Impact Factory was first developed in Utrecht, the aim is to offer nationwide coverage, and share knowledge and practices across the country. Indeed, the Factory now delivers its services to 14 other municipalities in the Netherlands. Moreover, 16 of the 32 largest cities in the Netherlands have expressed interest in adopting the model created by the Social Impact Factory.

Rationale

The Social Impact Factory was created through a partnership between the municipality of Utrecht and Kirkman Company. The mission of Kirkman Company is to help traditional businesses emphasise social and environmental purposes, and add them to their core mission. Utrecht aims to have the lowest unemployment rate of all Dutch municipalities, and is seeking new collaborations, innovative solutions and public-private co-operation to achieve this goal. In founding the Social Impact Factory, the municipality invested in a network organisation bridging local government, social enterprises and private organisations.

The creation of the Social Impact Factory is aligned with several important trends:

- **A move from top-down to bottom-up policies:** the role of local government is evolving, from focusing on solving problems and subsidising executive partners towards adopting an increasingly participatory approach to policy and programme development. Today, local governments challenge entrepreneurs and citizens to create innovative business models and solutions to complex social, economic and environmental problems. Budget cuts stemming from the financial and economic crisis have made local governments more receptive to collaborating with private projects and social entrepreneurs, resulting in multiple initiatives and sectoral growth, with a 36% increase in employment within Dutch social enterprises over 2013-15 (Social Enterprise NL, 2015).
- **Redefining the corporate role in society:** large corporations are increasingly moving from a goal of maximising shareholder profit towards one of creating more value for society overall. This trend has led to new partnerships and innovations, in collaboration with social enterprises (MVO, 2015).

- **Bringing together different "worlds":** the Social Impact Factory brings together different partners from different worlds. Each type of partner has its own rationale and concepts (e.g. the word "profit" has different meanings, depending on the institution type), which can lead to miscommunication and misunderstanding. The Factory is teamed up by people who understand these differences and are therefore able to bridge the language barrier.

Activities

The Social Impact Factory's core activities are to inspire, connect, accelerate and change the way social entrepreneurs implement a social idea, as well as influence traditional businesses to focus on social and environmental impact, rather than solely profit maximisation. The Factory acts as a knowledge hub connecting local change-makers, social entrepreneurs, traditional businesses, government representatives, funders (public and private, formal and informal), knowledge institutes and networks. Its revenue model is based on three service pillars – social procurement, impact challenges and change-making – to embed more socially responsible behaviours in businesses, create sustainable impact and stimulate social entrepreneurship. Each pillar uses a different approach, ranging from access to finance and to the market, to business development and creating a support structure. All the services are designed to move with social enterprise trends and social entrepreneurs' needs in a local context.

Social procurement. Since 1 July 2011, the Dutch Government has actively incorporated social return obligations in its tendering process. Today, many municipalities impose a minimum social return, amounting to 5% of the contract price/wage sum of any public procurement tender exceeding EUR 209 000. While the instrument's main intent is to direct employment, some municipalities allow suppliers who cannot create jobs to purchase products or services from local initiatives or social enterprises – many of which create employment for people who are otherwise excluded from the labour market.

The Social Impact Market offers a transparent supply and demand system. In January 2016, the Social Impact Factory launched the Social Impact Market, an online B2B marketplace for companies (including social enterprises) seeking to purchase social products or services. Over 90 social entrepreneurs currently offer their services on the Market. They first undergo a quick scan[9] highlighting their societal objective; how they reinvest profits; how their ownership reflects the enterprise's mission, by using democratic principles or focusing on social justice; and the number of people they have hired who were excluded from the employment market. Purchasing managers in traditional companies and municipalities use the Market to post their procurement needs or search for possible suppliers.

The Social Impact Factory serves as a link between the municipalities where it operates and other stakeholders. It provides guidance and knowledge on procurement and social-return regulations, and enables a growing number of social enterprises to participate in the tendering process.

Impact challenges. This service offered by the Social Impact Factory connects stakeholders around solving a specific societal challenge. These new forms of partnerships among different types of organisations enhance innovation and augment the social impact; the goal is to develop a sustainable revenue model for each project and ensure long-term benefits for society. Each impact challenge typically runs for six months. A "problem owner" – often a municipality – who is willing to finance the process and the created solution(s) is identified from the onset. Factory team members ("connectors") collaborate with the problem owner, social entrepreneurs, citizen initiatives and/or traditional businesses to co-create innovative solutions. The four-stage process – from exploration and kick-start to co-creation and pitch – is designed to facilitate the co-creation, validation and development of entrepreneurial solutions.

Change-making. The change-making pillar combines the Social Impact Factory's efforts to accelerate creating a society that values doing business fairly, sustainably and inclusively. The Factory organises events such as "boost camps" and masterclasses, which provide social entrepreneurs with knowledge and tools on business strategy, marketing, social media, branding, growth strategy and financing; it proposes workshops on ways to ensure the social and financial sustainability of social enterprises, as well as measure their social impact; and it co-organises events with both public and private partners[10] to connect municipalities and traditional businesses with social enterprises.

The combination of these three pillars multiplies the impact of each individual pillar.

Challenges encountered and impact

The Social Impact Factory received funding from the municipality of Utrecht and Kirkman Company to implement its concept and build a robust organisation. One year after its inception, it has managed to build a sustainable revenue model, products and services. It has a growing network and has generated its own revenue. Table 37 shows a strengths, weaknesses, opportunities and threats (SWOT) analysis at this stage of the organisation's development.

Table 12.1. **SWOT analysis of Social Impact Factory**

Strengths	Weaknesses
• Strong network of initiatives, social entrepreneurs and established organisations • Action-oriented • Collaboration on impact measurement • Focus on social value creation • Combination of online platform and offline tools • Connection with social return on investment • Founding fathers put effort into expanding the Factory network	• Intensive time commitment in matching stakeholders on the Social Impact Market • Many different partners with divergent interests, making it difficult to reach a shared goal • Success creates a need for additional capacity and higher number of employees, underscoring a twofold challenge: difficulty in attracting people with the appropriate skills and limited capacity to pay them.
Opportunities	**Threats**
• Scaling up social return approach to other regions and local governments • Linking social procurement to new Dutch regulations[1] • Collaborating with different networks	• Time, effort and long-running process of securing funding for Factory activities • Lead time of government decision-making, especially when more departments are involved • Restrictions imposed by Dutch procurement rules

1. Wet van 22 juni 2016 tot wijziging van de Aanbestedingswet 2012 in verband met de implementatie van aanbestedingsrichtlijnen 2014/23/EU, 2014/24/EU en 2014/25/EU: https://zoek.officielebekendmakingen.nl/stb-2016-241.html.

Challenges

The challenges encountered in implementing the Social Impact Factory have been threefold.

First, balancing a self-sustaining organisation with social goals is difficult. While the foundation features a revenue model to become financially independent of grant funding, its primary objective is to create social benefits. Generating funds to create the services portfolio, the network and the knowledge hub was, and continues to be, a challenge in these early stages of the foundation's existence. The founders and entrepreneurs of Kirkman Company have contributed to respond to this challenge.

Second, the influence of the founders has been more significant than initially expected. The municipality of Utrecht and Kirkman Company came together because of their shared views on social entrepreneurship, but met with resistance when they tried to connect with potential partners. Some organisations were unwilling to join the initiative because of its relationship with Kirkman Company, which they viewed as a company more focused on profit than social impact. Moreover, some partners who were previously heavily subsidised were not motivated to work in a more entrepreneurial manner, and struggled to accept that their local government was investing in an infrastructure stimulating social enterprise. The combination of these two factors made establishing partnerships more difficult.

Third, the Factory struggled to understand what was possible or prohibited within the current legal framework. Many public organisations have fixed tendering processes; the Factory believes the time has come for them to make space for social entrepreneurs in these procedures. This will help create opportunities for (budding) social entrepreneurs to generate start-up revenue and maintain their business without having to compete with traditional businesses. However, these principles are not yet embedded in legal guidelines and procedures, nor is there a common understanding of what a social enterprise is – or is not. The Social Impact Factory consults with different lawyers, legal counsellors and government parties to resolve these issues.

Impact

Through its expanding network, the Factory has become an important partner in exploring and developing social entrepreneurship, and is recognised as such by the Dutch Government.[11] Its "connectors" are invited as guest speakers in events, consulted by national governments and mentioned in several publications.[12] The Factory inspires and connects stakeholders to start new collaborations, not only between public and private entities, but also with start-ups, social enterprises and municipalities. The goal is to motivate organisations to become (more) socially responsible by starting locally and then expanding their impact nationally.

One year after its inception, the Social Impact Factory has built a network comprising over 90 social entrepreneurs, 7 large traditional businesses and 15 municipalities. In just over 6 months since the platform's launch, the Social Impact Market has led to 21 matches, totalling EUR 75 000 in revenue.

In 2015, the Social Impact Factory devised innovative and entrepreneurial solutions to ten "complex problems" submitted by the local government including sustainable housing, customised transport for vulnerable groups in the city and new job creation for people excluded from the labour market. More than 75 organisations were actively involved in solving these challenges, with a total EUR 130 000 invested in the solutions created.

The Factory has (co-)organised 20 change-making events, reaching more than 2 000 people. In addition to creating jobs with its network partners, it has also provided work to six people, some them long-term unemployed and excluded from the labour market.

In collaboration with its network of social entrepreneurs and knowledge centres, the Social Impact Factory is exploring new tools, routes and ways of measuring social impact. It is currently running a pilot project with the software platform Sinzer and the municipality of Utrecht to build a framework measuring impact on issues such as employment, social inclusion, sustainability and poverty. Using this software platform can help inform decision-making, as well as increase impact and accountability to stakeholders.

Lessons learned and conditions for potential replicability

Lessons

The social entrepreneurship ecosystem must foster a culture of inclusiveness that welcomes participation by organisations with a shared ambition. Inclusiveness and collaboration – rather than a zero-sum game of competition between participants – should be the driving force. The Social Impact Factory experience illustrates that establishing an independent platform where different partners and organisations meet, exchange knowledge and form new coalitions can facilitate collaboration, and could happen anywhere in the world. To enable it to operate independently, the platform should have its own revenue model.

While social entrepreneurs can act as catalysts for sustainable and systemic change, they cannot do so alone. A key lesson from Social Impact Factory is that scaling up initiatives and achieving real change requires co-operating with other entities, including traditional businesses with a strong network, knowledge and capital. Mission-driven entrepreneurs are most successful when they are part of a well-functioning ecosystem involving large private companies, civil society stakeholders and other entrepreneurs (Dunsmore, 2015; SMO, 2015). Understanding each other's world, however, takes time. Hence, it is important to have employees who can act as "translators" between the different worlds (public and private).

Facilitating collaboration among partners implies three stages:

- finding the right partners to kick-start the foundation
- reaching a shared vision of success among the founding partners
- defining a common roadmap with specific, measurable, achievable, realistic and timely[13] goals, and an appropriate division of responsibilities among the partners.

Conditions for potential replicability

Organisations wishing to replicating the Social Impact Factory model should pay attention to five important elements.

1. Clarify the different stakeholders' interests from the beginning, and invest time and effort in bringing the different worlds together: the Factory has spent a great deal of time on the conceptual phase, talking with different possible partners to determine their objectives, interests and willingness to work together on an equal basis.
2. Translate this willingness directly into action, by working together as soon as possible and learning by doing. Celebrate possible successes, but do not to be afraid to fail.
3. Create a common language among the different partners to overcome any miscommunication, and invest time in understanding each other.
4. Create an enabling environment by implementing a diverse set of interventions that can foster success, as well as designing a revenue model that can keep the ecosystem going.
5. Select a range of partners: never become too reliant on government or municipalities, as changing politics and priorities may affect the social enterprise sector. Municipalities can act as key and active partners, but any reliance on them should be balanced with other important networking partners.

Finally, the continuity and stability of the Factory's team play a major role in ensuring the initiative's continuity and rationale. Any organisation wishing to replicate the Factory model should therefore focus on maintaining a stable team, whose members are responsible for passing on the initiative's vision and purpose, and are committed to the project over the long term.

Notes

1. Kabinetsreactie SER-advies Sociale ondernemingen, 1 juli 2016, see: *https://www.rijksoverheid.nl/documenten/kamerstukken/2016/07/01/kamerbrief-met-kabinetsreactie-ser-advies-sociale-ondernemingenP*.
2. *http://www.socialimpactfactory.com/founding-fathers/*.
3. EY, Rabobank Utrecht, Specialisterne, Koekfabriek, Wijk & Co *http://www.socialimpactfactory.com/founding-partners-2/*.
4. The Social Entrepreneurship Initiative, Utrecht University, stimulates education and research programmes on social entrepreneurship.
5. *http://www.socialimpactfactory.com/overzicht-partners/*.
6. EY, Rabobank Utrecht, Specialisterne, Koekfabriek, Wijk & Co. For more information, see: *http://www.socialimpactfactory.com/founding-partners-2/*.
7. *http://www.socialimpactfactory.com/market-partners/*.
8. An ecosystem is defined as a dynamic community of different actors that creates value through both collaboration and competition (Moore, 1993).
9. Executed by EY, a global company in assurance, tax, transaction and advisory services and founding partner of the Social Impact Factory. For more information, see: *http://www.ey.com/GL/en/*. The results of this scan can be downloaded on the social enterprise's profile on the Social Impact Market at: *https://market.socialimpactfactory.com*.
10. Particularly with the University of Utrecht, the Municipality of Utrecht, EY, Rabobank Utrecht and VNG.
11. *Kabinetsreactie SER-advies Sociale ondernemingen, 1 juli 2016*: *https://www.rijksoverheid.nl/documenten/kamerstukken/2016/07/01/kamerbrief-met-kabinetsreactie-ser-advies-sociale-ondernemingenP*.
12. See in particular: *http://smo.nl/publicatie/sociaal-ondernemerschap-de-beweging-naar-nieuwe-hybride-modellen-voor-een-andere-toekomst/.https://www.rijksoverheid.nl/documenten/kamerstukken/2015/10/12/kamerbrief-over-reactie-op-het-rapport-van-de-ser-inzake-sociaal-ondernemerschap*. , *http://www.mckinsey.com/industries/social-sector/our-insights/scaling-the-impact-of-the-social-enterprise-sector*
13. Known as SMART goals.

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Boosting Social Enterprise Development
Good Practice Compendium

Chapter 13

ES Fund TISE: A loan fund, Poland

ES Fund TISE is a pilot programme providing loans to social enterprises coupled with free advisory services. The programme aims to increase social enterprises' access to finance, which is necessary to the expansion of their activity. This chapter describes the programme's objectives and rationale, together with its main activities and structure. It presents the challenges faced in implementing the scheme and the impact achieved. It concludes with the lessons learnt and conditions for transferring this practice to other contexts.

Summary

ES Fund TISE-Loan fund for social enterprises in Poland is a repayable financial instrument combined with advisory services dedicated to social enterprises in Poland. This pilot project addresses the problem of social enterprises' restricted access to finance, which hampers their development and limits their impact on unemployment and social exclusion. Given that the Polish social economy is still small (albeit quite diversified), mainstream finance providers are reluctant to invest in social enterprises and social economy entities, and do not offer capital at adequate terms and conditions. While a few specialised institutions finance and support social economy entities – including social enterprises –, in a way that fits their needs and capabilities, their offer is limited by the available funding.

ES Fund TISE was designed following a European Commission (EC) recommendation to introduce repayable instruments. The scheme has strongly answered the unmet demand for external financing, and encouraged social enterprises to use repayable funding. It has helped social enterprises build a positive credit history, while promoting the concept of "social entrepreneurship". Moreover, it has allowed testing the delivery model (financial instrument, organisational model and risk assessment methodology), assessing in practice the financial situation and needs of social enterprises, the quality of services provided by the financial intermediary and the existing network of social economy support centres (OWES).

The Fund's investment period lasted from 2013 to 2015; its repayment and monitoring phase will end in 2020. The main quantitative objectives of ES Fund TISE were to:

- provide at least 251 existing social enterprises with repayable financing, to foster the investment and job creation necessary to develop their activities
- provide free advisory services to improve the professional skills and competences of 200 social business owners and employees
- create at least 50 jobs within social enterprises.

ES Fund TISE was initially scheduled to span 2013-20, with an allocated budget of EUR 7.3 million (euros). Given its strong performance in terms of the timeliness and quality of services delivered, and the number of jobs created and sustained, it has been extended until 2021. Additional funding has brought its total budget to EUR 9.3 million, financed in large part by the European Social Fund (ESF).

The instrument's key success factor was its suitability to the target group's expectations, particularly in terms of low-cost financing. Its biggest challenge lay in mobilising the social economy's existing support structures, to help beneficiaries participate in the project.

Key facts

ES Fund TISE was implemented as a systemic project named "Supporting financial engineering for social economy" under Measure 1.4. of the European Union (EU) Human Capital Operation Programme 2007-2013 (HC OP 2007-2013). A total of EUR 7.3 million – approximately EUR 6.2 million (85%) from the ESF and EUR 1.1 million (15%) from national public sources – was secured for the project, covering the total amount allocated to loans, the financial intermediary's management fee and the compensation of the other entities involved.

The following institutions helped implement ES Fund TISE:

1. Ministry of Economic Development,[1] acting as a managing authority
2. Ministry of Family, Labour and Social Policy,[2] acting as an intermediary body
3. Steering committee,[3] responsible for monitoring the project's execution
4. Bank Gospodarstwa Krajowego (BGK),[4] a system beneficiary operating as a project fund-holding manager
5. Towarzystwo Inwestycji Społeczno-Ekonomicznych (TISE),[5] a financial intermediary running ES Fund.

The Polish social economy is underdeveloped in comparison with other EU Member States. Social enterprises and other social economy entities lack business skills and struggle to obtain external financing (Ibs and Coffey International Development, 2014; Ministry of Economic Development, 2015), limiting their potential to tackle unemployment and social exclusion, and generate positive social and environmental impact.

ES Fund TISE was introduced as a result of the mid-term review of HC OP 2007-2013, with the goal of increasing the efficiency and diversity of (non-grant) support provided to social-economy entities. In recent years, the social economy sector has grown, thanks to non-repayable financial support (e.g. grants) for setting up social co-operatives or financing OWES[6] activities. Existing social enterprises that were not mature or developed enough to attract external funding on the regular market faced a financial gap and lacked the access to good quality consultancy services. The project was divided into two main phases: the investment period (scheduled until June 2015) and the portfolio monitoring period (lasting until December 2020). The Fund has received supplementary funding (mainly from loan capital repayments and project revenues), with the result that the project has been extended until 2021. As of March 2016, a total PLN 39 million (zlotys) (EUR 9.3 million) had been allocated for loan provision.

The service provision phase is still in progress and was scheduled to last until December 2016.

Objectives

The project aims to foster partnerships to tackle unemployment and social exclusion; it also implements and tests repayable financing models for social economy entities. The legal forms eligible to receive funding from ES Fund TISE are co-operatives, non-governmental organisations (NGOs) running revenue-generating activities, ecclesiastical legal persons or organisational units (providing their statutory objectives include performing public-benefit activities) and non-profit companies (including sports clubs) that allocate their income to statutory objectives and do not distribute profit to shareholders or employees. These entities must be micro or small enterprises:[7] they should employ fewer than 50 persons and have an annual turnover under EUR 10 million. Finally, eligible borrowers should have a minimal business activity history of 12 months at the time of the loan application.

In many cases, the final beneficiaries contribute to social and economic transformation. They develop and offer innovative services, create sustainable jobs that employ disadvantaged members of the community, and encourage employees to develop their skills.

The project's policy approach combines access to finance with crucial business-development services (social entrepreneurs often recruit among people at risk of social exclusion, who lack business experience, know-how and skills).

To increase operational efficiency, the project delegates the management of public funds to non-public institutions with knowledge and experience of both the social economy sector and business financing.

The main objectives of the pilot project were to:

- provide loans to at least 251 existing social enterprises during the 2.5-year period from January 2013 to July 2015
- provide borrowers with up to 30 hours of free advisory services, to improve the professional competences of at least 200 social business owners and employees
- create at least 50 jobs[8]
- test the parameters of the financial instrument in practice
- test the risk-assessment methodology developed for the sector by BGK
- assess financial intermediaries' willingness and capacity to become involved in such a financing scheme
- examine whether a demand exists on the part of social enteprises for repayable financing
- encourage social enterprises to access external financing
- diagnose social enterprises' financing needs, evaluating their financial situation based on the results of financed and rejected clients.

The pilot's results are being used to build a sustainable system of financial support and business advice for social enterprises in the programming period 2014-20. As of late 2016, approximately PLN 160 million (EUR 38 million) in new funding will have been allocated to establish the Polish National Fund for Social Entrepreneurship (NFSE), and social economy entities will be supported with repayable instruments (e.g. loans and counter guarantees). The Ministry of Family, Labour and Social Policy has again entrusted BGK with implementing the instruments. In August 2016, BGK published a new call for financial intermediaries interested in managing social enterprise loan funds.[9] In 2017, the offer will be enriched with guarantees and social venture capital.

Rationale

In 2008, the prime minister appointed an inter-sector expert team to develop the strategy for the Polish social economy. One of the team's tasks was to design a systemic financial solution supporting social enterprises. The guidelines of the pilot project were shaped by the group's financial team of the group. The concept has been developed since 2010, together with the Ministry of Labour and Social Policy, the Ministry of Economic Development and BGK, which was mandated to establish the holding fund.

To select financial intermediaries responsible for providing financial and advisory services directly to the social economy entities, BGK invited bids in September 2012. The country was divided into 5 macro-regions, comprising 3 or 4 formal neighbouring administrative units (Poland numbers a total of 16 such). The financial intermediaries could apply for one or more (up to five) parts of the tender. The same selection criteria applied to each part; the expertise criterion – i.e. business plan assessment (55%) – prevailed over the price criteria – i.e. fund management and advisory service prices (45%).

In January 2013, BGK selected TISE to deliver services all over the country. As a loan-fund manager, TISE started the project in the first quarter of 2013 under the label "ESFundusz" (ES Fund-Social Economy Fund).

Social entrepreneurship is still in its infancy in Poland. By their nature, social enterprises focus on social goals instead of profit generation, and are therefore not target clients for commercial financial institutions seeking to provide "standardised" financial services and economies of scale. Poland only numbers two specialised institutions – PAFPIO and TISE – that offer financing for the small, but growing, social economy sector.

The social economy sector plays a vital role in social and economic transformation. Mainstream funding providers (including banks) do not have a sufficient understanding of the sector, and are reluctant to finance social enterprises because they lack the assets, resources, credit history and economic activity that could serve as collaterals to secure or repay loans or credits. Social economy entities face complicated bank procedures, lengthy credit-decision processes, and overly high interest rates and fees. Moreover, they often lack the competencies to prepare such credit applications.

Establishing a sustainable support system was a crucial step in providing social enterprises with access to repayable finance and business development services, as well as increasing their financial self-sufficiency and independence from the grant system.

Activities

Communication and partnerships: to promote the project, TISE initiated 40 partnerships with large umbrella non-governmental organisations (e.g. the National Auditing Union of Workers' Co-operatives), as well as OWES, foundations and associations, and individuals promoting the social economy and entrepreneurship, and supporting local development. For these partners, TISE organised trainings, workshops and regular meetings on project performance (e.g. the number of loans granted, and jobs created and sustained[10]). It also organised meetings alone or in co-operation with local municipalities, and participated in more than 100 national, regional and local conferences on social enterprise.

Loans: as a financial intermediary, TISE is responsible for the entire lending process, from making the offer to collecting the repayments. All the analytical and administrative tasks (application assessment, loan decisions, contract signing, fund disbursement and settlement) are performed at the organisation's headquarters in Warsaw.

- In its first phase (portfolio building), the programme met the following milestones:
- 40% of the lending capital disbursed before 31 March 2014
- 80% disbursed before 31 December 2014
- 100% disbursed no later than 30 June 2015

The project has a December 2020 deadline to accomplish the final tasks (i.e. loan repayments and monitoring).

Advisory services: every borrower was eligible to receive up to 30 hours of free advisory services, provided by in-house experts or external advisors. When signing a loan contract, each social enterprise declared its preference for a specific subject (with a marked interest in accounting/reporting, as well as communication and marketing, and less interest in human resource management, staff policy and tax issues).

Monitoring and evaluation: TISE and the other stakeholders participate in the monitoring-and-evaluation process. Table 13.1. shows the breakdown of activities.

Table 13.1. **Activities of TISE**

TISE *(financial intermediary)*	– Issues certificates to borrowers receiving public aid – Prevents double-financing and ensures repayments – Controls use of loans in accordance with loan application – Transfers repaid capital and interest to BGK – Submits monthly and quarterly reports on project progress to BGK – Undergoes desk and on-site control of involved stakeholders (BGK, two ministries, EU institutions)
↕ **BGK**	– Manages holding-fund resources – Oversees utilisation of returned resources (second investment cycle) – Transfers loan funds to TISE – Reimburses management and advisory services cost incurred by TISE – Controls and monitors the effectiveness of TISE and verifies its periodic reports – Reports to the Ministry of Family, Labour and Social Policy
↕ **Ministry of Family, Labour and Social Policy** *(intermediary body)* + **Steering committee**	– Monitors the project – Provides funds and reimburses costs to BGK – Supervises and verifies its quarterly reports
↕ **Ministry of Economic Development** *(managing authority)*	– Performs checks and periodical evaluations of the project

One of the pilot project's objectives was to assess whether social enterprises expressed a demand for repayable financing. This was confirmed by the first investment cycle: by December 2015, TISE had received inquiries from over 600 social enterprises, largely exceeding the facility's investment capacity. Based on this success, the steering committee and ministries authorised BGK to reinvest repaid capital and project revenues, and use the project's 2016 recapitalisation (approximately EUR 3.3 million) to cover the demand for loans in the transitional period between the two EU programmes (i.e. HC OP 2007-2013 and its successor, Knowledge Education Development Operational Programme 2014-2020). The loan-granting period was extended until the end of 2016, to help social enterprises secure financing before funds from the new programme becomes available.

During the project's implementation, the financing system for BGK was also switched from incurred management costs, regardless of progress made in implementing the loan fund, to payments by results (i.e. the level of refunds depends on achieving specific investment objectives).

ES Fund TISE was the first nationwide, publicly funded solution supporting social enterprises. Compared to similar financial instruments in other countries, it has the following distinguishing features:

- **Regional allocation and distribution:** each macro-region was allocated funds proportional to the number of OWES in the area, to ensure equal access for all Polish social economy entities and avoid a situation where the available financial resources are fully used in some regions and only partially used in other regions.
- **Preferential pricing**: below-market loans were offered at one-half or one-quarter the rediscount rate, with no upfront or administration fee, and no extra charges.[11]
- **Pricing conditions related to social impact**: clients who met one of the defined social criteria[12] were eligible for a lower interest rate.
- **Free advisory services**: capacity-building services are an integral support component for all interested borrowers. Post-investment services help stabilise the financed entities' performance and update their skills, increasing the probability of loan repayment.

Challenges encountered and impact

Table 13.2. provides a strengths, weaknesses, opportunities and threats (SWOT) analysis for ES Fund TISE.

Table 13.2. **SWOT analysis of ES Fund TISE**

Strengths	Weaknesses
• Good recognition and equal access throughout the country • Track record of successful transactions • Positive impact on job creation • Effective partnership and proven implementation model • Skilled and experienced financial intermediary • Low programme cost • Free advisory services to improve social entrepreneurs' professional skills • Educational experience for all stakeholders • Common borrower-assessment methodology	• Not a self-sufficient model • Only one instrument offered and tested, which does not fit all social enterprises' needs • Lack of flexibility • Time constraints • Advisory services exclusively for borrowers • No social impact measurement • Rigorous, time-consuming reporting procedures • Loan analysis requires significant work • OWES not ready to co-operate • Loan-assessment methodology needs improvement • Weak and ineffective collaboration between TISE and some OWES to form a network linking social enterprises and financial intermediaries
Opportunities	**Threats**
• Increasing demand of social enterprises for external financing • Positive credit history-building for social enterprises. • Potential to reuse, extend and transform the co-operation model into a sustainable financial instrument • Growing independence from the grant system in the long run • Possibility to reuse the funds • Potential to replicate in other countries	• Dependence on public funding • Lack of appropriate financial intermediaries • Lack of interest of social enterprises in repayable instruments • Missed investments causing big default ratio • No political will to continue/expand the project • Difficult transferability to other countries without social entrepreneurship-oriented approach

Challenges

Establishing a nationwide support system for social enterprises proved challenging because of public stakeholders' lack of experience with financial instruments in the social policy area. Moreover, the instruments' design needed to fit the (relatively vague) EU regulations.

The main difficulties related to:

- defining the eligibility criteria for social enterprises (given the relatively small amount earmarked for the project, medium-sized enterprises were not eligible)
- setting the loan parameters (with a maximum EUR 25 000 individual loan amount), the repayment (up to five years) and grace (up to six months) periods, as well as the interest rates and additional fees
- deciding on the methodology (regular contest or public tender) and criteria (price/quality relation and accession criteria) for selecting financial intermediaries
- drawing up from scratch the unified borrower-assessment methodology to be used nationwide, and ensuring equal access to financial support across the country.

The lack of financial intermediaries with appropriate expertise and experience could have threatened successful implementation of the project. Luckily, the government, BGK and TISE co-operated very well, despite the restrictions imposed by the longstanding public procurement regime, which does not leave much room for flexibility.[13] Some social enterprises struggled to meet the eligibility criteria – which could not be changed or adapted – and the instrument turned out to be inadequate for their needs.

The social enterprises' limited financial, managerial and planning skills at the loan-application stage prompted TISE to adopt an individualised approach to each potential client and train its local partners accordingly. This proved beneficial to clients, but time-consuming and cost-generating for TISE.

The most significant weakness and challenge for TISE was to secure the participation of experienced, reliable and motivated local partners to approach potential borrowers throughout the country. Although OWES were initially considered as natural partners in connecting social enterprises with financial intermediaries, the collaboration proved challenging and disappointing. In some cases, OWES lacked the competencies or willingness to support and promote the project to potential borrowers. TISE eventually identified institutions that were open to co-operating for the benefit of social enterprises, and this partnership ensured the project's success.

Impact

TISE built a well-performing portfolio of loans that helped develop social enterprises' commercial activity and revenues: as of May 2016, TISE had granted 431 loans to 371 social enterprises; the 436 new jobs (237 for women and 199 for men) and over 1400 sustained jobs reported by the borrowers at the end of project's first implementation cycle (March 2013-December 2015) largely exceeded target expectations (i.e. 50 jobs created). The loans for social enterprises appeared to be an effective tool to combat unemployment, with the capacity to create and preserve workplaces. TISE provided formal post-investment counselling to 241 enterprises, which helped improve the performance of borrowers and the project's overall effectiveness.

ES Fund money will be progressively re-used and serve to build a guarantee fund for social enterprises.

The project gained good recognition across Poland and helped social entrepreneurs build self-awareness, realise their shortcomings, undertake financial planning and obtain financing from external sources. ES Fund TISE created demand for repayable funding: most of the borrowers had not applied for loans before the pilot project. Preferential parameters and easy access to financing helped overcome social enterprises' initial "aversion" to repayable instruments. However, even the simplified application process presented some difficulties, and both approved and rejected borrowers received additional consulting at the pre-investment stage to improve their business activities and skills.

ES Fund TISE allowed testing the delivery model (the financial instrument, organisational model and risk-assessment methodology), as well as assessing in practice social enterprises' financial situation and needs, the quality of services provided by the financial intermediary and the existing network of OWES. The instrument proved that social economy entities financed by TISE are reliable debtors: no write-offs were reported by the end of the first implementation cycle (31 December 2015), and the ratio of overdue receivables (over 180 days) to loan portfolio value was 2.9%.

Lessons learnt and conditions for potential replicability

Lessons learnt

The project's implementation revealed that promotion and marketing efforts can be more important than local presence with respect to distribution. With only a few branches, TISE relies on its employees – who travel around the country – and local partners. Establishing both formal and more flexible partnerships has proved convenient for social enterprises, and the model could be replicated by other institutions.

The Ministry of Economic Development has already used the experience gained during the pilot project to set the terms and conditions, and design the new financial instruments for 2014-20. The Polish pilot project showed that more flexible financing schemes are necessary, with a broader target group encompassing not only small and micro, but also medium-sized enterprises. Moreover, loans should be more diverse, and financial intermediaries should be able to adjust funding to specific needs. Lastly, loans should be complemented by guarantees, spurring banks and other financial institutions to build a broad offer and provide the quasi-capital to fill the market gap in this sector. Linking management fees with results (based on financial and social goals) and sharing risk with financial intermediaries would also increase the financial instruments' effectiveness.

Conditions for potential replicability

ES Fund TISE is considered an example of good practice and has been repeatedly used in peer-learning actions focusing on the ESF or financial instruments in general. It has been discussed at many forums,[14] and its good performance has inspired numerous persons and institutions (e.g. from Croatia, Hungary and Romania). Some EU Member States (e.g. Slovakia[15]) have expressed interest in implementing a similar solution and have already designated funding for that purpose in the current programming period 2014-20.

ESF Fund TISE is aligned with ESF regulations, making it easier for EU Member States to replicate the project. It is highly dependent on available public funding to provide preferential financing conditions to target groups. Once public funding is secured, the key success factor lies in maintaining reliable partnerships with the various stakeholders – bank, financial intermediary, support structures – throughout the process.

The replicated solution should be well planned and ensure the participation of all stakeholders (public and private investors, intermediaries and facilitators, financial institutions, target beneficiaries, and supporting and associated institutions) in the preparatory work. It should leave some space, however, for modifications during the implementation phase.

The market and financial-gap study should prove that existing social enterprises and start-ups are numerous enough – and their potential financial needs important enough – to create a significant target group. Some examples of successful investments with social scope and business activity might provide proof of a good "climate" for social enterprise development. Potential financial institutions should also be identified during the design phase.

Owing to social entrepreneurs' limited financial skills, special technical assistance should be made available in the conceptualisation and financial planning stage prior to signing the loan agreement, with different stakeholders specialised in the social economy supporting social enterprises in the application process.[16] This technical assistance should continue during the investment phase.

All parties interested in developing social enterprises should join forces to promote the project at the national, regional and local levels to facilitate its implementation.

Last, but not least, successful replication requires building a stable and continuous financial instrument on which social enterprises can rely to run their businesses efficiently.

Notes

1. For further information, please visit: *www.mr.gov.pl*.
2. For further information, please visit: *www.mpips.gov.pl*.
3. The steering committee comprises government and BGK experts, social partners and financial intermediary representatives.
4. A government-owned development bank supporting Poland's social and economic growth. Dedicated to financing big investments, infrastructure development and supporting enterprises, it is experienced in implementing EU financial instruments, such as JEREMIE and JESSICA. For further information, please visit: *www.bgk.pl*.
5. Social and Economic Investments Company, a loan fund specialised in serving micro, small and medium-sized enterprises, social enterprises, non-governmental organisations and other social-economy entities in Central and Eastern Europe, associated with the European Federation of Ethical and Alternative Banks and the European Venture Philanthropy Association. For further information, please visit: *www.tise.pl*.
6. Many OWES have been created since 2009 within the framework of the nationwide "Integrated system of social economy support" project. The objective was to build a coherent support system for the social-economy sector in Poland, consisting of local centres offering standardised, comprehensive support through a range of advisory and consulting services on creating social co-operatives, identifying and applying for financing.
7. According to the definitions set out in Annex I to Commission Regulation (EC) 800/2008 of 6 August 2008 declaring certain categories of aid compatible with the common market in application of Articles 87 and 88 of the Treaty [2008] OJ L214/3, Annex 1, Art. 2, para. 2.
8. As the instrument was a pilot and lacked impact assessment, it was assumed that at least one out of five loans should contribute to new job creation.
9. For further information, please visit: *https://www.bgk.pl/bip/przetargi-nieograniczone-38/*.
10. As regularly reported through social media at: *www.facebook.com/TISESA/?fref=ts*.
11. All services have been provided to social enterprises as a government aid based on the minimum aid rules defined by the European Commission: *www.eur-lex.europa.eu/legal-content/EN/TXT/?uri=URISERV%3Al26121*.

12. The lower interest can be granted to social co-operatives that generated annual revenues under approximately EUR 25 000 (PLN 100 000) in the last financial year and social enterprises that assigned at least 10% of the profit or surplus for public-benefit purposes, or have hired at least 50% of employees from the population exposed to social exclusion: homeless persons, people addicted to alcohol or drugs, mentally ill individuals, people discharged from prisons, refugees or workers with disabilities.
13. During the execution of the tender, any changes or adaptation are unacceptable, i.e. any order extension under a signed contract could not be done freely (and only up to 50% of the initial order amount). This slows down projects, and particularly pilot undertakings. The alternative could be a contest.
14. Fi-compass platform and Social Entrepreneurship Network.
15. For further information, please refer to: *https://www.employment.gov.sk/files/slovensky/praca-zamestnanost/podpora-zamestnanosti/national-employment-strategy-slovak-republic-until-2020.pdf* (National Employment Strategy of the Slovak Republic until 2020)
16. The lessons have been learnt with regard to the OWES in Poland: to improve the quality of service in the current programming period 2014-20, only certified entities will be eligible to receive operational financing.

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Boosting Social Enterprise Development
Good Practice Compendium

Chapter 14

Portugal Inovação Social: An integrated approach for social innovation, Portugal

Portugal Inovação Social acts as a market catalyst promoting the social investment sector in Portugal through the mobilisation of EU structural funds. Its funding programmes support innovative financing instruments tailored to the needs of both social enterprises and investors. This chapter describes the institution's objectives, rationale and activities. It also presents the challenges faced, the lessons learnt and the conditions for transferring this practice to other contexts.

Summary

In the past three years, Portuguese policy makers have placed social enterprises at the top of their agenda. A thorough process has been implemented to develop the social investment market, and initiatives have emerged on the ground to support social enterprises[1] as important vehicles for social innovation.

Learning from more mature markets, Portugal has created its own pathway to experimenting innovative ways of funding social innovation. To some extent, policy makers' discussions on social innovation have centred on how to finance it. The main outcome of these discussions has been a focus on creating the right incentives, mobilising private capital for social innovation and creating a new market.

In 2015, acting on the realisation that a central market was needed to improve social enterprises' access to finance, the Portuguese government created Portugal Inovação Social, a catalyst institution dedicated to social innovation and social investment. Reporting directly to the Presidency of the European Council of Ministers, Portugal Inovação Social harnessed EUR 150 million (euros) in European Union structural funds to create and promote an investment market for Portuguese social enterprises transversally across different policy areas until 2020. Mobilising central funds to foster the social investment sector and create a suitable market infrastructure has positioned Portugal as a pioneer in the field, clearing the way for other countries to replicate such a model.

To tackle the diverse needs of social enterprises, Portugal Inovação Social allocates funds among four funding programmes:

1. **Capacity Building for Social Investment** enables social enterprises to access support from specialist providers.
2. **Partnerships for Impact** promotes venture philanthropy in Portugal through a match-funding system.
3. **Financing Instrument of Social Impact Bonds (SIBs)** promotes the importance of an outcome-based focus among public entities.
4. **Social Innovation Fund** mobilises capital and encourages investment in the social sector.
5. The Portuguese social investment ecosystem is still in its infancy; the time has come to implement policy actions to develop the market. The impact of the process will ultimately be measured by the capacity of market players – with a special focus on Portugal Inovação Social – to deliver the expected outcomes by 2020.

Key facts

Portugal Inovação Social represents a milestone in the promotion of social investment in Portugal. Its creation in 2015 reflects the government's agenda of improving social enterprises' access to financial mechanisms. This new institution mobilises EUR 150 million in EU structural funds – especially the European Social Fund – under the scope of the "Portugal 2020" partnership agreement.

Portugal Inovação Social comprises four financing programmes, with specific targets and aims, which will operate between 2016 and 2020:

1. Capacity Building for Social Investment:
   - Funding available: approximately EUR 15 million
   - Expected launch date: March 2016
   - Objective: enable social enterprises to access investment-readiness support services from specialist providers through a voucher system
   - Maximum amount per social enterprise: EUR 50 000
2. Partnerships for Impact:
   - Funding available: approximately EUR 15 million
   - Launched in July 2016
   - Objective: promote venture philanthropy in Portugal through match-funding
   - Minimum amount per social enterprise: EUR 100 000
3. Financing Instrument for Social Impact Bonds (SIBs)
   - Funding available: approximately EUR 15 million
   - Launched in September 2016
   - Objective: promote an outcome-oriented culture within the public sector
   - Expected amount per deal: between EUR 350 000 and EUR 1 million

4. Social Innovation Fund
   - Funding available: approximately EUR 100 million
   - Expected launch date: until the end of 2017
   - Objective: mobilise private capital and encourage investment in the social sector through leverage and subordination incentives
   - Approach: fund of funds, acting as a wholesaler

Rationale

Portuguese social enterprises can traditionally access two types of capital: 1) philanthropic grants, which are usually provided by foundations, corporations and high net-worth individuals; and 2) bank loans with adjusted terms of reference, typically provided by a group of banks (especially co-operative and mutual savings banks) with stronger links to the social sector.

Social enterprises also finance their activities by providing services; most of these are paid for by the public sector through co-operation agreements, where the organisation provides a service on behalf of the government. The latest data available on the Social Economy Satellite Account suggest that the net unmet financial needs of social enterprises totalled EUR 768 million in 2010 (National Statistics Institute [INE] and António Sérgio Cooperative for the Social Economy [CASES], 2013), suggesting that the financial needs of Portuguese social enterprises were not being met by the available sources of capital before 2014.

To mitigate this unsustainable reality, in October 2013 the Calouste Gulbenkian Foundation, in partnership with IES Social Business School and Social Finance UK, launched Laboratório de Investimento Social (Social Investment Lab), a social finance intermediary and market-builder charged with devising financial and non-financial mechanisms to unlock capital for social enterprises.

Since its creation, the Lab has lobbied key decision-makers from the public, private and social sectors to include social enterprise and social investment as priority agenda items. It has produced research papers on the relevance and applicability of social investment in Portugal, and conducted pre-feasibility studies of social investment deals, fostering initial conversations with investors and local authorities.

In July 2014 the Calouste Gulbenkian Foundation, with the support of the Social Investment Lab and Social Finance UK, launched the Portuguese Social Investment Taskforce. Over the course of one year, the EU-funded Taskforce convened 21 members from the private, public, social, financial and academic sectors to discuss a strategy to develop the Portuguese social investment market. Their work culminated in a report (Portuguese Social Investment Taskforce, 2015) featuring five recommendations[2] paving the way for a national action plan on social investment. As a result of such advocacy efforts, in December 2014 the government announced the creation of Portugal Inovação Social, a catalyst institution aiming to promote social innovation and tackle the financing gap through innovative financing instruments.

While a consensus exists on the need for a catalyst to promote social investment in any given country, the typical method is to use unclaimed assets – an alternative with few prospects in Portugal. An attempt to replicate the mechanisms of Big Society Capital, the UK market champion, soon revealed that an early-stage market such as Portugal's required a blended wholesaler-retailer approach. Hence, policy makers mobilised EUR 150 million in EU structural funds to create Portugal Inovação Social, the country's flagship initiative for using public policy to promote social enterprise.

Objectives

Portugal Inovação Social aims to promote social innovation and tackle the financing mismatch between supply and demand in the social sector, by providing innovative financing solutions targeting the needs and concerns of both social enterprises and investors. Specifically, Portugal Inovação Social aims to:

Improve the competitiveness of social enterprises. Social enterprises often have a suboptimal organisational structure, owing to limited funds and a pressure to allocate existing financing to operations. This situation leads to low efficiency and prevents them from attracting talent to the sector. Portugal Inovação Social counters this tendency by considering human resources and overheads as eligible costs. Through its capacity-building programme, it further invests in developing social enterprises' workforce and organisational structure, to ensure investment-readiness and guarantee sustainable relations with investors.

Promote the growth of projects with proven intervention and business models. A financing gap exists in Portugal with respect to supporting social enterprises at two developmental stages: those whose business models have been tested and need further strengthening (Stage 2), and those whose business models have been strengthened and are therefore ready to scale (Stage 3; for a description of the different stages, see European Commission, 2016). Over its four-year course (2016-20), Portugal Inovação Social will provide funding instruments targeting social enterprises at both stages of development.

Create evidence and inform public policy decisions. Despite the large number of social enterprises and interventions, the limited funds to date have hampered a culture based on evidence creation. To promote such a culture, improve the quality of interventions in the long run and inform public policy decisions, Portugal Inovação Social try to foster the independent and scientific evaluation processes required by SIBs.

Attract new players to the market. As a way of closing the current financing gap, Portugal Inovação Social intends to attract new market players (i.e. venture capitalists and private equity funds) to the sector, using the Social Innovation Fund as a wholesale fund.

Promote an outcome-based culture in the public sector. Service provision represents approximately 40% of social enterprises' annual income (INE and CASES, 2013). Changing contracting methods to favour competitive procurement bids will pressure social enterprises to demonstrate: 1) their managerial capacity; 2) evidence of achieving outcomes and impact; and 3) their overall efficiency in delivering the services. Acting as an outcome payer under the SIB programme, Portugal Inovação Social creates evidence and helps demystify the concept, while laying the groundwork for the public sector to adopt an outcome-based culture in coming years.

Promote the development of priority geographic areas. Portugal's regional development faces strong inequalities. Given its central role as the country's capital and its high concentration of people, services and social enterprises, Lisbon absorbs the bulk of available funding. To counter this trend and encourage social enterprises to scale in less developed regions, Portugal Inovação Social's programmes will prioritise interventions in the following regions: North, Center, and Alentejo.

Activities

Portugal Inovação Social proposes four funding programmes, featuring distinct objectives and structures tailored to social enterprises' different developmental stages. The programmes will share a common application process, based on calls for proposals issued at different periods between 2016 and 2020 (Portugal Inovação Social, 2016).

1. Capacity Building for Social Investment

   Through its capacity building programmes, Portugal Inovação Social aims to ensure that social enterprises can access the support services necessary to prepare them for investment, and thus grow and expand their valuable work most effectively. As a catalyst entity, Portugal Inovação Social is using this programme to level the playing field among social and commercial enterprises, removing the barriers encountered by social enterprises in accessing specialist services.

   Through a voucher system, Portugal Inovação Social will provide grants (up to a maximum of EUR 50 000) to social enterprises, enabling them to access support from specialist providers in areas such as financial management, business modelling, impact measurement, leadership and governance. This programme has available funding of EUR 15 million, and is expected to reach between 250 and 500 social enterprises by 2020.

2. Partnerships for Impact

   Through this programme, Portugal Inovação Social matches the funds provided by philanthropic donors to promote venture philanthropy in the country. The programme aims both to create incentives for philanthropic capital to be invested over the long term and linked to outcomes, as well as instil a greater focus on investment readiness.

   Under this programme, Portugal Inovação Social will match 50% of the amount committed by philanthropic organisations, with a minimum match of EUR 50 000. To be eligible for this programme, organisations must adopt a venture philanthropy-based approach: they must commit to providing both financial and non-financial support to social enterprises for at least three years, thereby ensuring that grantees become more sustainable and effective. The available funding for this programme is EUR 15 million.

3. Financing Instrument for SIBs

   By acting as the direct outcome payer rather than as an investor, Portugal Inovação Social removes an existing bottleneck in SIB development – namely, convincing traditionally output-focused public sector commissioners to shift their commissioning towards outcomes.[3] This programme aims to develop innovative solutions to social issues, as a means of encouraging public entities to focus on outcomes.

   Portugal Inovação Social will use this instrument to finance local and central governments interested in developing SIBs. This facility is designed to improve the financial viability of early SIBs and provide incentives for local government commissioners to pay for outcomes. This instrument has available funding of EUR 15 million; it is expected to result in around 20-25 SIBs by 2020.

4. Social Innovation Fund

   Portugal Inovação Social will launch a wholesale fund that will co-invest in Portuguese social enterprises and social investment products with a demonstrated potential to generate social and financial returns. The aim is to mobilise capital and encourage investment in the social sector. Acting as a cornerstone wholesale investor, Portugal Inovação Social will provide favourable terms and conditions to capital holders wishing to create retail structures to fund social enterprises. This fund of funds will adopt two mechanisms: debt and equity/quasi-equity. The debt mechanism will mostly fund innovation in more mature social enterprises by providing guarantees to co-investors, thereby improving the products' risk profile and allowing banks to lend to social enterprises on more favourable terms. The equity/quasi-equity mechanism will use asymmetric risk and return favourable to private co-investors to improve the terms for social investors and business angels keen to fund the growth and consolidation of social enterprises. This programme has available funding of approximately EUR 100 million.

The four programmes established by Portugal Inovação Social are aligned with social enterprises' developmental cycle, namely: 1) focus on the problem and devise a solution; 2) validate a business model; 3) ensure growth; and 4) disseminate the initiative. Where market insufficiencies exist, the most appropriate programme for each stage is as follows:

- Capacity Building for Social Investment: Stages 1 and 2
- Partnerships for Impact: Stage 2
- Financing Instrument for SIBs: Stages 2 and 3
- Social Innovation Fund: Stages 3 and 4.

The programmes are synergistic: a social enterprise that benefitted from the Capacity building or Partnerships for impact programme, for example, is likely to be a more robust candidate for the Social Innovation Fund.

By acting across a social enterprise's different stages of development, Portugal Inovação Social's role shifts from participating directly in the market to contributing indirectly to its development. This constant adaptation is essential for Portugal Inovação Social's to meet its mission of answering social enterprises' specific needs and filling market gaps.

Challenges encountered and impact

The Portuguese social investment ecosystem is still in its infancy. However, the design of Portugal Inovação Social started well before its formal launch in 2015: indeed, the context and needs of social enterprises were studied in depth to maximise the chances of successful implementation. Table 14.1. shows an analysis of the strengths, weaknesses, opportunities and threats (SWOT) of Portugal Inovação Social.

Table 14.1. **SWOT analysis of Portugal Inovação Social**

Strengths	Weaknesses
• Diverse funding programmes, meeting the needs of social enterprises at all stages of development • Depending on the programme, the funding conditions involved (whether for social enterprises or investors) are aligned and provide incentives for sustainable development of the market • Strong political endorsement, regardless of the partisan structure in place (smooth transition between different governments)	• Relatively short time span to extract lessons from the market and adapt programmes if necessary • Social enterprises marked by a predominantly weak socia impact measurement culture, hampering both initial selection and continuous performance management • Under-developed evaluator market, particularly important for the Financing instrument for SIBs
Opportunities	**Threats**
• Strengthening the existing pipeline of social enterprises in Portugal by promoting scale and growth • Fostering a culture focusing on robust impact measurement, where social enterprises and social investors' aims are aligned • Strengthening market players by fostering competition to attract new players • Attracting new social investors by developing market intelligence and case studies	• Possible dependency by market stakeholders on the market champion • Manage transition period and sustainability post-2020

Challenges

Various challenges linked to each funding programme have been observed:

1. Capacity Building for Social Investment

   One of the main challenges for the capacity building programme is the timid representation of specialist providers in the Portuguese market, owing to social enterprises' inability to pay for their services. At an initial stage, Portugal Inovação Social expects the few existing market players to comprise the bulk of specialist providers. In the medium term, however, the funding programme's incentives are projected to attract new providers wishing to explore capacity building support for social enterprises as a new business stream. An additional challenge is to ensure that capacity building programmes have a lasting impact. Portugal Inovação Social has struggled to find the right incentives to guarantee knowledge and skill transfer between specialist providers and social organisations.

2. Partnerships for Impact

   While this programme is expected to expand available funding, one of the main challenges pertains to the initial cultural shift required to institute effective non-financial relationships between philanthropic organisations and social enterprises. Another challenge is that philanthropic sources in Portugal traditionally have annual budgets, whereas this programme requires multi-annual support.

3. Financing Instrument for SIBs

   By paying for outcomes, the Financing Instrument for SIBs removes the main barrier to SIB development. However, the fact that local or central governments are not paying for outcomes might result in less buy-in and accountability on their part. To mitigate this risk, Portugal Inovação Social makes it mandatory for them to participate in the SIB partnership, as well as engage in contract and project management. Future plans involve blending outcome payments by the Financing Instrument for SIBs with top-ups from local and central governments.

4. Social Innovation Fund

   One of the main expected challenges in implementing the Social Innovation Fund relates to the amount of bureaucracy and conditions for receiving EU structural funds, which may test Portugal Inovação Social capacity to preserve the social aims underlying its social investment instruments.

Impact

Given the early stage of Portugal Inovação Social, whose first programmes – Partnerships for Impact and the Financing Instrument for SIBs – were launched in summer 2016, no robust social impact can yet be assessed. Nevertheless, as the market catalyst for improving access to finance, Portugal Inovação Social will need to live up to expectations. Since its inception in December 2014, Portugal Inovação Social's executive team has learnt how to mobilise and use EU structural funds for social investment, without losing sight of the institution's mission.

Portugal Inovação Social has both an opportunity and a challenge to create feedback loops on capital availability and allocation in the social investment market. Ultimately, its success as a catalyst for developing the market will be assessed by its capacity to adjust its programmes to the evolving needs of social enterprises over time.

Lessons learnt and conditions for potential replicability

Lessons learnt

If the overall vision for the Portuguese social investment ecosystem is to serve as a blueprint for other EU jurisdictions, learning from experience is a central element for ensuring replicability. So far, the key lessons learnt from the process are as follows:

Government engagement is critical: strong endorsement by policy makers is an absolute prerequisite for developing a robust social investment market. In its absence, systemic change will not be achieved; in its presence, social investment is a powerful tool to achieve impact at scale. In Portugal, strong support at the ministerial level since 2013 has played a critical role in ensuring the development of the social investment ecosystem, and specifically of Portugal Inovação Social. Government changes (namely, change of ministers responsible for social innovation) have not affected the social investment agenda.

Create market champions: even though Portugal Inovação Social is the catalyst institution, other players are also championing this nascent market. Calouste Gulbenkian Foundation has played a cornerstone role by simultaneously investing in market-building activities and specific transactions, helping move the market forward.

Design a national action plan: the Portuguese Social Investment Taskforce convened decision makers from the public, private and social sectors, and laid the foundations for the social investment ecosystem by issuing five key recommendations. Through this national action plan, Portugal Inovação Social was able to design funding programmes tailored to market needs. Each market player (investor, public sector representative or social enterprise) is fully cognisant of its role in implementing each recommendation.

Quick wins are essential: while they are generally not economically viable, pilot projects have an important role to play in testing new financial mechanisms and obtaining buy-in from key stakeholders. The market needs quick wins: as evidenced by the first SIB pilot in the municipality of Lisbon, launching a small-scale pilot will help create momentum and convince stakeholders of the concept's applicability.

Conditions for potential replicability

When it comes to replicating the Portugal Inovação Social across other EU Member States, the use of EU structural funds can be a game-changer. New markets need incentives. Harnessing EU funding that is external to countries' national budgets can be a powerful tool for policy makers to experiment innovative ways of funding social innovation and proving their efficiency.

A key lesson from the government's all-inclusive approach to developing the market is that unless solutions balance top-down initiatives (such as Portugal Inovação Social and the Portuguese Social Investment Taskforce) with bottom-up approaches (such as the first SIB pilot in Lisbon), they run the risk of not being used by those for whom they were intended in the first place.

Notes

1. For the purpose of this text, social enterprises refer to all types of entities, regardless of their legal status, that undertake activities yielding a measurable social impact of any form. To date, Portugal still has no legal framework for social enterprises.

2. 1) Demand: strengthen social organisations through capacity building programmes; 2) supply: introduce financial instruments suited to social organisations and social innovation; 3) public sector: promote an outcomes-based culture in public services; 4) market intelligence: set up a knowledge and resource centre; and 5) intermediaries: promote specialist intermediaries to facilitate access to capital.
3. Outputs refer to directly measurable results as to how an activity touches the intended beneficiaries (e.g. number of beneficiaries), while outcomes correspond to the change arising from the lives of beneficiaries (GECES subgroup, 2014).

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Good Practice Compendium

Chapter 15

Barcelona City Council Decree for Socially Responsible Public Procurement

The Barcelona City Council Decree for Socially Responsible Public Procurement was designed to tackle the city's increasing unemployment, in particular of people with the most pressing socio-economic needs. Through a participatory process, binding social clauses for public procurement contracts were developed and adopted to facilitate social enterprises' access to market. This initiative describes the Decree's objectives and rationale, as well as its features. It presents the challenges faced in developing and implementing the Decree, and the impact it has achieved so far. It also includes lessons learnt and conditions for transferring this practice to another context.

Summary

Designed and implemented by Barcelona City Council, the Municipal Decree 4043/13 for Socially Responsible Public Procurement aims to turn public procurement into an effective instrument serving the most vulnerable people in society.

The Decree, which came into force on 15 December 2013, stipulates social clauses for public procurement contracts, in compliance with European Union (EU) Public Procurement Directive 24/2014. It has the dual effect of allowing public authorities to make progress in combating social vulnerability, as well as connecting and establishing synergies between social and financial actors. It is a significant legal step affecting all public procurement in the City of Barcelona, with the result that more than EUR 500 million (euros) from the municipal budget allocated to construction work, services and supplies are now being used to advance social cohesion.

The initiative originated from the Department of Quality of Life (covering social services), but was developed across different municipal areas involving experts from various fields (e.g. legal and accounting services, social services, economic promotion and equality, and construction). The drafting and approval process involved intensive dialogue and concertation. More than 50 people from 40 different government, corporate and social organisations (e.g. employers' associations and trade unions), as well as non-state actors (e.g. non-profit entities, solidarity organisations and social enterprises) worked together within a newly constituted Mixed Commission for Socially Responsible Public Procurement to draft the legal text until a consensus was reached. The Decree had strong backing from the Mayor's Office and was unanimously ratified at the end of a year-long process by the Municipal Council, with the approval of all political parties. The Council's ability to reach a consensus represents considerable value added, and offers greater sustainability and legitimacy.

By allocating considerable economic resources, this text has great potential to create employment opportunities for the most vulnerable people in society. Indeed, in 2014 Barcelona City Council earmarked more than EUR 500 million to public-procurement contracts.

Key facts

The Municipal Decree for Socially Responsible Public Procurement was approved in November 2013 and came into force in December 2013, with the objective of enhancing social enterprises' access to market while also encouraging "traditional" enterprises to consider social criteria in their procurement contracts. The initiative is under the jurisdiction of Barcelona City Council. It affects all public contract bidding by its administrative bodies, districts, areas, public companies and foundations, as well as autonomous organisations operating in Barcelona.

With a registered population of approximately 1.6 million at 30 June 2015 (Barcelona City Council, 2016a), the City of Barcelona is the second-largest city in Spain and the eleventh-largest in Europe. It yields enormous influence on the economy and labour market of Catalonia, particularly the Barcelona metropolitan area (the sixth-largest European metropolis, with a population of 5 million).

Barcelona City Council has a budget of EUR 2.55 billion (2014 budget liquidation[1]), including more than EUR 500 million[2] allocated to public procurement. The Decree optimises the budget by establishing a policy aiming to support people at risk of social exclusion. The initiative does not receive any subsidies from the European Union and European Social Fund, and was developed almost exclusively using City Council resources and personnel. A technical consulting firm[3] specialising in responsible public procurement and social clauses provided its sole external backing, for a cost of EUR 60 000 over two years.

Objectives

The initiative aims to use the instrument of public procurement to reduce unemployment and social exclusion, while promoting employment opportunities among the most underprivileged sectors of the population.

More specifically, it aims to:

- create work opportunities for the most vulnerable people in society and people with the most pressing economic/social inclusion needs, as defined by specific criteria[4]
- facilitate social cohesion and equal opportunities for the above-mentioned individuals
- foster a developing social sector – without causing market distortions – by reserving or protecting public contracts for:

- special employment centres whose staff is made up of at least 70% disabled people
- work integration social enterprises (WISEs), i.e. companies employing at least 50% of people experiencing or at risk of social exclusion
- non-profit organisations whose goals involve employing or socially integrating people experiencing or at risk of social exclusion.
- use the municipal budget as a tool to obtain added social benefits through public procurement
- establish collaborative synergies among actors from different municipal areas (procurement, public works, economic development agency, social services, etc.) that have not co-ordinated activities until now, with the common goal of achieving the social and professional integration of the most vulnerable people in society
- dispel mistrust among different sectors (social and economic, for-profits and non-profits) working with the City Council by involving them in a common goal to foster a more inclusive society, proving that mutual collaboration and agreement are possible.

The initiative was driven by a multifaceted policy approach, involving:

- locally developed regulations
- regulatory implementation, deployment and application
- comprehensive support (initially by all municipal groups, and subsequently by the Department of Quality of Life, Equality and Sports) during all phases of the initiative, from design and development to goal-setting, methodology and monitoring
- protecting or reserving markets for special employment centres and WISEs
- fostering and prioritising social responsibility criteria, and promoting a public procurement market actively seeking the involvement of social purpose companies.

The Decree is coherent with the terms and spirit of Directive 2014/24/EU of the European Parliament and of the Council, dated 26 February 2014, on public-procurement contracts:

Public procurement contracts play a key role in the strategy established in the European Commission Communication of 3 March 2010 titled 'Europe 2020, a strategy for smart, sustainable and inclusive growth', as they are market-based instruments that must be used to achieve smart, sustainable and inclusive growth while ensuring more efficient use of public funds. For that purpose, current public procurement regulations must be reviewed and modernised in order to improve the efficiency of public spending, especially facilitating access to public procurement of small and medium-sized companies (SMEs) and enabling contracting parties to better use public procurement to further common social goals.

Rationale

The initiative arose from major concern over Barcelona's unemployment figures, which soared from 6.7% in 2007 to 18.1% in 2013 (Barcelona City Council, 2016b). It also focuses on the most disadvantaged members of society: unemployed individuals who receive unemployment benefits, or belong to households with some form of income or employment, are not in the same situation as people who receive no income whatsoever, are long-term unemployed or live in situations of extreme poverty. As a result, the Decree focuses on facilitating employment among these vulnerable sectors, specifically unemployed people receiving no form of income (half of all unemployed), unemployed youth (43.6%[5]) and the population below the poverty line (18.3%[6]).

Barcelona City Council has allocated considerable budgetary provisions (e.g. training and employability programmes, employment guidance, intermediation and professional retraining) to this population segment. It also provides social care (e.g. social assistance, scholarships, soup kitchens, subsistence allowances, emergency relief, aid for homeless people) to people lacking financial resources. Though the Decree did not aim explicitly to reduce the overall municipal money spent on such resources, it stands to reason that at least a portion of such spending would be unnecessary if the beneficiaries were gainfully employed.

Six months before the adoption of the Decree, a Mixed Commission for Socially Responsible Public Procurement (Mixed Commission onwards) was constituted, including more than 50 members from the non-profit, corporate and third sectors (associations, foundations, special employment centres, WISEs, the employers' association and labour union agents), as well as municipal agents, ensuring the Decree's technical viability. Bringing together the interests and sensibilities of this diverse group of actors proved complex, and involved extensive discussions over more than a year. All stakeholders contributed by sharing their points of view and providing inputs to the final text, which was finally unanimously passed.

Activities

The Decree sets compulsory measures to be included in all municipal contracts, and features a series of tools to promote and facilitate employment among people struggling to enter the labour market.

1. Contracts are reserved for special employment centres and WISEs. Barcelona City Council sets a total amount, to be allocated annually through its social reserve fund; the average annual budgetary allocation for these institutions amounts to EUR 8 million.
2. Bidding organisations must meet three conditions:
   - Bidders with 50 or more employees must prove that at least 2% of their workers experience at least 33% disability.
   - At least 5% of the awarded companies' staff connected with the contract in question must be people struggling to enter the job market.
   - At least 5% of the awarded company's contract budget must be used to subcontract the services of special employment centres and WISEs.
3. Adjudication and scoring: companies that exceed the minimum percentages specified above with regard to hiring and subcontracting are awarded scores between 10% and 20%.
4. More generally, the Decree establishes environmental criteria for all aspects of bidding organisations' operations and purchasing (e.g. food products, electricity, communications and computer equipment, wood products, furniture, construction work, events, paper and cleaning products, textiles and vehicles).

Innovative aspects

The Decree is the first mandatory and legally binding decree for socially responsible procurement passed by a local administration in Spain. It applies to all administrative bodies of the City of Barcelona.

Its implementation and enforcement have resulted in an innovative, transferable method of participation, consisting of a comprehensive process (from design and drafting to implementation and assessment) involving continuous dialogue and resolution of issues.

The Decree has established a space for collaboration and co-production between seemingly opposed sectors and interests (e.g. employer associations, trade unions and non-profits).

Finally, the Decree has implemented a cross-sectoral approach in order to reach consensus. Until now, internal municipal departments had been accustomed to working in silos, rather than seeking to establish mutually beneficial synergies, setting common objectives and optimising resources.

Changes and adjustments

Putting aside minor technical issues, one major adjustment to the initial plan was the decision – upon the approval of the Decree in 2013 – to keep the highly effective and participative Mixed Commission active, in light of its success in establishing relationships and reaching consensus. Since then, the Commission has met regularly to assess the Decree's implementation and propose improvements.

As a result of this continuation, the City Council has drafted and adopted a set of guidelines to improve the quality of procurement in social services, healthcare and general personal care. Since their entry into force on 13 May 2015, these guidelines (which include measures relating to labour rights; quality of provision; contractual obligations; compliance monitoring; and the weighting of price, technical quality and social proposals) have been applied to all public procurement contracts.

Challenges and impact

Table 15.1. presents a strengths, weaknesses, opportunities and threats (SWOT) analysis of the Decree.

Table 15.1. **SWOT analysis of the Municipal Decree for Socially Responsible Public Procurement**

Strengths	Weaknesses
• Participation and consensus of all parties, offering greater political and public legitimacy and sustainability • Demonstrable results (see quantitative analysis below) • Solid legality	• Reduced public procurement budget owing to spending constraints • Administrative inertia and resistance to change • Complexity and size of Barcelona City Council[1]

Opportunities	Threats
• Zero-cost policy for City Council • Social direction of new public procurement directives • Creates a political and public climate favouring social policies • Similar clauses can be used in future to promote other social causes (e.g. gender equality) • Shared social responsibility of all actors involved	• Socio-economic crisis • Resistance from some lobbies and bidders • Current lack of a municipal majority government, hindering political consensus and passing reforms

1. The City Council consists of 41 councillors from 6 different political parties, only 14 of whom belonged to the same party as the mayor. This made the negotiations for approving the decree particularly complex.

Challenges

The Barcelona City Council comprised 6 different political parties and 41 councillors (only 14 of whom belonged to the same party as the mayor), rendering the negotiations particularly complex. The Council is also decentralised, and comprises representatives from a large number of public companies, districts, areas, foundations and independent bodies, making it difficult to reach a consensus and convince the various entities' technical and political heads.

The initiative's design and implementation were hampered by a few roadblocks: accustomed to using the same template contracts and clauses, public employees were initially resistant to change; the Department of Public Works questioned whether social criteria could yield a better price-quality ratio, and worried that they would distort a tender's transparency and objectivity; the regulation's mandatory nature was questioned from a technical standpoint; some political groups suspected ideological interests, believing that the Decree violated free-market principles; and the corporate sector worried about non-voluntary social commitments, added costs and reduced entrepreneurial freedoms.

Finally, the Mixed Commission had to ensure that both large corporations and smaller entities had equal voice and representation.

Thanks to a participatory strategy involving numerous meetings and discussions, the Council was able to overcome these obstacles and convince all the parties involved of the need for a paradigm shift in favour of the public interest.

Although the Decree has been implemented only recently, the Council has already analysed and assessed its application during the first year, and is now addressing three of the main challenges identified:

1. establishing a uniform system to verify compliance with social clauses and facilitate oversight of all the procurement bodies, with full guarantees of equality and free competition
2. perfecting the impact measurement system, thereby allowing the procurement body to immediately calculate the impact of each tender, and the City Council to automatically calculate results based on different parameters (e.g. department, procurement body, type of contract, dates)
3. including other social criteria (e.g. gender equality, fair trade, labour rights, ethics and fiscal transparency) in responsible public procurement.

Impact

The initiative has resulted in the creation of a vast network of public administrations, trade unions, business associations and social organisations, fostering social responsibility among all parties involved.

Since Barcelona adopted the Decree, more than 50 Spanish public administrations (many of them autonomous communities – e.g. the Balearic Islands and Extremadura – as well as many of the country's biggest municipalities – e.g. Madrid, Seville, Valencia, Girona, San Sebastian and Vitoria) have passed similar agreements. All have reproduced to some extent the text of the Mayoral Decree, and have taken advantage of the knowledge, and technical and legal expertise, developed.

The Decree has drawn interest from the largest national networks and federations working in the field of exclusion and disability.[7] The City Council has presented its application to regional parliaments and the Spanish Congress. It relates its experience at more than 40 conferences annually, and has signed a dissemination and transfer agreement with the government of Catalonia.

The Decree has not yet reached its full expected impact: many multi-annual city administration contracts will only incorporate the social criteria when they come up for renewal. In addition, the information technology system does not yet allow comprehensive and accurate impact measurement, so the quantitative results are obtained by manually calculating the results for each procurement body.

According to an oversight report by the Quality of Life department (Barcelona City Council, 2016d) on the Decree's impact, 75% of all contracts published and 1 200 of Barcelona City Council's public contracts incorporated the stipulated social clauses in 2014. Further, 770 people in situations of social exclusion, or at risk of social exclusion, benefited from the Decree in its first year of implementation, when the administrative apparatus was not yet fully operational.

Lessons learnt and conditions for potential replicability

Lessons learnt

Work in the Mixed Commission has allowed the City Council to generate collective knowledge on responsible procurement, and allowed the involved entities – and the administration itself – to accept proposals beyond the Council's initial positions. It has fostered relationships among the different members, and enabled the City Council to clarify the legal concepts and mechanisms featured in the Decree.

The following techniques were helpful in designing the Decree:

- aligning the City Council's social departments with the mayor's political will, working to overcome internal differences
- creating a specific forum (the Mixed Commission) to discuss issues
- developing a shared language and terminology
- The head of the Department of Quality of Life, Equality, and Sport assisted by the director of the consultancy firm repeatedly explained to each party how their position could be improved by the Decree.
- demonstrated leadership and support on the part of the mayor regarding the objectives of the Decree
- quick resolution of any incidents during negotiation
- above all, listening and empathising with all parties.

Conditions for potential replicability

Before Barcelona City Council passed the Municipal Decree on Socially Responsible Public Procurement in December 2013, only two similar initiatives with lesser scope existed in Spain (Avilés City Council in 2009 and Castellón City Council in 2010). The Decree was therefore uncharted territory, which public administrations had until then not dared to address.

Given Barcelona City Council's position as a national reference and model, the Decree was conceived with a view to replication by other public administrations, both in the Barcelona metropolitan area and throughout Catalonia and Spain. One basic objective of the City Council has been to exercise leadership and support similar processes, by disseminating and transferring its experience and know-how.

The City Council feels it has achieved this goal, offering improved technical, legal and practical applications in the area of socially responsible public procurement. This model continues to be studied and replicated by other administrations, and Barcelona is collaborating in this respect with interested municipalities, regional councils and autonomous communities.

Notes

1. For further information, please refer to the Barcelona City Council: *http://w28.bcn.cat/pressupostos2014/es/*.
2. For further information, please refer to the Barcelona City Council: *http://w28.bcn.cat/pressupostos2014/es/docs/Pressupost-Ciutada-PL2014.pdf*.
3. For further information, please refer to De Par en Par Consultoría: *http://www.deparenpar.org/*.
4. People receiving minimum subsistence income; people with at least 33% recognised disability; women who are victims of gender violence (physical or psychological), as well as victims of domestic violence; people aged 16 to 30 having spent time in child protection or penitentiary institutions whose situation allows them to access the labour market; people on parole and former inmates during the 12 months following their release; people with drug or alcohol-abuse problems undergoing rehabilitation and social-reintegration programmes; people without access to minimum subsistence income, but whom public services believe to be at risk of social exclusion.
5. Youth unemployment reached 43.6% in the third quarter of 2014 (Barcelona City Council 2016c).
6. Population below the poverty line reached 18.3% according the study carried out by the Barcelona Institute of Regional and Metropolitan Studies of the Statistical Institute of Catalonia (Idescat/IERMB, 2011).
7. Federación de Asociaciones Empresariales de Empresas de Inserción; Confederación Empresarial Española de la Economía Social; Portal de Economía Solidaria; Asociación Española de Recuperadores de Economía Social y Solidaria; ONCE Foundation; Comité Español de Representantes de Personas con Discapacidad.

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Idescat/ERMB (2011), *Enquesta de condicions de vida i hàbits de la població* [Survey on living conditions and lifestyles of the population of Barcelona] (database), *http://www.idescat.cat/pub/?id=ecvhp* (accessed 28 October 2016).

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Chapter 16

El Hueco: A local incubator, Spain

El Hueco is a co-working space and social-enterprise incubator. It aims to create a favourable environment for the creation and development of social enterprises, particularly in sparsely populated areas (SPAs) such as the Soria province of Spain. This chapter describes the organisation's objectives, rationale and activities. It presents the challenges faced in implementing the structure and the impact achieved. It concludes with the lessons learnt and conditions for transferring this practice to other contexts.

Summary

El Hueco was established in 2012 by Cives Mundi – a non-governmental organisation (NGO) active since 1987 in the field of international co-operation – with the aim of creating an attractive space for social, environmental and technological enterprises in the province of Soria, the most depopulated geographical area in Spain. El Hueco now operates independently from Cives Mundi.

El Hueco focuses on creating an environment where entrepreneurial and innovative initiatives generating social impact can flourish. El Hueco counts an impressive network of partners and supporters, including universities (regional and national), investors (regional community banks, national banks, investment funds), public administrations (local, regional, national and European), traditional enterprises and social enterprises (many of which were created at El Hueco).

El Hueco manages a co-working space featuring a wide range of activities to stimulate interactions among co-workers and external guests. It hosts the "Starter" competition annually to attract and train potential social entrepreneurs, and provides tailored training and mentoring through its recently launched Spanish Social Entrepreneurship Immersion Programme (SEIP), a social enterprise incubator, and the IMPUL/SO acceleration programme.

In 2015, El Hueco helped create 22 organisations (including social enterprises) and 120 jobs (including 30 self-employment positions), and attracted 115 business advisors. By organising local and international events, an intensive social network, a solid and creative communication campaign, and a strong presence in the media, it raised awareness of social enterprises and the challenges they face, and enhanced their recognition. As a result, several private and public actors have developed ad hoc financing and support tools to accompany emerging social enterprises in Soria. At the political level, El Hueco's actions, and its sustained relationships with local and regional public administrations, have fostered dedicated support schemes for social enterprises.

El Hueco has an innovative ecosystem involving both local and international stakeholders. Considering the geographical, cultural and socio-economic environment where it emerged, El Hueco has acted as a true convener of multiple stakeholders supporting socially innovative initiatives and entrepreneurs. El Hueco provides sustained mixed (public and private) support, something that was hard to imagine in Spain just a decade ago.

Key facts

El Hueco was formally founded in July 2012. Initially fully owned by Cives Mundi[1] (to ensure its short-term sustainability), it is now fully independent from an administrative and financial standpoint. The only remaining dependency between the two organisations lies in mission monitoring: Cives Mundi ensures that El Hueco does not incur "mission shift" and remains focused on the social sector. Caja Rural de Soria (the local savings bank) supports the initiative by offering an old industrial building free of rent, as well as providing funding and advice to El Hueco entrepreneurs.

While El Hueco mainly focuses on local social enterprises in Soria, it opened an office in Brussels in 2014 and is increasingly active in European projects. Table 16.1. shows El Hueco's annual budget since its creation.

Table 16.1. **Annual budget since 2012**

	2012	2013	2014	2015	Accumulated
Total annual budget	EUR 28 029	EUR 95 726	EUR 228 494	EUR 349 200	EUR 701 449 €

Source: El Hueco (2016).

El Hueco receives private and public funds on a project basis. It also generates its own income (through rental of co-working space, services to entrepreneurs and private donations) to cover operating costs and/or infrastructure investment.

Objectives

In a post-crisis context characterised by high youth unemployment and increased depopulation in specific areas, El Hueco intends to create an environment where entrepreneurial and innovative initiatives can flourish. It also aims to establish connections in its co-working space that will result in new social enterprises and projects supporting quality employment and social transformation, and empowering all the stakeholders involved. El Hueco focuses on local development in the Soria province and its rural areas. It encourages social entrepreneurship and strives to establish a network of actors working in sparsely populated rural areas, to share experiences and help revitalise the region.

Access to finance: El Hueco strives to increase the share of specialised financing for social enterprises targeting sparsely populated areas,[2] by creating favourable lending terms (e.g. loans without required guarantee and collateral) and other beneficial conditions (e.g. no commission for opening, assessing or cancelling a loan) through partnerships with investment firms or banks (e.g. Soria Futuro and the Rural Community Bank of Soria).

El Hueco also aims to improve the regional market infrastructure and help social enterprises take on investment. It encourages the development of innovative financing instruments (such as crowd-lending platforms), connects angel investors with social enterprises matching their investment criteria, and acts as an information and advice-sharing platform on public and private funding processes. Lastly, it monitors and studies the various financing opportunities offered by public administrations, to inform and advise social entrepreneurs.

Access to market: El Hueco aims to foster market development by communicating on the products of the social enterprises it has supported and incubated.

Support structures: in addition to supporting local enterprises through its co-working spaces, El Hueco aims to support social entrepreneurs at the local, national and European levels through a wide array of tools and activities (e.g. SEIP and Impulso). It has created a unique infrastructure, featuring a valuable networking component supporting the launch, development and day-to-day management of new and existing social enterprises.

Skills for social-enterprise development, education and training: El Hueco has a mission to foster and nurture the skills of its hosted social entrepreneurs – as well as the members of its alumni network –by providing formal and informal training business training (with a special focus on finance), as well as exposure to an international community of sector actors. It also aims to provide regular opportunities for some of its members to participate in training programmes in higher education institutions.

In 2014, El Hueco opened a Brussels branch, with the objective of attracting European funding for Soria-based entrepreneurs and companies, enhancing public-private relationships between the Soria province and EU officials, and promoting entrepreneurial mindsets and awareness of social entrepreneurship in Soria. The Brussels office is an opportunity to exchange experiences and innovative practices with other social economy entities and regional and national representatives.[3]

Rationale

Located just two hours away from Madrid, the city of Soria ranks third in quality of life among Spanish cities; it offers a reasonable cost of living, no major transportation or pollution problems, and lively cultural activity. It is the capital of the Soria province, which has the highest life expectancy in Spain, and is known for its natural resources and a rural environment offering significant potential for innovative initiatives. Paradoxically, the Soria region is the most depopulated geographical area in Spain – with increasing youth migration towards other Spanish urban areas[4] – and one of the most depopulated regions in Europe.[5] This creates a number of extra challenges, e.g. structural unemployment, aging – 21.6% of the population of Soria was over 65 years old in 2013 (Vidal Dominguez and Fernández Portela, 2014) – and inequalities.

Except for the small town of Ólvega, Soria was spared the intensive industrialisation that pervaded the region in the 1970s, and entrepreneurship never really took hold, as its inhabitants flocked to neighbouring provinces offering employment opportunities. In this context, Soria needed both to retain and attract entrepreneurial talent (particularly young people) to develop sustainable economic, social and environmental initiatives generating development and quality jobs.

The evidence suggests that social enterprises offer a resilient business model that addresses socio-economic inequalities, while enhancing the participation and well-being of the local communities. Rooted in the social economy, Soria-based Cives Mundi[6] realised that promoting the development of social enterprises from a local-global dimension combining a bottom-up, top-down and participatory partnership approach offered a unique development model to meet these challenges. Despite facing severe budget cuts, Cives Mundi was able to generate a territorially based process of entrepreneurialism, driving support for social enterprises. El Hueco was founded with the goal of creating innovative solutions to tackle local and global problems sustainably through a triple-bottom (social, environmental and economic) approach.

Activities

Co-working space

El Hueco's core business is a co-working space offering a wide range of services (e.g. Wi-Fi and printers, meeting rooms, offices and industrial spaces, networking, conferences and courses, and administrative, promotion and communication support) and activities (e.g. Supertuesdays, Dragon Dreaming workshop and the "Hueco Club Café") aiming to stimulate interaction among co-workers and external guests. El Hueco also hosts the "Huertos de Soria" sale point, which employs people with mental disabilities to promote the work of provincial small farmers who sell ecologically certified products through their physical and online stores to private individuals, companies and restaurants. El Hueco has encouraged and hosted other social and solidarity economy projects. La Exclusiva is an example of a social enterprise whose slogan is `The shop of the villages without shop´. La Exclusiva provides small and isolated villages around the province of Soria with the basic shopping basket, supplies and goods. Lanzaderas, another example, is an electric car-sharing social enterprise whose objective is to solve mobility problems in areas where public transportation is limited. Lastly, Megara Energía is a local renewable energy cooperative (also known as REScoop) that provides 100% renewable energy to citizens.

El Hueco hosts an annual "Starter" competition to attract and train potential social entrepreneurs; Caja Rural de Soria funds several Starter awards. The 2013 edition, carried out in partnership with the Development Centre of Renewable Energies (Centro de Desarrollo de Energías Renovables) of the Energy, Environmental and Technological Research Centre (Centro de Investigaciones Energéticas, Medioambientales y Tecnológicas), featured a specific award focused on sustainable energy. The competition's winners receive guided training as well as access to a wealth of activities, mentoring, financing opportunities and business support for two years.

Spanish social entrepreneurship immersion programme (SEIP)[7]

SEIP aims to incubate and accelerate social entrepreneurship projects, targeting people with a newly established idea or company whose aim is to solve a social and/or environmental problem in Spain or Latin America. SEIP offers participants a three-month immersion in an ecosystem supporting social entrepreneurship in Spanish-speaking countries. Concretely, its objectives include:

- developing a social business plan for each venture presented, based on actual initiatives, with short-term application and implementation
- establishing relationships and transferring knowledge on social entrepreneurship between Europe and Latin America
- focusing on finance for social entrepreneurship
- unlocking the value of rural areas as a suitable testing field for social and green pilot projects based on the real economy and social responsibility.

SEIP supports social undertakings from the onset – when they are only an idea – and follows them for two years after their entry into the programme.

Impulso is a six-month accelerator programme for social enterprises jointly launched in March 2016 by El Hueco and the investment firm Soria Futuro. Directed and co-ordinated by leading management experts in the sector, it is open to social enterprises based in Spain wishing to join an innovative process of acceleration that features personalised mentoring and funding in the seed phase, based on a social investment methodology applied equally to all incubated enterprises. Impulso aims to develop and boost innovative, viable, scalable and replicable social enterprises, as well as attract the principal national and international venture-capital operators by organising annual "investor days".

European social entrepreneurship and social finance spring meetings: International spring meetings organised by El Hueco on social entrepreneurship create a gathering point for social entrepreneurs, investors and institutions to engage in networking and knowledge sharing. The first spring meeting (14-15 May 2015) covered the topic of social finance across all aspects of social enterprise and the wider social economy.[8] The second spring meeting (20-21 May 2016) convened different actors in Europe's most sparsely populated areas to explore how social entrepreneurship can help alleviate depopulation.[9] The meetings also cover transversal topics on the overall social economy, as illustrated by study and field visits to social entrepreneurs' workplaces.

European projects

El Hueco is part of three EU programmes:

Erasmus+ Capacity Building for Youth in ACP countries, Latin America and Asia:[10] Through this programme, El Hueco currently runs the "El Hueco Caribe Exchanges" project,[11] dedicated to fostering social entrepreneurship among vulnerable youth and non-profit organisations in the Dominican Republic and Haiti. Activities include awareness-raising campaigns on social entrepreneurship, national seminars, two competitions to identify potential social enterprises and an incubation programme (including training on basic business tactics and plans) for selected entrepreneurs. The European Union contributes EUR 140 618 (euros) of the programme's total EUR 175 773 budget; Cives Mundi (the project co-ordinator) and other local partners (Centro de Dessarollo Sostenible – CEDESO, Movement for Integration and Social Protection in Haiti- MIPROS, and the Ministry of Trade and Industry of the Dominican Republic) provide the remaining funding, specifically dedicated to staff costs and technical assistance.

EU Programme for Employment and Social Innovation (EaSI): As part of a call for proposals launched in October 2013 to support the demand and supply side of the market for social enterprise finance,[12] El Hueco received EUR 41 304 to implement a project promoting social entrepreneurship in Spain. With the collaboration of Cives Mundi, the Spanish Social Entrepreneurs Association and the government-owned Isis Foundation (dedicated to supporting social impact generating initiatives in Spain), El Hueco organises events allowing stakeholders to meet and share good practices, experiences and plans for the future.

Interreg Europe: Social Entrepreneurship in Sparsely Populated Areas (SOCENT SPAs Interreg) improves the implementation of regional development policies and programmes, in particular programmes for Investment for Growth and Jobs and, where relevant, ETC programmes, supporting SMEs in all stages of their life cycle to develop and achieve growth and engage in innovation. SOCENT SPAs will foster interregional cooperation among six public/private entities of Finland, Germany, Slovakia and Spain in a view to improve the effectiveness of regional policies in actively supporting the visibility, incubation and acceleration of social entrepreneurs in sparsely populated areas (SPAs) as a driver to regional competitiveness and inclusive growth.

Stakeholder interaction and/or collaboration

El Hueco holds solid partnerships with two universities (one local – UVa Soria – and one national – National Open University [UNED]) and an international research network (EMES) that help spread the concept of social entrepreneurship, raise awareness of El Hueco's activities among students and encourage enterprise creation. UNED offers training on social entrepreneurship and impact measurement to the social entrepreneurs associated with El Hueco, while EMES works together with El Hueco to identify possible collaborative research projects.

In addition to Caja Rural de Soria, four financial institutions[13] have been crucial to El Hueco's initial developmental and consolidation phases: BBVA offers financing advice and funds awards in entrepreneurship competitions; the Isis Foundation invests in social enterprises and co-implements European projects; Obra Social La Caixa (a private bank foundation) collaborates on joint calls for proposals targeting work integration and social entrepreneurship; and Empresoria[14] helps identify and finance entrepreneurial activities that match funding criteria.

Although collaboration with public administrations takes place at the local, regional, national and European levels, El Hueco collaborates most intensively with the provincial council of Soria, which has financed several social-enterprise awards in the Starter competitions. El Hueco has also forged partnerships with traditional entrepreneurs: an entire network of consultants in various fields (legal and labour, fiscal, economic, accounting, etc.) is available to the social entrepreneurs located at El Hueco.[15]

Challenges encountered and impact

Challenges

In its initial phases, El Hueco had to contend with inadequate legal forms and financing tools for social innovation. It struggled to obtain the crucial support of public administrations and leading private institutions, but managed to overcome this challenge through sound strategic planning and an effective communication strategy. It also sought to establish itself as the country's "social entrepreneurship epicentre", engaging in intensive networking at the regional, national and international levels, and organising unique European events to consolidate the field. This keen awareness of the European political agendas on social enterprise illustrates the Soria region's potential to shoulder a leading role in European social enterprise (particularly in sparsely populated areas).

No other organisation provides the same services as El Hueco in the Soria region. While its position as a trailblazer may give it a competitive advantage – not only in terms of mobilising public and private finance, but also of its ability to draw on a social and human capital from a large network of like-minded entrepreneurs, alumni and local administrations – it also makes it harder to develop and sustain its activities, and more generally to support social entrepreneurship through collaborations and partnerships.

Thus, El Hueco's challenges stem both from its specific socio-economic environment, and its ability to mobilise and encourage regional actors and institutions to welcome and encourage social-entrepreneurship initiatives.

Table 16.2 presents an analysis of the strengths, weaknesses, opportunities and threats (SWOTs) facing El Hueco.

Table 16.2. **SWOT analysis of El Hueco**

Strengths	Weaknesses
• Motivated staff and volunteers • Proven concept; existence of successful pilots • Know-how and contact from an established third-sector organisation • Solid values rooted in solidarity, collaboration and empathy, as well as business expertise and a clear strategy-driven mission • Identification with both traditional social economy structures and new model of social enterprise • Availability of space	• Short life of some of the incubated initiatives, challenging El Hueco's track record and sustained positive social impact • Lack of resources (mainly financial) to carry out activities
Opportunities	**Threats**
• Committed public administrations • Adopt a leading role in the European sparsely populated areas community • Attractiveness of a medium-size city within reasonable reach of the capital	• Lack of understanding of the social enterprise concept • Competition from other Spanish cities to attract talent • Lack of management skills on the part of social entrepreneurs • Lack of interest on the part of policy makers and decision-makers in social enterprise and innovation

Impact

In 2015, El Hueco helped create 22 organisations and 120 jobs (including 30 self-employment positions), and attracted 115 business advisors. Its co-working zone hosted 30 organisations, including 51 co-workers.

Through its various events, networking, communication campaigns and media presence, El Hueco has significantly raised awareness of social enterprises and the challenges they face.

At the political level, El Hueco's actions and sustained relationships with local and regional public administrations have resulted in the preparation of support schemes for social enterprises in areas such as start-up financing and business support. The concepts of entrepreneurship and social innovation are increasingly well received by public administrations, as evidenced by the interest of local/regional politicians: for instance, the Castilla y León regional government is interested in jointly implementing measures to promote and support social entrepreneurship in the autonomous community, and public agencies[16] participated in El Hueco's "SOCENT SPA" project proposal to the European Union. Nevertheless, concrete initiatives by public administrations have not yet materialised.

El Hueco's approach to entrepreneurship and social innovation is aligned with the European Commission's recommendations. El Hueco has benefited from EU support in developing several projects and is expected to increase its participation in European programmes on social entrepreneurship.

Lessons learnt and conditions for potential replicability

Lessons learnt

El Hueco has recognised the value of capitalising on the knowledge hidden in organisations with a solid experience in creating social impact and effectively managing projects. Another lesson is that sparsely populated areas can become epicentres of social entrepreneurship.[17]

Conditions for potential replicability

El Hueco is actively working with public and private partners in other European sparsely populated areas to build a network of actors who can share knowledge and best practices. Likewise, its Erasmus+ project in the Dominican Republic and Haiti reflects its desire to connect with other local ecosystems to achieve systemic transformation.

El Hueco could be successfully replicated in other contexts, providing the initiative can access a network of actors in similar sparsely populated areas, the right kind of financial support, and "translators" and "facilitators" (i.e. highly skilled volunteers associated with a partner institution, or citizens wishing to donate their time and expertise to advance the organisation's mission).

The following elements are replicable in other contexts:

- the core business model, based on a co-working space with a series of facilitation, support and training activities to develop social entrepreneurship
- a description and implementation plan for the activities, including visual identity and materials
- a software platform to manage the activities
- a network of international contacts, including peers, academic contacts and public-administration representatives, who can be "activated" if needed
- tested financing tools and pilots.

The conditions for a successful replication include:

- a team of people combining business knowledge, social commitment, and the right set of management and communication skills
- if possible, an organisation leading the effort with a proven record of social, cultural or environmental impact
- interested and committed public and private actors; in their absence (as in Soria), a plan to create awareness (through successful pilots and examples in other countries) and foster commitment among these actors
- start-up finance to support a critical mass of initiatives that can lead by example.

Potential replication problems include:

- mission drift (when the number of stakeholders and activities increases exponentially)
- insufficient alignment with the expectations and aims of other public and private actors, which sometimes have opportunistic or unrealistic expectations, and consider social enterprises as a quick fix for social challenges.

In all cases, supporting a social-enterprise ecosystem entails moving away from a "residual" approach and considering it as serious policy issue requiring support at all political levels.

Notes

1. For more information on Cives Mundi, please visit: *http://www.civesmundi.es*.
2. *http://www.elhueco.org/financiacion*.
3. For more information, please visit: *http://www.elhueco.org/brussels-office/*.
4. It is estimated that 40% of the population left in the last 50 years. This population decline has remained steady for the last 20 years: in 2013-14, the inter-annual population variation continued to be negative (-1.15) in Soria (Junta de Castilla y León, 2015).
5. With a population density of 9.18 inhabitants per square kilometre in 2008 (Fundación BBVA, 2007).
6. For more information about Cives Mundi, please visit *http://www.civesmundi.es*.
7. For more information about SEIP, please visit *http://www.elhueco.org/SEIP_2015_EN.pdf*.
8. A total of 134 people, including 36 speakers from 10 different nationalities, participated in this two-day event. The speakers represented 8 social enterprises, 12 (including 4 non-Spanish) private entities supporting and funding social entrepreneurship, 6 public administration representatives (3 Spanish and 3 European), representatives from the main business schools and 2 of the largest universities in Spain. Additionally, live stream enabled 145 people to follow the event.
9. For more information about the meetings' programmes, participants, sessions and topics, please visit: *http://www.elhueco.org/socialmeeting/en/*.
10. Call for proposals EAC-A04-2014.
11. *http://www.elhuecocaribe.org/proyecto/*.
12. VP/2013/017, *ec.europa.eu/social/BlobServlet?docId=10966&langId=en*.
13. BBVA, a national bank; ISIS foundation, investment funds; Obra Social La Caixa, private bank foundation; Empresoria.
14. Empresoria is an investment fund combining financial and capacity-building support investing in innovative and entrepreneurial initiatives with a focus on social enterprises working in the agricultural sector and in rural environments
15. The main networks are Federación de Organizaciones Empresariales Sorianas (FOES, umbrella organisation of local enterpreneurs) and Confederación de Organizaciones Empresariales de Castilla y León (CECALE, umbrella organisation of regional entrepreneurs).
16. General Directorate of Social Economy and Self-Employment, and Regional Agency for Entrepreneurial Innovation Finance and Business Internationalisation.
17. This surprising realisation hides an important lesson for other sparsely populated areas in Europe: the need to be realistic when appraising the advantages and disadvantages of any given area, and to build on its strengths, including the resilience of its inhabitants and organisations.

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Boosting Social Enterprise Development
Good Practice Compendium

Chapter 17

Big Potential: An investment readiness programme, United Kingdom

The Big Potential programme provides grants for investment readiness support, and raises awareness of investment approaches for voluntary, community and social enterprises in England. This chapter describes the programme's objectives, rationale and activities, the challenges faced in implementing the scheme, and the impact achieved. It includes lessons learnt and conditions for transferring this practice to another context.

Summary

Big Potential is a three-year, EUR 23.8 million[1] (GBP 20 million) grant fund programme (2014-17) helping voluntary, community and social enterprises (VCSEs) in England take on repayable investment to increase their social impact. It is funded by the Big Lottery Fund and delivered by a partnership led by the Social Investment Business (SIB).

The grant programme has two strands, "Breakthrough" and "Advanced", based on the recipient's level of investment-readiness and the desired investment amount. The Breakthrough strand funds specialist help for VCSEs embarking on the first stages of social investment so that they can undertake in-depth investment readiness work. The Advanced strand supports organisations that are further along on the social investment journey and are seeking investments totalling over EUR 595 000 (GBP 500 000).

The programme is currently a bit more than midway through its lifespan and is still awaiting full evaluation. Nevertheless, some of its innovative features could clearly be replicated in other countries. Key features for replication include: undertaking prior research on the needs of the organisations requiring support; hiring a grant manager with sufficient expertise and capacity to manage the programme; engaging in good outreach and collaboration with social enterprise networks; developing a robust support provider base; undertaking ongoing evaluation; broadening the objective to include sustainability issues for VCSEs; and tailoring the programme to the different needs of social enterprises and more traditional charities.

Key facts

Big Potential is a three-year programme ending in December 2017. The launch of the Big Potential Breakthrough fund in 2014 provided initial funding of EUR 11.9 million (GBP 10 million). In September 2015, the establishment of the Big Potential Advanced fund added a further EUR 11.9 million (GBP 10 million) in funding.

Big Potential aims to provide around 320 grants to VCSEs located in England. Separate policies and programmes support VSCEs in Scotland, Wales and Northern Ireland. Big Potential is funded by the Big Lottery Fund, a quasi-public body accountable to the United Kingdom (UK) government, which distributes annually EUR 773.5 million (GBP 650 million) – 40% of the money raised for good causes by the UK National Lottery. Big Potential receives no European Union (EU) funding.

Big Potential is managed by SIB, a non-profit organisation that provides loans, grants and other financial products to charities and social enterprises, in partnership with four other organisations: Charity Bank (a UK-wide specialist finance provider), Locality (a network of local asset-based community organisations), Social Enterprise UK (a representative body for social enterprises) and the University of Northampton (acting as an evaluator). The grants are paid into the VCSEs, which then enter into contractual relationships with accredited support providers to help them get ready for investment.

As of March 2016, Big Potential had approved 128 Breakthrough grants (out of 246 applications received) and 23 Advanced grants (out of 58 applications received). Big Potential has gathered and accredited 39 Breakthrough and 24 Advanced support providers. As of June 2015, the Breakthrough programme had yielded four successful investments in VCSEs, raising a total EUR 1.2 million in finance.

Objectives

Big Potential targets VCSEs in England. Its policy approach is to provide grants funding work by approved providers to help VCSEs ready themselves for investment or win public contracts. Beneficiary organisations and approved providers are selected on the basis of a diagnostic screening process. In addition to supporting the organisations participating in the programme, Big Potential has the wider objective of raising awareness of investment approaches for VCSEs. It shares learning through a three-year programme of 17 workshop events across different geographical areas of England, as well as a number of additional customised events according to demand.

The programme also aims to create an online marketplace of investment readiness support providers, who are accessible to anyone (not only grant applicants) through the Big Potential website.[2] The goal is to increase these organisations' visibility and co-ordination, as well as reach a greater audience and have an impact beyond its grant recipients.

Organisations eligible for support broadly match the European Commission-SBI concept of a social enterprise. An applicant to Big Potential must be "a non-governmental body that principally reinvests its surpluses for social or environmental purposes"; this includes registered charities, social enterprises, companies limited by guarantee with charitable aims, community interest companies and mutuals (H.M. Government, 2011a).[3]

To draw out learning from the process of running the fund, Northampton University is undertaking formal evaluations of both strands while the programme is still running, so that issues can be addressed and improvements made during the course of the programme. The University will continue to monitor the impact on grantees for another two years after the programme ends.

Rationale

The United Kingdom has a long tradition, dating back to the 19th century, of nurturing various social enterprise business models. The UK ecosystem is well-developed: for almost 20 years, successive governments have developed policies to support social enterprises' growth, including by facilitating access to investment (Bland, 2010).

In 2011, the previous UK coalition government published a vision document, *Growing the Social Investment Market, A Vision and Strategy* (H.M. Government, 2011b), which advocated increasing social investment supply and demand. The government launched a number of initiatives, including a EUR 35.7 million (GBP 30 million) social investment pilot programme incorporating three funds: the Impact Readiness Fund, the Investment and Contract Readiness Fund (ICRF) and the Social Incubator Fund. These funds provided grants to help VCSEs seeking investment and public service contracts become investment-ready and demonstrate their impact. The learning from this pilot programme informed the development of the Big Potential programme.

The Big Lottery Fund has a remit to support charities, community organisations and social enterprises through a number of thematic grant programmes. In 2010, the Fund began to provide direct funding to social investment initiatives. In 2012, it published a research report on investment readiness in the United Kingdom setting the policy rationale for creating Big Potential as part of its social-investment strategy (Gregory et al., 2012). The report identified a number of barriers to VCSE investment readiness, including:

- a lack of suitable financial skills
- a general lack of understanding of the concept and appropriateness of social investment
- the absence of filtering systems, leading organisations to approach investors too early
- poor signposting[4] and co-ordination of organisations providing advice and support
- the complexity of deals relative to the amount of finance involved.

The Fund used the results of this research to shape its social investment strategy for VCSEs and the Big Potential programme – especially with regard to developing a co-ordinated marketplace of suppliers offering support services.

Activities

SIB answers to the Big Lottery Fund and is the principal manager of the programme. Working with its four partners, it promotes Big Potential through a dedicated website and regional events, selects grant recipients, creates and maintains a marketplace of accredited support providers, disburses funds and monitors the programme. Big Potential is divided into two strands: Breakthrough and Advanced.

Breakthrough

The EUR 11.9 million (GBP 10 million) Breakthrough fund provides grants ranging from EUR 23 800 to EUR 89 250 (GBP 20 000-75 000) to VCSEs seeking to raise up to EUR 595 000 (GBP 500 000). Organisations in earlier stages of their investment journey can apply for preliminary grants ranging from EUR 23 800 to EUR 35 700 (GBP 20 000-30 000) to help determine what kind of investment will meet their needs, or for investment plan grants ranging from EUR 47 600 to EUR 59 500 (GBP 40 000-50 000) if they already have a detailed investment proposition. No single organisation can receive more that EUR 89 250 (GBP 75 000).

The Breakthrough programme provided 30 grants in its first year and 93 in its second year; it aims to provide a total of around 200 grants by the end of the programme.

Advanced

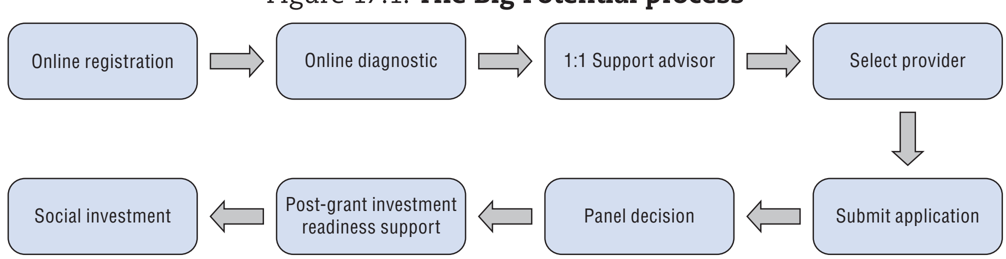
The EUR 11.9 million (GBP 10 million) Advanced fund provides grants ranging from EUR 59 500 to EUR 178 500 (GBP 50 000–150 000) to VCSEs seeking to raise more than EUR 595 000 (GBP 500 000). Applicants must have a clear understanding of social investment's potential benefits to them. They must already have a potential deal or interest from investors, and need help closing that deal. The Advanced fund is also available to organisations needing help to secure a contract over EUR 1.19 million (GBP 1 million).

The Advanced programme had provided 12 grants by March 2016; it aims to make around 120 grants by 2017.

Applicants for both funds go through the following steps (Figure 17.1.):

1. Online registration: the applicant submits basic information about the organisation.
2. Online diagnostic tool: the applicant provides further information, including detailed information about the organisation's business model (i.e. the business sector, legal structure, financial data, income streams, governance, staffing, skill sets, product/service offer, accounting practices and investment needs).
3. Advisor session: a face-to-face interview (normally through a video call) is conducted to review the diagnostic results and discuss the business model.
4. Provider selection: the applicant selects a support provider from an approved list; they then work in partnership to co-develop the grant application.
5. The applicant submits the grant request.
6. Assessment: an external panel of experts (one for each fund) decides whether to approve or reject the application.
7. Implementation: if successful, the VCSE works with the support provider to develop the organisation's investment-readiness and secure investment.

Figure 17.1. **The Big Potential process**



The process aims to be developmental; unsuccessful applicants may be invited to reapply.

Relying on the recommendations of a panel of experts, SIB rigorously selects for each of the programmes the providers who will advise the VCSEs on specific topics related to social investment. The providers must offer a competitive daily rate to allow comparing costs. All daily rates are capped at EUR 1 190 (GBP 1 000), including value added tax; SIB may intervene if rates are significantly higher than average for comparable services.

Using a matching process, the VCSE chooses the provider that will help it prepare a proposal and (if successful) deliver the project. Details on application success rates are posted on the Big Potential website.

Big Potential covers 100% of the costs incurred by Breakthrough applicants; Advanced applicants are expected to contribute about one-third of costs of the provider's work. Big Potential provides the funds directly to the VCSE, which must then agree on payment terms directly with the provider. The provider takes on the role of prime contactor and is responsible for sourcing additional support in the event that the organisation requires assistance it cannot provide.

Provider support to the VCSEs includes:

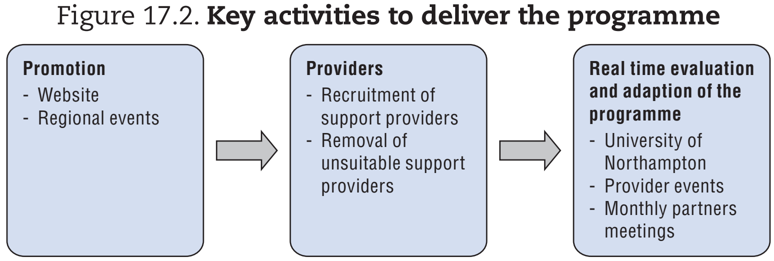
- business planning to develop and scale services
- strengthening financial modelling
- establishing reporting and controls
- improving impact measurement
- working with people to plan and structure deals
- strengthening managerial and financial capabilities
- improving governance and partnership work
- undertaking market research and collecting evidence to support product development
- developing products and services that will bring in trading income
- networking with appropriate stakeholders (including investors)
- developing and creating vehicles for social investment
- hiring talent with the appropriate skills
- improving sales and marketing plans.

The provider and the VCSE jointly manage and monitor the project, and must submit quarterly monitoring reports and a final closing report to SIB.

VCSEs provide feedback on providers; any provider giving a consistently poor level of service is removed from the list. New providers are invited to apply through the website and are regularly considered by the expert panels.

Every six months, providers are invited to dedicated events to share their experience, feedback and learning with SIB staff, thereby supporting the programme's continuous improvement.

Figure 17.2. **Key activities to deliver the programme**



In addition to issuing reports on both of its strands, Big Potential is creating a dataset of 1 500 to 2 000 VCSEs to inform investors and better match projects with funding. The Big Lottery Fund has committed to making these "open data" publicly available at the end of the programme.

Big Potential was initially limited to the EUR 11.9 million (GBP 10 million) Breakthrough fund. Following the successful piloting of the Cabinet Office's ICRF, also managed by SIB, the evidence suggested that supporting VCSEs requiring over EUR 595 000 (GBP 500 000) in investment was still essential, and that the basic delivery mechanisms had been successful (Ronicle and Fox, 2015). The evidence also suggested that the ICRF element relative to helping organisations achieve contract readiness had worked well. Big Potential was therefore expanded in 2015 to include both a further EUR 11.9 million (GBP 10 million) in funding for the Advanced programme and contract-readiness support.

Challenges encountered and impact

Table 17.1. presents a strengths, weaknesses, opportunities and threats (SWOT) analysis of Big Potential.

Table 17.1. **SWOT analysis of Big Potential**

Strengths	Weaknesses
• Robust, well-designed and well-run programme • Experience in SIBs and partnership • Diagnostic tool taken up and used by other funders • Evaluation as an ongoing method for improving the programme • Control of support provider costs • Positive impact on VCSEs, even if they do not go on to raise finance	• Placing charities and social enterprises in the same category, even though they have different cultures and support needs • Under-representation of certain geographical areas and groups • Tensions between panel members and support providers over the monetary value of the work to be performed
Opportunities	**Threats**
• Developing a marketplace of support providers for wider use • Increasing the sustainability of VCSEs • Informing the development of future strategy for the Big Lottery and the wider policy environment for VSCE support	• Not enough applicants • Lack of understanding by VCSEs that this is a developmental process • Providers not aligned with VCSE values • VCSEs not going on to take up social investment

Even though Big Potential is more than midway through its term, it is still too early to fully assess its success/impact or draw proper conclusions about what could be done differently. However, an evaluation of the first few months of the Breakthrough programme was conducted and published in 2015. The evaluation's key findings are as follows (Hazenberg, 2015):

VCSE engagement has been largely successful: as of January 2015, nearly 13 500 visitors had engaged with the Big Potential website; 3 898 VCSEs had registered on the site; 1 415 were deemed eligible to apply for grants; 283 organisations had completed the online diagnostic tool; and 162 had participated in one-on-one advisor sessions. Out of the 71 grant applications, 32 had been successful, totalling EUR 1.19 million (GBP 1 million) and averaging EUR 37 185 (GBP 31 248) each; most projects were locally based and small in scale, with an average turnover of around EUR 357 000 (GBP 300 000). By January 2015, no investment had been secured as a result of the work carried out.

The online diagnostic tool and one-on-one support sessions worked well. The panel and grant decision-making phase were also effective, although rejected applicants expressed a desire for more feedback and streamlining the process to facilitate resubmitting applications when the panel only recommended minor improvements.

Provider selection was crucial to success, operating best when providers worked closely with the VSCEs on their applications. Many of the VCSEs that had received an investment readiness grant had already benefitted from in-depth collaboration with the providers, analysing their strengths and weaknesses, and identifying they types of social investment they wished to pursue.

The main reasons grant applications were rejected pertained to poor market analysis, a lack of financial data and organisations applying too early in their development.

Despite these positive results overall, the evidence showed that more needed to be done to engage certain types of VCSEs (e.g. those led by disabled people and women; some English regions were also under-represented). In addition to addressing these issues, the report (Hazenberg, 2015) recommended a number of minor improvements: aligning support providers with the programme's objective of acting as a developmental process for VSCEs; improving information on the website; providing more information to help VCSEs select a provider; establishing a more robust means for VCSEs to evaluate the providers; and improving feedback on rejected applications. It also suggested that providers work more closely with VCSEs on their approaches to social-impact measurement "to ensure that VCSEs incorporate formalised and externally validated measures of social impact measurement" (Hazenberg, 2015).

Finally, to shape the programme's ongoing evaluation, Hazenberg (2015) recommended drawing up case studies and conducting future research on VCSE progression, provider selection and performance, barriers to women and disabled people, and investment-panel decisions on rejected applications.

In addition to this evaluation, an emerging theme from comments made by The Big Lottery Fund, SIB and Northampton University[5] is that the programme enhances the sustainability of VSCEs (particularly charities), even when they don't take on investment, by helping them focus on improving their performance and explore other growth channels that do not involve debt. As of June 2015, four investments totalling EUR 1.2 million (GBP 1 million) had been raised as a result of Breakthrough grants.

Lessons learnt and conditions for potential replicability

Lessons learnt

One of Big Potential's strengths is as a mechanism promoting social investment and supporting the investment readiness of all VCSEs. The event programme, the information resources featured on the website and the online provider marketplace are important tools that broaden its impact beyond successful applicants.

Another asset is that Big Potential appointed an evaluation partner right from the onset, allowing it to introduce changes and improve operations over the course of the programme. Big Potential will also create an important dataset to inform new policies and programmes supporting VCSEs.

Condition for potential replicability

Big Potential could be replicated in other countries, taking into account the following key lessons:

- design the programme according to a robust needs assessment, based on prior research or evaluation results of similar programmes under way in the locality where it will be undertaken

- hire a grant-fund programme manager with sufficient expertise in, and experience of, working with social enterprises on investment readiness and capacity-building
- develop and maintain a good marketplace of support providers to ensure choice and competition, and allow the grantee to select a provider with matching values
- create an expert panel that will make grant decisions
- establish a mechanism to provide unsuccessful applicants with proper feedback, to allow them to learn and develop
- develop and engage a variety of marketing channels/partners to reach VSCEs; build a good website to promote the programme; and involve social enterprise networks and other specialist organisations
- appoint an evaluator early on and perform ongoing programme evaluation to introduce changes that improve its overall effectiveness.

Two issues should be kept in mind when considering replication:

- Big differences exist in the organisational culture of organisations that start with a charity mindset and those that start from an enterprise approach, resulting in the need for more nuanced support. This may be even more pronounced in different national contexts. This could be improved by having two distinct programmes – one aimed at trading businesses and one aimed at capacity-building and change for social organisations wishing to become fully trading social enterprises..
- The programme initiator should decide whether to focus on helping organisations raise social investment or to include the additional objective of enhancing the organisations' overall sustainability. While evaluation of Big Potential is still at an early stage, its biggest impact may consist in helping grantees become more sustainable as a result of the consultancy support, even if they do not take on repayable investment.

Notes

1. Based on the exchange rate of 1 July 2016 (GBP/EUR = 1.19), retrieved from: *https://www.ecb.europa.eu/stats/exchange/eurofxref/html/eurofxref-graph-gbp.en.html*.
2. *www.bigpotential.org.uk*.
3. "The term 'mutual' is used as an umbrella term for several different ownership models. The distinguishing characteristic of a mutual is that the organisation is owned by, and run for, the benefit of its members, who are actively and directly involved in the business – whether its employees, suppliers, or the community or consumers it serves, rather than being owned and controlled by outside investors" (H.M. Government, 2014a).
4. "Signposting is a service that provides information to entrepreneurs about where they can go and seek professional sources of information and assistance. This can be done through websites, information provided through public employment services and other partners (e.g. chambers of commerce) or media campaigns."(OECD/European Union, 2016).
5. In addition to publicly available material about Big Potential, interviews were carried out with representatives of the Big Lottery Fund, SIB and Northampton University in June 2016.

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Chapter 18.

The Partnership for Supporting the Social Enterprise Strategy, United Kingdom, Scotland

The Partnership for Supporting the Social Enterprise Strategy is a multi-level framework, designed and supported by the Scottish Government. It aims to develop the capacity of social enterprise intermediaries to provide a holistic "peer support" network, and enhance the sector's collective influence and contribution to policy development. This chapter describes the Partnership's objectives, rationale and activities, as well as the challenges faced in implementing the scheme and the impact achieved so far. It concludes with the lessons learnt and the conditions for transferring this practice to another context.

Summary

The Partnership for Supporting the Social Enterprise Strategy is a multi-level support framework designed and supported by the Scottish Government with the aim of developing the capacity of national social enterprise intermediaries – principally Social Enterprise Scotland, Social Entrepreneurs Network for Scotland (Senscot) and Social Firms Scotland – as well as partners such as Community Enterprise in Scotland (CEIS) to provide a holistic "peer support" network for social enterprises.

The Partnership was launched in 2011. Its main strategic objectives are to better inform, encourage, network and support Scottish social enterprises at the grassroots level, as well as raise the sector's profile and promote its contribution to local communities and government objectives. A secondary objective is to encourage greater influence and contribution of the sector to policy development, as well as strengthen its capacity, both in terms of its membership base and the sustainability of its partner organisations.

The rationale for action was the devolved Scottish Government's explicit recognition at a senior, strategic level that social enterprises not only play a vital role in delivering sustainable economic growth, but also contribute to economic and social justice, and will play an increasingly prominent role in delivering public services to Scotland's 32 local authority areas. The Partnership enables social enterprises to negotiate Scotland's complex support architecture, while delivering efficiencies. Each partner contributes a different facet of support for the social enterprise ecosystem, as described below.

Social Enterprise Scotland provides business support and policy guidance, and acts as a "voice" for the sector, including as the secretariat for the Cross-Party Group on Social Enterprise within the Scottish Parliament.

Social Firms Scotland collaborates with and provides a network for social enterprises focusing on employability issues within social firms or work integration social enterprises (WISEs).

Senscot maintains a series of geographical and thematic networks supporting domestic social entrepreneurs, including those accessing Scottish Government funding streams, such as the EUR 7.6 million (euros) (GBP 6 million) (pounds) Enterprise Ready Fund.[1] Senscot has also played a key role in ensuring efficient use of past revenue streams, such as the EUR 1.26 million (GBP 1 million) Social Entrepreneurs Fund.[2]

CEIS is the largest third sector business support provider in Scotland and the oldest social enterprise support agency in the United Kingdom, established in 1984.

The partners deliver much-needed advice to the sector on obtaining support and accessing funding streams. The mechanism is designed to suit Scotland's highly developed support ecosystem, which facilitates ambitious strategic partnerships. In other, less developed contexts, a less ambitious approach may be more appropriate.

Key facts

Through direct grant investment, the Scottish Government supports national social-enterprise intermediaries to provide the necessary networking and peer support.

Year of establishment: 2011

Partners: Senscot, Social Firms Scotland and Social Enterprise Scotland

Other key partners (not exhaustive): CEIS, InspirAlba, Social Enterprise Academy, HISEZ, Firstport, Community Enterprise

Country/region/local area: Scotland (nationwide)

Initiative's financial structure: public

Budget (annual)

Social Enterprise Scotland:	EUR 135 400 (GBP 107 000)
Social Firms Scotland:	EUR 135 400 (GBP 107 000)
Senscot:	EUR 134 138 (GBP 106 000)
TOTAL:	EUR 405 066 (GBP 320 000)

The programme receives no funding from the European Social Fund, the European Regional Development Fund or other EU sources.

Objectives

The Partnership for Supporting the Social Enterprise Strategy (the Partnership onwards) was established to foster collaborative action at the national, regional and local levels, as well as support co-ordination of activities across and between these various levels. The Partnership's main objectives are:

- to better inform, encourage, network and support social enterprises at the grassroots level; to raise the profile of social enterprises through policy engagement and the media; and to recognise and acknowledge the value they bring to local communities, and to meeting government objectives at both the local and national levels; and
- to enhance the sector's collective influence and contribution to policy development, both nationally and locally; and to strengthen the capacity, membership base and sustainability of the partner organisations.

The capacity-building objective supports the notion that the Partnership's strength lies in the fact that it is greater than the sum of its parts. Partnership working has breathed new life into Scotland's social enterprise sector. It has allowed the various partners to think creatively and strategically, and to develop capacity and capabilities, both individually and as a group.

The initiative falls under the following policy areas:

- access to finance (e.g. public or private funds, mix of public/private funds, guarantee schemes, financial intermediaries)
- access to market (e.g. investment market supported by public policies, public procurement, demand-driven approaches, partnerships with private actors)
- support structures (e.g. hubs, networks, consortia, agencies)
- social enterprise development skills, education and training.

As the Partnership arrangements have developed and matured, they have become more informal. Various sector partners[3] are co-ordinating the development of a new vision for social enterprises in Scotland. A steering group has been established, which can draw on other key sector players when necessary. Strategic partnership-building has been ongoing for a number of years, and has involved extensive consultation and visioning. In January 2015, the steering group produced a vision document (CEIS et al., 2015) outlining the actions to be undertaken over the next decade in order to build a social enterprise "movement", build capability, build markets and build on potential.

Rationale

The election of the Scottish National Party in 2007 to power and the subsequent development of the Scottish Government's "Action Plan for an Enterprising Third Sector" (Scottish Government, 2008) provided impetus for Scotland's enthusiastic policy support for social enterprise. The Action Plan aimed to tap the knowledge acquired in the social enterprise sector – and the wider third sector – to devise and implement innovative solutions to social and environmental problems, either through direct service delivery or in partnership with other organisations. This Action Plan recognised that social enterprises provide a range of goods and services that produce social benefits (e.g. improved health, opportunities for young people to develop their confidence and skills, rehabilitation of offenders and employment training), enhance the economy and create a more inclusive society. Under the auspices of the Action Plan, the Scottish Government sought to support organisations with the potential to improve or expand their services.

In the aftermath of the financial crisis, as vulnerability rose sharply at the local level – with the largest burden of cuts befalling the most vulnerable individuals and communities – the growing demand for services placed increasing pressure on the social economy. At the same time, the UK Government's ongoing austerity regime severely curtailed the means to address or mitigate the cuts' worst effects.

The Partnership was developed in 2011 to foster targeted investment in key facilitation bodies, in a bid to provide them with the capacity to help social enterprises negotiate Scotland's complex dedicated support structure. Scotland's many support bodies for social enterprise often have overlapping constituencies, with the result that social enterprises are often confused about selecting the best organisation to turn to for advice and/or support. The Partnership encouraged these bodies to work together to provide clarity and coherence to both the sector and the government, as well as share the workload and encourage the necessary efficiencies.

The Partnership also has worked to encourage social enterprises to provide input on strategic initiatives. Most facilitation bodies are independent, member-led organisations; as such, their capacity to collaborate – rather than compete for funds and constituencies – can be limited. In a sophisticated support infrastructure such as Scotland's, the challenge often lies in understanding the myriad ways in which organisations can work together, and discouraging them from acting in competition with – or at cross-purposes to – each other. Strategic capacity building has provided them with the capacity and freedom to advance the sector.

Notwithstanding political changes in the political landscape[4] (Ainsworth, 2012; Roy et al., 2014; *The Scotsman*, 2014), social enterprises and the third sector have continued to receive ongoing government support.

Activities

The Partnership began as a formal collaboration between three key national social enterprise intermediary organisations, sharing key functions and tasks. An advisory body, comprising the chairs and lead officers of each partner, as well as key members from the social enterprise community, was established to provide strategic oversight. The Partnership advises its members on funding streams and initiatives. It also supports the Social Enterprise Exchange event programme, which fosters dialogue, knowledge sharing and exploring ideas.

According to the partner bodies (Scottish Social Enterprise Coalition, Social Firms Scotland and Senscot, 2011) the investment has resulted in the following contributions to policy development, both nationally and locally, through the following initiatives:

- hosting policy roundtables (currently focusing on social enterprise and health, social enterprise and sport, cultural and creative social enterprise, and community food) featuring practitioners and senior policy makers across a range of government departments,
- study visits by parliamentarians, to increase awareness and appreciation of social enterprise across all party lines
- hosting cross-party groups (including the Cross-Party Parliamentary Group on Social Enterprise, whose secretariat is provided by Social Enterprise Scotland)
- monthly e-bulletins to member organisations and parliamentarians
- submitting responses to government consultations, parliamentary questions and motions

- ensuring that the Scottish Government is informed on issues affecting social enterprise and reserved to the UK Parliament (e.g. reform of welfare – which has not yet been fully devolved to the Scottish Parliament – and its impacts on WISE clients)
- allowing and encouraging membership in relevant government forums
- engaging with the Scottish Government on research to inform policy making and improve commercial data collection, sourcing of private sector funding and membership expertise.

The investment also helped promote and showcase the value social enterprises bring to the media and local communities, by:

- co-ordinating a national calendar of events, including the S2S Social Enterprise Fair, Social Enterprise Awards Scotland and parliamentary receptions, to showcase social enterprise
- co-ordinating press and public relations activity, including membership survey results, publication development, case studies of good practice and member profiles
- delivering on a communication strategy to raise the profile of social enterprise to a broad range of Scottish and UK stakeholders
- promoting quality and impact measurement, including through vital statistics surveys (in relation to the social enterprise networks [SENs]), and sector mapping, progress and growth
- engaging with key partners with international reach (e.g. CEIS, as leader of the Social Enterprise World Forum, or Assist Social Capital, co-founder of the Social Capital World Forum) to raise Scotland's profile as a world leader in social enterprise and learn from good practice elsewhere

1. promoting the role of networks and grass-roots social enterprises at regional and national forums
2. creating and developing mechanisms for increasing trade both within and outside the SENs[5]
3. developing tools to measure the level of interaction between social enterprises, for example under the auspices of the census undertaken by Social Value Lab and its partners in 2015 (Social Value Lab, 2015).

Finally, the investment has helped inform, advise and support social enterprises at the grass-roots level, thanks to the following activities:

- delivering and facilitating a calendar of events at the local and national levels, including SEN networking events
- facilitating SEN meetings, as well as regional/national events, so that SEN and Social Firms Scotland members can engage in strategic relationships at the local/regional level
- providing information and advice both face-to-face and electronically, through websites, newsletters and study visits
- providing member engagement and signposting,[6] with particular reference to national programmes and contracts, e.g. Aspire/Scottish Investment Fund
- developing private and public-sector partnerships to boost investment opportunities and social enterprise engagement

1. in collaboration with other stakeholders, developing services (Ready for Business, Senscot Legal, mergers and acquisitions) to increase the sustainability of SENs and their members
2. identifying opportunities for developing new SENs.

Challenges encountered and impact

Table 18.1. summarises the strengths, weaknesses, opportunities and threats (SWOTs) of the Partnership Supporting Social Enterprise Strategy.

Table 18.1. **SWOT analysis of the Partnership for Supporting the Social Enterprise Strategy**

Strengths	Weaknesses
• A systemic, holistic approach covering all parts of the social enterprise ecosystem, encouraging connections between stakeholders both within and outside the sector. • Partnership action at the national, regional and local levels, and co-ordination of activities across and between the various levels. • Strategic approach, with matching instruments (e.g. multi-level framework, modular partnership with all partners providing different types of resources, extensive use of research evidence, long-term strategy). • Growing awareness at a strategic level that a strong economy (including the social economy) is vital to achieving a fairer and more inclusive society in Scotland.	• Country's small size limits potential market size. • Relationships between local authorities and the Scottish Government are fractious at times, leading to inconsistent policies across the country (e.g. in public procurement – see Roy et al., 2014).
Opportunities	**Threats**
• International attention to Scotland's support for social enterprise presents opportunity for partnership working between different countries (including outside the European Union) and sharing best practice. • Scotland is a small country, where the close proximity between the government and social enterprises facilitates sharing best practice and partnership working. • Non-partisan political support provides further potential to build sustained partnerships.	• Potential for cronyism, owing to close proximity between the government and the sector. • Reduced resources to support the sector, owing to continued austerity. • Unrealistic expectations placed on the sector by the government, the general public and social enterprises themselves. • Significant changes in government.

Impact

Scotland's Vision for Social Enterprise 2025 (CEIS et al., 2015) has informed the development of a new social enterprise strategy. Ongoing consultation to further refine it will involve a series of consultations and the drafting – in partnership with the Scottish Government – of a new national ten-year strategy for social enterprise, scheduled to be launched in December 2016 (cut-off date of this report). In parallel, CEIS supported the development of the international strategy, *Internationalising Social Enterprise*, which was launched in September 2016 (see Scottish Government, 2016) consistent with its leadership role in the Social Enterprise World Forum.

The Scottish social enterprise movement has matured significantly over the last decade. This is reflected in increased collaborative working, both through intermediaries and across individual social enterprises, at both the local and national levels. The partners have worked creatively to showcase examples of good practice, lobby for community-benefit clauses in public procurement contracts, engage in partnerships with both the public and private sectors, and explore new and innovative ways of doing business. This "synergy-led" business culture has attracted much attention from other business areas and allowed the social enterprise community to "punch above its weight", both internationally and as a key component of the wider third sector.

Challenges

The need remains to build trust among all participants, especially as some have overlapping member "constituencies". The SWOT analysis (Figure 18.1.) identifies potential challenges moving forward. Other challenges pertain to:

- Leadership: long-term processes often entail replacing, building and planning for legacy arrangements and future leaders. Scotland has benefitted from some world-class leadership in recent years, not only within the sector, but also in terms of the continuity of key officials and politicians who understand and continuously support the sector.
- Developing adequate risk-management capabilities: the threat of austerity worldwide has meant that welfare (and public spending in general) has decreased significantly, with the most fragile and vulnerable communities suffering the most. The simplistic notion that social enterprise can somehow expand to fill the gap when government retreats poses significant risks, in that it raises unrealistic expectations.

Lessons learnt and conditions for potential replicability

While other national governments have helped representative bodies develop the capacity of social enterprise ecosystems through awareness-raising (events, advertising, etc.), increasing the knowledge base (research, indicators, etc.), using such knowledge and expertise in policy processes (parliamentary questions, co-production, etc.), and helping individual members use support instruments, it would be difficult to find another example where these different instruments have been exercised together. In Scotland, the financial support is not too restrictive, leaving room for creativity and innovation.

Some elements from this experience could become pillars of policy learning processes:

1. The size and nature of the polity, and the close relationships between the principal organising units and the sector facilitators, seem to have contributed to the success of this particular policy instrument.
2. Adequate preparation, and a series of increasingly important measures, should be in place to build and maintain trust prior to rolling out a full-blown strategic partnership. The fair degree of continuity in the country's ruling party indicates that government requires time to get involved in such a policy process.
3. While there is no need to continually build unique representations, the partnership should suit the territory's political context. In Scotland's highly pluralistic political culture, a diverse network of bodies can yield the desired results. In countries or regions with a more corporatist culture, a more vertical organisation may be more appropriate.
4. Although financial investment is obviously essential (and the importance of adequate financial support from the government cannot be overstated), the key to such a strategic partnership is the recognition that a range of other resources – such as social capital, legitimacy and expertise – are vital to success, and that all partners bring something unique to the table.

If there is a key lesson to be learnt from the Scottish case, it is that investing in strategic partnerships can be highly beneficial, especially if partnership building is valued and sustained as a goal in itself.

Notes

1. For more information, please refer to: *http://www.gov.scot/Topics/People/15300/ThirdSectorFunding/EnterpriseGrowthSustainabilityFund*.
2. For more information, please refer to: *http://www.gov.scot/Topics/People/15300/funding/Fund*.
3. Including CEIS, Community Enterprise, Firstport, HISEZ, InspirAlba, Senscot, Social Enterprise Academy, Social Enterprise Scotland and Social Firms Scotland.
4. As highlighted by public speeches given in 2012 by Scotland's former First Minister Alex Salmond, and in 2014 by Deputy First Minister John Swinney.
5. For example, Scottish Development International operates a programme called the Smart Exporter initiative, which gives Scottish social enterprises, businesses and entrepreneurs free access to experienced international trade advisers. Frequent trade shows and workshops highlight the support on offer, and facilitate partnerships across and within the sector.
6. "A service [that] provides information to [(social)] entrepreneurs about where they can go to seek professional sources of information and assistance. This can be done with websites, with information provided through public employment services and other partners (e.g. chambers of commerce) or through media campaigns" (OECD/European Union, 2016).

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Further reading

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Chapter 19

Specialisterne & SAP: A partnership for access to markets, multiple countries/ Denmark

Specialisterne and SAP have established a partnership that aims to harness the special skills of people with autism, and provide them with training and work-integration opportunities. To this end, they have implemented the "Autism at Work Programme". This chapter describes the partnership's objectives, rationale and key activities, together with the challenges faced in implementing it and the impact it has achieved to date. It concludes with the lessons learnt and the conditions for transferring this practice to another context.

Summary

While people with *autism spectrum disorder (ASD)* have unique skills – for example, an outstanding memory or a remarkable eye for detail, a structured way of working, the ability to think outside the box and perform repetitive tasks with ceaseless enthusiasm – they struggle with social interaction and personal communication.

Specialisterne ("The Specialists") is a social enterprise established in Denmark in 2004 to pioneer new ways of harnessing the untapped skills of people with ASD and empower them by matching them with businesses in need of information technology (IT) experts. An impact assessment of Specialisterne concluded that its consultants have become valuable contributors to the labour market and solid taxpayers, less reliant on social-welfare contributions. In 2008, Specialisterne Foundation (SPF) was established to scale the Specialisterne model and impact, with the objective of creating one million jobs globally for people with ASD by 2025. To this end, it has developed partnerships with international

IT firms, marking a big step forward in creating decent workplaces for people with ASD, and setting standards for their recruitment and onboarding.

As Specialisterne[1] understands how best to recruit, train and retain new employees with autism, SPF and SAP[2] partnered to create the "Autism at Work Programme". This joint experience has clearly demonstrated that partnerships between public sector organisations, innovative companies and social enterprises can boost quality job creation for people with ASD. Indeed, the involvement of public sector institutions at all levels (local, regional, national and European) brings crucial advantages: these institutions can provide funding to conduct feasibility studies and develop (local/regional) strategies, use social clauses in public procurement procedures to benefit employers of people with autism or similar disadvantages, assist in identifying and training talented young people with autism, and support awareness-raising awareness efforts.

Key facts

Specialisterne was established in Denmark in 2004 to pioneer new ways of harnessing the untapped skills of individuals with ASD. Specialisterne´s core business is assessing, training, employing and matching people with ASD with Danish companies in need of IT experts or consultants to perform crucial business services (e.g. testing of critical IT systems, software programming, coding, quality control, data analysis and conversion, filing systems and metadata management, information packaging and/or logistics). Specialisterne Denmark employs approximately 50 IT experts, 75 % of whom have been diagnosed with ASD.[3]

In 2008, **SPF** was established to scale the Specialisterne model and impact by serving as a global dissemination, competence and knowledge centre on the work integration of people with ASD. The Foundation owns 100% of Specialisterne Denmark, as well as the Specialisterne concept and trademark. It has supported to expansion of the Specialisterne model as a franchise concept to Australia, Austria, Brazil, Canada, Germany, Iceland, Ireland, Northern Ireland, Spain, Switzerland, the United Kingdom and the United States. Specialisterne also has collaborations – but no local offices – in Argentina, the Czech Republic and India. Over the last 10 years, SPF and its partners have trained and employed more than 1 000 individuals with ASD (Thomsen and Sistach, 2016). Its recent partnerships with large IT corporations add a new dimension to SPF's replication strategy and have great potential for creating a decent workplace for people with ASD.

Specialisterne signed its first corporate partnership agreement with SAP, the world's third-largest independent software company. SAP develops and distributes enterprise software for managing business operations and customer relations; it is the global leader in business applications and analytic software, and the enterprise cloud company with the greatest number of users. Its strong innovation capacity has proved vital to its development in an extremely competitive and fast-moving environment. With employees from over 150 nationalities, SAP is committed to diversity and inclusion in the workplace, spurred by the belief that a diverse workforce fosters a more creative and innovative company.

Objectives

SPF aims to scale Specialisterne's approach, creating one million jobs globally for people with ASD and similar challenges by 2025. SAP aims to help to improve people's lives while connecting them with seamlessly with technology in real-time,[4] and has started a transformation process of its key features of its human-resource development operations to hire and benefit from people who think and behave differently.[5] SAP implemented in partnership with SPF the "Autism at Work Programme", spurred by two ambitious objectives:

- achieve sustainable recruitment and on-boarding procedures and operations, which contribute to the implementation of the SAP's mission of thought leadership on global innovation through establishing a learning programme for all stakeholders involved
- re-design and re-orient the SAP human resource policies and processes to fully incorporate neurodiversity (so that the programme's parallel on-boarding process would no longer be necessary to access the talents of people with ASD).

Rationale

Specialisterne is the first enterprise in the world to have recognised and taken advantage of the specific skills of people with ASD in performing work functions requiring a high degree of detail, strong logical and analytical thinking, meticulous inspection and zero-error tolerance. Specialisterne's founder, Thorkil Sonne, has a personal stake in changing the professional paradigm for people with ASD: his own son has been diagnosed with autism.

Over 1% of the population (Autism Europe, 2014; Chen et al., 2015) has been identified with ASD[6] and faces challenges with social interaction, communication skills and expected behaviour in corporate environments. Lack of understanding and appreciation makes it hard for autistic people to realise their career potential. Across the European Union, the overall unemployment rate was 8.6 % in May 2016;[7] less than one person out of two with a disability is employed or active (Eurostat, 2014).[8] The unemployment rate is much higher for people with ASD (Chen et al., 2015); studies indicate an unemployment rate between 76% and 90% (Autism Europe, 2014). Even people with ASD who possess secondary or post-secondary certificates and degrees are "still being employed in unskilled low-level jobs, working much few hours per week, being poorly paid and unable to sustain a job for an extended period of time" (Chen et al., 2015). Yet most people with ASD who receive unemployment benefits would like to work; this coincides with a growing interest in their skills on the part of businesses (notably in the IT sector).

Despite this interest, hiring people with ASD goes against many social norms and traditional practices (e.g. in terms of recruitment, training and development, and workplace design): companies look for employees who are good team players, communicate and promote themselves effectively, and can manage stress. Hence, the most challenging task is changing the way companies think of employees with ASD, whom they sometimes consider as being rigid and moody, or possessing poor communication skills. To activate their hidden talents and benefit from the value they create, people thinking or behaving differently need to be placed in environments that maximise their ability to contribute.

Activities

The "Autism at Work Programme"

To support its global vision and strategy, in 2013 SAP committed to raising to 1% the share of people with ASD in its global workforce, proportional with their share in overall society. In close collaboration with SPF, it designed and implemented the "Autism at Work Programme", which has become part of its wider diversity and inclusion programme. The Programme recognises that autistic people may outperform most "neuro-typical" IT experts and produce the most innovative ideas, providing they are given an environment and context allowing them to make optimal use of their strengths. As a key activity of its global "people sustainability" department, the Programme has received top-level support and is overseen directly by the chief human resources officer, who is a member of the SAP global managing board.

To implement the Programme, SAP works globally with SPF, and locally with Specialisterne offices and respective partners. At the core of this partnership are specific steps undertaken to change SAP's recruitment, training and on-boarding processes.

1. SPF and SAP identify potential suitable locations for piloting the programme, where they liaise with public and non-profit organisations[9] with the capacity to train, place or support people with ASD or physical disabilities in productive employment. Some local support organisations have taken a leading role in running the assessments and trainings.
2. Together with local partners, local SAP programme managers identify potential positions to be filled[10] within SAP. They then conduct phone interviews, develop a pool of candidates, and run background and reference checks. Once this pre-screening process is finalised, the selected candidates undergo a week of training in "soft skills" to acquaint themselves with the social norms of a professional workplace. Most candidates move on to a pre-employment training (lasting four to six weeks) to learn about SAP methodologies, develop relevant skills, work on projects designed to assess key competences in specific areas of expertise (e.g. programming) and help managers know the candidates in informal settings. The training can be delivered by the local partners, who receive intensive guidance by SPF and/or SAP staff, and tailor it to the local SAP needs, practice and culture. In parallel, SAP provides extensive awareness and autism-sensitivity training to the teams that will welcome the selected candidates.
3. Local SAP programme managers gather the information about candidates' capabilities and match them with jobs, potentially resulting in an immediate employment offer by SAP, a temporary job offer by local partners or future job opportunities. The managers organise two coaching and mentoring circles (provided by SAP colleagues and volunteers, or partner organisations) for new colleagues to help them maximise their chances of success, both in the workplace and in their personal life.

Challenges encountered and impact

Challenges

To assess the potential of SPF to achieve its ambitious vision, and understand the complexity and nature of the challenges ahead, table 19.1. shows a strengths, weaknesses, opportunities and threats (SWOT) analysis (based on Welcher-Ulholm, 2014; Thomsen and Sistach, 2016) of its replication and corporate partnership approaches.

The SWOT analysis highlights the challenges facing any partnership aiming to provide decent jobs for people with ASD, relating to:

- changing the mindsets (awareness, knowledge and perception) of decision-makers in companies, social organisations caring for people with handicaps and the public sector, so that they invest in innovative recruiting and onboarding practices, taking into account diversity and the specific capabilities of people with ASD
- aligning stakeholder organisations to engage and collaborate in long-term partnerships aiming to provide targeted training, communications and mentoring services on the recruitment and onboarding process

- accessing public subsidies to fund the costs of tailor-made training courses
- instituting legal/administrative recognition as a pathway to supporting people with ASD, their professional development and their employers
- gaining access to social impact investors who provide grants or patient capital to launch new operations.

Table 19.1. **SWOT analysis of Specialisterne & SAP Partnership**

Strengths	Weaknesses
• The first collaboration of its kind • Strong social brand • Knowledge centre and core competency in training, recruitment and creating job opportunities for people with ASD • Evidence of shared-value creation for governments, enterprises and disadvantaged people • Proven model for generating alignment and commitment of local stakeholders to partner in delivering new methods of work inclusion (social innovation) • Proven model for implementing a paradigm shift in selection and recruitment, work design and training, based on diversity management	• Widespread lack of understanding and appreciation of the special skills of people with ASD • Lack of recognition/certification of high-functioning autism as a disability eligible for public support • Creation of jobs for people with ASD takes time; numbers are still relatively low compared to the global goal • Need to adapt global scaling approaches to new locations' specificities • Costly and time-consuming case-by-case preparation (feasibility study to assess market potential, business plan, co-operation agreements with stakeholders, etc.) and arrangements to subsidise training • Need evidence of sustainable operations for a clear business case and a critical mass of recruitments
Opportunities	**Threats**
• Growing demand for IT specialists in a digital economy • Government incentives (in some countries) for recruiting people with a handicap • Reduced public welfare and social support services, including for people with a handicap, increase the pressure to secure a living for people with ASD	• Integration of people with ASD may not be a priority in countries with high unemployment and a lack of vacancies • In countries with a less developed welfare system, less impact owing to lower social benefits and stronger role of family in caring for autistic family members

Impact

Based on the social return on investment measured by its first impact investor (Den Sociale Kapitalfond, 2012), Specialisterne Denmark made a first impact assessment of its business model for its initial years of operation (Specialist People Foundation, 2013). The assessment concluded that for the 35 people on average with ASD employed by, or through, Specialisterne Denmark between 2008 and 2012, Specialisterne:

- demonstrated this approach's cost efficiency, because every krone invested in supporting the employment of individuals with ASD, Specialisterne garnered twice as much return in taxes and pension contributions than if the same resources had been invested in the same individuals without jobs, e.g. under the guise of unemployment benefits and other welfare payments[11]
- increased the quality of life for Specialisterne's consultants with ASD, all of whom stated that their job had had a positive impact on their lives, especially in terms of their social and economic independence, and general wellbeing.

The "Autism at Work Programme" was initiated in 2013, and is now fine-tuning processes and scaling regional partnerships to become sustainable. By mid-2016, the Programme operated in 12 SAP offices and labs in 8 countries (Germany, India, Canada, Brazil, the Czech Republic, Ireland, the United States and Australia) and provided work opportunities to more than 100 people. Further launches in South Korea, France, Argentina, China and Switzerland are planned.

Lessons learnt and conditions for potential replicability

Lessons learnt

The experience of SPF and SAP has clearly demonstrated the gap between the potential impact of mobilising the special skills of people with ASD and the actual scale of their employment opportunities: traditional corporate approaches to work design, recruitment and selection, and training and development do not consider the need for neurodiversity, i.e. the inclusion in work teams of people who perceive and think differently, and are therefore drivers of creativity and innovation. It has also highlighted that neither public-sector organisations, innovative companies, nor social enterprises can bridge this gap alone: partnerships with experienced support organisations, higher education institutes, companies, and public agencies and services engaged in work-inclusion activities are key drivers of future success. Paradigm shifts in administrative procedures and business routines take time. Early innovators in the public sector require evidence of strong political will and public benefits, while innovators in the business sector require funding of learning costs and evidence of the business case. As framework conditions and socio-economic conditions differ for each country, no universally applicable model for scaling the Specialisterne approach exists.

The success of the SPF-SAP partnership rests on the convergence of objectives, the pooling of resources, and both sides' strong commitment to developing and using the special skills and competences of people who "think outside the box". Each organisation has brought to the table its specific resources, capacities, networks and management practices, as well as its commitment to developing a strategy to include people with ASD in the labour market, and implementing a set of actions to this end. This experience shows that liaising and collaborating with public and non-profit organisations with the potential to educate or train, place or support people with disabilities in productive employment:

- helped map and navigate the complex landscape of public programmes, policies and regulations specific to each location
- generated a starting pool of candidates with rich qualifications (as the organisations were already in touch with many motivated and hardworking people with ASD seeking employment) or talented students with ASD in high schools, colleges and universities
- was often also instrumental in mobilising funding (e.g. public grants or subsidies, donations from philanthropy) to pay for candidate training.

Conditions for potential replicability

The involvement of public sector institutions at the local, regional, national and European levels has been a crucial element for replication and scaling. It can take different forms or roles, such as:

- acting as a convenor bringing together all stakeholders, who commit to teaming up around a common work-inclusion strategy
- providing grants for conducting feasibility studies and developing local and regional strategies, in close partnership with relevant stakeholders
- providing grants for pilot actions to test the suitability, feasibility and acceptance of new ways of providing quality jobs for people with ASD
- commissioning ex-ante and ex-post assessments of work-integration schemes for people with ASD, to provide evidence of the societal value generated

- raising awareness in society, business and the public sector (through media, workshops, courses or public events) to foster respect and recognition of the skills and rights of people with autism
- identifying talented young people who can enter public education institutes (schools, vocational training institutes, universities)
- delivering training and assessment services through community agencies to candidates with ASD.

Public sector institutions can also help create quality jobs for people with ASD, and benefit employers of people with ASD or similar disadvantages, by using social clauses in public procurement procedures that:

- restrict tendering procedures to economic operators whose main aim is the social and professional integration of persons with disabilities and disadvantaged persons ("reserved contracts")
- apply best price-quality ratio as an award criterion, including "social considerations" (such as promoting employment opportunities, ensuring decent work, supporting social inclusion or promoting social economy organisations) directly related to the contract's subject matter.

All these forms and instruments of public support can be replicated or adapted to related initiatives in other regional contexts, providing the initiative:

- is promoted by a champion with a high reputation in society and the economy
- can tap into the resources, capacities and competences of existing networks of organisations engaged in work integration
- teams up with corporate partners that are prepared to make a paradigm shift in their human-resource development concepts and practices
- has a plan to ensure the sustainability of its activities, through long-term funding arrangements and mainstreaming into corporate onboarding processes.

Notes

1. In this text, Specialisterne refers to the Specialisterne Foundation (SPF) and the partners that are licensed to use the Specialisterne brand and work together to deliver services for corporations.
2. SAP is headquartered in Germany, and has regional offices in 180 countries. Globally, SAP employs over 77 000 people of 150 nationalities; it has over 13 000 partners and over 290 000 customers in 190 countries. The acronym SAP stands for Systems, Applications, and Products in data processing. The SAP acronym was derived from the original German name, which was Systemanalyse und Programmentwicklung.
3. In the course of preparing this case study, interviews were conducted with Henrik Thomsen, Chief Operating Officer, Specialisterne Foundation; Charlotte Holmer Kaufmanas, Head of Business Development, Specialisterne Denmark; Stefanie Nennstiel, Senior Director Diversity & Inclusion, SAP; and Gabriele Hartmann, Head of Corporate Social Responsibility Middle and Eastern Europe, SAP.
4. *http://go.sap.com/corporate/en/vision-purpose.html*.
5. SAP sees the recruitment of people with ASD not as a means to achieve legally enforced diversity quota or as an altruistic act of charity or as Corporate Social Responsibility, but as a logical step in following a new resources paradigm that aims at mobilising all innovation-driving resources by ensuring a great diversity of its IT-workforce.
6. Autism spectrum disorders (ASD) and autism are both general terms for a group of complex disorders of brain development. These disorders are characterised, in varying degrees, by difficulties in social interaction, verbal and nonverbal communication, and possible repetitive behaviours. For more information, see: *http://www.cdc.gov/ncbddd/autism/facts.html*.

7. *http://ec.europa.eu/eurostat/statistics-explained/index.php/Unemployment_statistics*.
8. Defined as persons with basic activity difficulties: *http://ec.europa.eu/eurostat/statistics-explained/index.php/Disability_statistics_-_labour_market_access*.
9. The local partners are: EnableIndia (India); Nautis (Czech Republic); Pandorga (Brazil); The Arc, DOR and Expandability (United States); and KVJS/Integrationsfachdienst (Germany).
10. e.g. software developer and tester; information developer; business analyst; IT tech support; IT project management; technical customer support; graphic designers; media/communications analyst; data analyst; product manager; consultant; marketing support expert; and financial or HR administrator.
11. More specifically, Specialisterne:
    - created a total value of EUR 6.6 million (DKK 49.42 million) through hiring or securing jobs for people with autism, leading to savings by the Danish welfare system and income derived from extra taxes and pension contributions
    - generated a net value of EUR 1.8 million (DKK 13.5 million) for the Danish government (after deduction of public investments made to support individuals with ASD in their jobs).

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Boosting Social Enterprise Development
Good Practice Compendium

Chapter 20

Junior Achievement Europe: An education network, multiple countries

Junior Achievement Europe (JA Europe) designs and implements educational programmes that aim to foster an entrepreneurial mindset and skills among students. This chapter describes the objectives, rationale and activities of JA Europe. It presents the challenges faced in implementing its programmes and the impact achieved to date. Finally, it highlights the lessons learnt and the conditions for transferring this practice to another context.

Summary

Junior Achievement Europe (JA Europe) is a pan-European network of 40 national Junior Achievement[1] (JA) organisations that aim to teach young people as early as possible about the world of enterprise and entrepreneurship, to inspire and prepare them to succeed in the global economy. JA Europe is the largest non-profit organisation (NGO) in Europe bringing together the public and private sectors to participate in entrepreneurship education.

JA Europe supports each national network and represents its members in dealing with EU institutions and collaborating with them on policy issues, content development and stakeholder outreach. Each national JA organisation is responsible for initiating programmes and activities in schools at the national level. The methodology is "learning-by-doing": the goal is to foster innovative thinking and improve young people's work and life skills through experience and practical activities. Students work closely with volunteers from the business or public sector, who act as mentors alongside the teachers. In 2014/15, JA organisations reached 3.5 million students in Europe, supported by 117 000 teachers and 164 000 business volunteers.

Social entrepreneurship is an important and growing sector of the economy. JA Europe's activities reflect this development, with the social dimension gaining traction in many JA programmes. In the lower grades, these programmes focus on opportunities for students to engage in the local community. In secondary or higher education, students widen their circle of engagement to encompass international actions, through initiatives such as Social Innovation Relay (SIR) or Social Enterprise 360 (SE360). SER is a sophisticated ideation exercise designed to stimulate creativity through an international online innovation camp supported by business mentors; it is linked to SE360, a strategic partnership between organisations from eight countries[2] that builds on the SER idea by taking students into a real start-up focusing on social entrepreneurship.

By combining social ideation and business development, students gain skills and knowledge in identifying social business ideas and turning them into real businesses. Several studies conclude that students who have had this kind of entrepreneurial learning establish more companies later in life (Elert, Andersson and Wennberg, 2015; JA Worldwide, 2014).

Key facts

JA started working in Europe more than 50 years ago, initially in the United Kingdom and later in Belgium, France, the Netherlands and Sweden. Its European members have produced important impact research on the programme's effectiveness, going as far back as 30 years. JA Europe was established in 2001 as the European regional operating centre for JA Worldwide. In 2015, its total annual budget amounted to approximately EUR 8 million: 82% from private funding, 14% from public funding and 4.5% from other revenue sources. Its social entrepreneurship activities, initiated mainly over the past decade, cover two main categories:

Core activities and programmes in most European member organisations have been adapted to promote and support social entrepreneurship, and are generally integrated in the curricula in close co-operation with education authorities: some extra-curricular or after-school activities are also offered by businesses or organisations. An estimated 500 000 students across Europe participate in these activities every year (JA Europe, 2015, 2014). Financing is approximately 50% private and 50% public, provided by multiple sources such as the European Union, national governments, local authorities, private businesses and foundations. Local community and businesses are always involved as volunteers, judges or mentors.

European initiatives are developed in partnership with national organisations, businesses and schools, and disseminated through the European and global JA networks. Since 2010, 216 000 students have participated in these activities. A combination of private and EU funding (50/50) has supported the development of the programme, including teacher training and establishing web platforms; local school authorities have normally supported implementation in the classrooms. Among JA Europe's activities, 95% are organised by national education system staff; the remaining 5% are organised by JA staff or its partners.

Based on an entrepreneurship education template, JA Europe educates European trainers, who in turn train national teachers or trainers.

Objectives

JA aims to inspire and prepare young people to succeed in a global economy by fostering entrepreneurial mindsets. JA Europe's educational programmes centre on three pillars:

Entrepreneurship involves turning ideas into action, creativity, innovation, risk-taking, planning, and developing perseverance and self-confidence.

Work readiness is bridging school, community, personal life and work. Entrepreneurship education focuses on bridging the gap and establishing a connection between school and the world of work, by developing work habits and conducts, personal leadership, communication skills, teamwork and collaboration, customer-service skills, and learning about the rights and responsibilities of workers and employers.

Financial literacy is the ability to understand how money works, and how to earn and manage money, as well as acquire a set of skills and knowledge that allow individuals to make informed and effective decisions concerning their financial resources.

Social entrepreneurship appeals to young people who like the idea of applying business skills and ingenuity to solving social problems. Over the years, JA activities have increasingly reflected the growing importance of social entrepreneurship, as defined by the European Union (2010).[3]

JA Europe has developed a progression model showing a young person's entrepreneurial learning journey; new experiences compound previous learning and challenge them to reach the next stage of development.

Rationale

Now more than ever, Europe needs entrepreneurial attitudes. Youth unemployment rates have skyrocketed: in February 2015, 85 million young people were unemployed in the European Union (Eurostat, 2016). In most EU Member States, rates for youth unemployment and young people "not in education, employment or training" are significantly higher for first and second-generation migrants than for their native peers. In a society where employment provides entry to networks, social life and recognition, young people are among the most vulnerable in an economic crisis. A 2015 European Parliament report (European Parliament, 2015a) states that "entrepreneurship, and in particular social entrepreneurship, are important drivers of social cohesion and sustainability that can boost the economy while simultaneously alleviating deprivation, social exclusion and other societal problems." Communities' welfare depends on young people's employability and social involvement.

While the primary objective of an education system is to prepare youth to contribute to society and the economy, school systems are struggling to adapt to rapidly evolving demands in terms of job skills and crisis conditions have increased the pressure. Among other objectives, schools need to prepare students to integrate the labour market through entrepreneurship or by creating opportunities of their own, while preparing them to solve social issues, and participate proactively and innovatively in social value and job creation.

Uptake of entrepreneurship education is still limited in most European countries, and start-up rates remain low (European Commission, 2016). Research has shown that investing in entrepreneurship education at school results in higher levels of entrepreneurship activities later in life,[4] and is more cost-effective than later-stage efforts. JA Europe wants to make a difference at these earlier stages, by helping young social entrepreneurs improve and ensure their enterprise development, offering tried-and-tested content and tools, providing teacher training and setting up business-school partnerships for long-term co-operation.

Entrepreneurship (including social entrepreneurship) education needs to factor in experiential learning. While teachers do not necessarily provide students with the answers, they help them research and identify the right questions, and find the best answers. Developing the competences of school leaders and teaching staff – including aspiring new teachers and those who have been in the profession for a long time – has been both a challenge and a priority for JA Europe. JA organisations provide high-quality, "hands-on" training programmes for teachers.

Activities

The "backbone" of all JA activities is shared content. JA Europe develops programmes and activities in close co-operation with its national member organisations, which adapt the content to the specific national curricula and conditions. In this manner, JA can move ahead on particular priorities or large-scale projects, as well as measure impact and share research among countries.

JA programmes focus on developing competences such as teamwork, problem solving, leadership, initiative and creativity. They build skills in turning ideas into action, analysing information, managing projects or business ventures, budgeting, financial management, marketing and sales. Students also use their digital knowledge and foreign-language skills when carrying out these activities.

- At the primary-school level, activities are diverse, action-based and child-centred. With the support of volunteers from the community, pupils learn to take initiatives, solve small problems as a team, and use their creativity, and social and collaborative skills. They also receive their first training in social responsibility.
- Middle-school students learn techniques to generate social ideas, solve social problems in creative ways, and face the consequences of their choices.
- Upper-secondary students and students in vocational training learn how to set up a mini company. This learner-driven activity, which summarises all the elements acquired so far in the progression, is one the most effective practical entrepreneurial experiences available to them. Working in teams, students produce social ideas, identify ways forward and turn concepts into action. National and international competitions challenge them to do their best and validate what they have learned.
- Students at the higher-education level are challenged to create business concepts that are not only viable but also sustainable, and aim to solve entrenched social problems such as poverty, environmental degradation, lack of access to healthcare and inadequate education. Students sign up for competitions and pitch their ideas to representatives from the social business sector.

JA activities include:

- "Our Community": a programme for primary schools adapted for use in communities with high migrant populations, to help improve understanding of the local social system, social networks, and the roles of the public and private sector
- "It's My Business": a programme offering lower-secondary students the opportunity to observe and devise solutions to social problems in the local community

- "Innovation camp": a structured activity to generate social business ideas for upper-secondary or vocational-training students
- "The Company Programme" and "Social Enterprise 360": year-long activities where students create traditional mini-companies or social enterprises, and participate in various competitions organised by JA at the national, European and global levels
- The "Start-up programme": a mini-company activity for higher-education students with social business ideas.

Activities specifically designed to foster social entrepreneurship include:

- 2010-present: Social Innovation Relay (SIR)

  SIR builds secondary school students' social business acumen and team-working skills to help them produce strategies and concepts addressing a social need or challenge. Using a dedicated "match-making" platform, JA Europe pairs teacher-led student teams from several countries with corporate volunteers from NN Group (its key partner for this programme), who mentor and help them translate their concepts into viable business concepts.

  Technology also plays an important role in connecting students from diverse backgrounds with role models, as inspiring social entrepreneurs join the classroom through webinars and answer questions about their entrepreneurial journey.

  The mentorship programme has had a positive impact on participants, motivating them to launch real social enterprises in the future. An evaluation performed by Warwick University's Centre for Education and Industry in 2013 (Warwick University, 2014) revealed that 78% of participating students were more confident in their ability to start a social enterprise; 86% were more aware of the social issues in their own community; 84% were more aware that social and business objectives could be complementary; and at least 90% improved their communication, motivation and critical thinking.

  Since 2010, 25 countries have participated in SIR, involving 134 000 students.[5] Each country paired the top 20 teams with business volunteers from around the world.

- 2011-15: Social Enterprise Programme (SEP)

  The objective of SEP was to increase the pool of potential social entrepreneurs, by providing social enterprise education to young people across Europe aged 15-18. The 26-week Programme brought together the worlds of education, training, skills, work and the community closer together, to inspire and recognise young social entrepreneurs.

  Student teams participating in the Programme spent between two and four hours every week in the classroom or performing an after-school activity. Led by a SEP guide and mentored throughout the year by a volunteer business advisor at regular mini-company meetings, the student teams created their social enterprise and submitted their business plans online. They also made a four-minute video presentation and uploaded it onto *YouTube*. A national panel of judges from the private sector selected a winner to create awareness about social entrepreneurship. At the European level, the national winners submitted a business plan, a four-minute video presentation in English, and an advertisement promoting their social enterprise to an online panel of international judges, who selected the European winner.

  SEP was the result of a partnership between JA Europe, ArcelorMittal, FERD and Intel; 14 200 students participated in the Programme between 2011 and 2015. The Programme was formally closed in 2015, but its main content has spilled over into SE360.

- 2015-present: Social Enterprise 360 (SE360)

  SE360 was developed and implemented with support from the European Commission and is financed through ERASMUS+. In many ways, it is an upgraded version of SEP, featuring more technology and flexibility.

  The programme aims to teach 15-19 year-old students about social businesses and social entrepreneurship. It features two versions: the shorter version guides students through the process of producing a social business idea; those wishing to go further can join the extended version, moving on to set up and operate their own social business (mini-company) during the school year.

  SE360 offers students the opportunity to interact with real-life social entrepreneurs during the online social café. Students learn about – and are inspired by – their path to success and receive valuable feedback on their own social enterprises. Over 300 students participated in the online social cafés in 2015/16; SE360 reached 6 188 students in 2015/16.

Challenges encountered and impact

Challenges

Private-public partnerships providing interaction between schools and the business community may be instrumental in closing the gap between a traditional academic curriculum and the skill set necessary to launch a successful start-up. However, interacting with several partners with different purposes also creates challenges.

Scaling up the initiative and attracting more volunteer advisors to maximise its reach can best be addressed by raising awareness of these various programmes' positive impact on young people's entrepreneurial potential, as well as their relatively low implementation costs.

Implementing social entrepreneurship education should be part and parcel of a school's plans, and communicated to teachers, students, parents and the local community. Even though the SIR, SEP and SE360 programmes do not entail reforming the educational system, or require additional government spending, they are proven tools to spur social innovation and equip young people with the skills needed to make a difference in their communities.

Teachers are the main drivers, but also the main hindrance to implementing entrepreneurship education in European schools. They need training to understand the benefits of social entrepreneurship education and embrace their new role as facilitators breeding students with entrepreneurial mind-sets, supported by the head teacher, who represents the school leadership. Recognising particularly active teachers and creating awareness about their practices is thus very important (European Commission, 2011). More research on the changing role of teachers, their views on pedagogical methods and their recommendations for implementing entrepreneurship education should also be conducted.

Finally, **evaluation and assessment** should be performed to measure progress in several areas connected not only to student performance and outcomes, but also teacher practices.

Table 20.1. features an analysis of the strengths, weaknesses, opportunities and threats (SWOTs) facing JA Europe.

Table 20.1. **SWOT analysis of JA Europe**

Strengths	Weaknesses
• Based on public-private partnerships • Easy to replicate from country to country • Low implementation cost • Well-established national organisations in 40 countries • Programmes available in many languages • Proven tools and methods • Strong positive focus on entrepreneurship education from politicians and the European Union[1] • Possibility of going global, as JA is a worldwide organisation	• Dependent on fundraising and financial support • Needs manpower to initiate and follow up on initiatives at the national level • Despite entrepreneurship education being a political priority in some countries, few schools have implemented the programme so far • Social entrepreneurship is new to most teachers; initiatives are dependent on teachers' motivation and willingness • Not enough focus on teachers' continuous professional development • Need more research on impact • Need evaluation and assessment tools
Opportunities	**Threats**
• Local involvement through volunteers to inspire young students • Programmes do not require any educational reforms • Activities are easy to scale through existing web platforms • Many partners willing and eager to give recognition and create awareness • JA social entrepreneurship programmes can easily be integrated in the school curriculum	• Co-operation among several partners with conflicting purposes • Schools, particularly at the secondary level, work within a specific curriculum and timetable. This may delay integrating and implementing entrepreneurship education programmes in their schedule. • Lack of support from school leadership • Inadequate allocation of time and resources for teacher training • Gap between political ambitions and absorption in the bureaucracy and school system • Initial teacher-training institutions slow to pick up new pedagogical and political initiatives • Traditional examination systems do not validate social-entrepreneurship initiatives in schools

1. The Baltic states, Belgium, Bulgaria, Germany, Nordic countries, the Netherlands, Poland, Romania. More recently, France, Italy, and Greece.

Impact

Most of the JA initiatives detailed above build on the "mini-company" model, where groups of students form their own enterprise. They gain insight into how they can use their talents to set up a business, and discover first-hand how a company functions. They elect a board of directors from among their peers, raise share capital, and market and finance a product or service of their choice. At the programme's end, they present a report and various accounts to their shareholders.

Bringing volunteers from the corporate world into the classroom to share their experience gives students a better overview of career opportunities and the skills needed to succeed. Business mentors add valuable insight and real-life experience, which complements theoretical content and helps make the students' temporary social enterprises more sustainable. Students begin to consider entrepreneurship as a possible career, whose success is predicated on the "connection with businesses … flexibility and adaptability to different types of education …enthusiasm and motivation generated … and creativity, initiative and innovation it unlocks in young people" (European Commission, 2005).

Lessons learnt and conditions for potential replicability

Lessons learnt

Studies in different countries repeatedly show how much more entrepreneurial potential can be tapped through educating, training and empowering students while they are still in school.[6] These comparative findings provide strong support for the notion that the JA concept – which allows students to "experience" social entrepreneurship by setting up, organising, running and finally dismantling a social enterprise – is an effective educational tool that improves both the quantity and quality of social entrepreneurship. It is interesting to both educators and policy makers, since public education and entrepreneurship education yield societal returns through solving social problems, firm and job creation, salary growth and tax payments.

Conditions for potential replicability

The Nordic countries have the highest penetration of entrepreneurship education in the school system. A report for Nordic Innovation (Chiu, 2012) provides insight into the main success factors for potential replication:

- key role of JA organisations
- cross ministerial co-operation
- full autonomy of educational institutions, as long as they comply with National Qualification Framework or steering documents
- intensive business engagement
- entrepreneurship education embedded at all levels and types of education
- teachers' role as facilitators.

Embed entrepreneurial learning in all sectors of education: very few European countries have well-developed strategies to embed entrepreneurship (including social entrepreneurship) in the education system, and many schools offer no entrepreneurship programmes at all. Through its *Rethinking Education* communication (European Commission, 2012) and "Entrepreneurship 2020 Action Plan", the European Commission has asked Member States to provide all young people with "practical entrepreneurial experience before leaving compulsory education" (European Commission, 2013). The European Parliament backs the Commission's initiatives (European Parliament, 2015b).

Establish a shared platform: most JA programmes and initiatives are digital, offered on a shared platform and hence easy to replicate. The SE360 initiative is an example of how 15 countries successfully share a common internet technology platform in 15 languages.

Produce an implementation manual: national JA organisations adapt the activities to local conditions, thanks to teachers and education experts who review and test the content in a few schools before designing the implementation manuals and disseminating the programme across the country. Manuals show teachers how to integrate the content in different subjects and use them according to the national curriculum, thereby facilitating its rollout within the country and internationally.

Notes

1. "JA Worldwide is one of the largest global NGOs dedicated to addressing fundamental social and economic challenges of young people by educating and empowering them to transform their future and own their economic success. […] With more than 100 member countries, the JA Worldwide network is powered by over 450,000 volunteers and mentors from all sectors of society, reaching more than 10 million young people around the world every year." For more information, see: *https://www.jaworldwide.org/aboutja/*.
2. Belgium, Malta, Serbia, Romania, Italy, Croatia, Denmark, Greece and Spain.
3. A social business/social enterprise is an undertaking whose primary objective is to achieve social impact rather than generating profit for owners and shareholders; which uses its surpluses mainly to achieve these social goals; and which is managed by social entrepreneurs in an accountable, transparent and innovative way, in particular by involving workers, customers and stakeholders affected by its business activity (European Commission, 2010).

4. Read more at: *http://jacharters.org/jaimpact*.
5. The programme currently runs in Bulgaria, Czech Republic, Greece, Hungary, Japan, the Netherlands, Romania, Singapore, Slovakia and Spain.
6. Several studies have investigated the start-up frequency after participation in mini-companies. A Boston Consulting Group report (2011) estimated the payback as 1:45 ratio, based on studies on social enterprise in Canada. A Young Enterprise report (2012) showed that 42% of the alumni surveyed started firms, compared to 26% in the control group of non-alumni. Studies from Norway and Sweden confirm these findings: Johansen (2010) looked into 1 000 former mini-company participants aged 20 to 30 years in 6 European countries, and found more entrepreneurs among them than in the national population. The study points out that mini-companies increase the likelihood of starting a company before turning 25 years old and before completing a university degree. Elert, Andersson and Wennberg (2015) compare JA-YE Sweden's register of mini-company alumni with Statistics Sweden and finds that former mini-company participants are more likely to engage in entrepreneurship than the control group. Using data from a Norwegian test-control group study with 1 200 respondents, Johansen (2011) finds a positive correlation between participation in mini-companies and start-up activity.

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Boosting Social Enterprise Development
Good Practice Compendium

Chapter 21

NESsT: A multipronged support structure, multiple countries

NESsT supports and invests in social enterprises that use market-based solutions to create opportunities for viable employment and income generation in Central and Eastern Europe, and South America. The description presents the objectives, rational and key activities of NESsT. It also discusses the challenges faced and the conditions for transferring it to another context.

Summary

NESsT invests money, business coaching and social capital in social enterprises in emerging market countries. Since its creation in 1997, NESsT has accumulated unique social enterprise development experience, creating dignified jobs and income for people facing the greatest barriers to work. It currently works in three Central and Eastern European (CEE) countries – Hungary, Poland and Romania – and two countries in South America – Peru and Brazil. In addition to supporting a portfolio of enterprises, NESsT engages in research, publications, sector-building and relationship-building with funders and policy makers. Social impact is at the heart of each investment, and is measured using a robust performance-management methodology.

NESsT introduced the "social enterprise" concept in response to the sustainability crisis affecting civil society organisations (CSOs) and their search for innovative responses to critical social problems. In its first 15 years, NESsT uses an **engaged-investor approach** and supported very early-stage enterprises. This was vital in CEE countries, where social enterprise and social investment were in their infancy. The initial objectives of NESsT were to: 1) support and showcase high-impact social enterprises; 2) build the capacity of individual social enterprises through training and mentoring; 3) build a social enterprise sector; and 4) create an enabling environment and advocate for policies supporting social enterprises.

Over time, as the local social enterprise ecosystems evolved and NESsT assessed its achievements of the first decade, the organisation added new objectives. Since 2010, the NESsT 2.0 strategy focuses on social enterprises that have validated their business model and are preparing to scale[1] in two social impact areas: dignified jobs and sustainable income. Key objectives now include: 1) increasing the availability and appropriateness of financial instruments; and 2) improving social impact management.

NESsT activities fit under several policy areas:

- capacity-building and skill development for social enterprises
- awareness-raising and general education of all stakeholders
- access to finance, offering own funds and raising third-party sources.

NESsT was – and still is – the first and foremost educator and market-builder for social enterprises in a number of CEE countries.

The NESsT model is replicable providing the following conditions are in place: 1) long-term funding and commitment; 2) groups of skilled, committed and motivated professionals; and 3) an enabling environment, providing friendly regulation and market opportunities fostering social enterprise growth.

Key facts

NESsT is a pioneering organisation founded in 1997 by two social entrepreneurs. In the late 1990s and early 2000s, it introduced a highly innovative approach to social problems in CEE and Latin America, using concepts and terminology that were little known to entrepreneurs, civil society, investors and public sector officials. The social enterprise and sustainability programme launched by NESsT for non-profit organisations brought new content, defined key concepts (such as social enterprise and sustainability), and often created new terms in the local languages. NESsT operates in different geographies (namely, Europe and South America), offering each region a unique opportunity to pilot and adopt initiatives from the other region and devise similar solutions to comparable social problems. NESsT currently operates in 5 countries – Hungary, Poland, Romania, Peru and Brazil – and employs a team of 28 full-time professionals and 4 interns.

NESsT's 2014 annual income totalled EUR 2.3 million (USD 2.6 million), comprising contributions from foundations (47%), earned income from consultancy services (32%), corporate contributions (12%), grants from governments and multilateral organisations (5%), and donations from private individuals (4%) (NESsT, 2015). European Union (EU) funds for social enterprise development programmes were also added in recent years.

Objectives

The NESsT vision is that of a world where all people can improve their quality of life thanks to a stable job generating a living wage. NESsT develops and invests in enterprises that use market-based solutions to create opportunities for viable employment and income generation.

Initial objectives: NESsT 1.0 (1997-2010)

- **Support and showcase high-impact social enterprises**: NESsT introduced the social enterprise model as a new way of solving social problems (e.g. unemployment, discrimination and environmental degradation) and providing sustainable financing for struggling CSOs. NESsT offered grant funding and at least three years of business planning and mentoring support to start-up and early-stage enterprises wishing to validate their business model and achieve social impact.

- **Build the capacity of social enterprises**: extensive research conducted by NESsT in four CEE countries in 1998 showed that considerable skill and resource barriers hindered social-enterprise development among CSOs (NESsT, 1998). The study uncovered considerable efforts on the part of CSOs to diversify their financial resources and build sustainable models, often including enterprising solutions. However, tools, training and capacity building were urgently required to assist organisations embarking on the social-enterprise journey (NESsT, 1998).
- **Build a social enterprise sector**: NESsT wished to contribute to the field and share the experience of more advanced social enterprises from other countries by introducing business planning, organisational development and impact-management tools, numerous training and capacity-building events, new research and publications, and networking and partnership opportunities. The organisation's workshops and tools on social enterprise readiness and business planning for early-stage enterprises became the benchmark in CEE, and were later widely used and adopted by other stakeholders.
- **Engage in policy advocacy and develop appropriate financing facilities:** NESsT hoped that funders and other stakeholders would join the social enterprise ecosystem once the model had proved effective. When this did not happen – or happened much later than expected – in many NESsT countries, NESsT began to engage with policy makers and the public sector on the one hand, and private sector financiers on the other hand, to push for a more enabling environment for social enterprises.

Policy approach

When NESsT was created, the CEE region did not have a social enterprise ecosystem. The multi-layered policy approach applied by NESsT follows the evolving needs of the sector across all CEE countries. Its integrated package includes providing funding, capacity building and networks, education and training, coaching and mentoring, and research and market support.

Rationale

In its early years, NESsT approached the "social enterprise" concept from the civil society perspective. CSOs recognised "enterprising" as an effective alternative to grant-funded projects. By the late 1990s, CSOs in CEE had already suffered the consequences of diminishing funding. Foreign funders had begun to withdraw their support, while the underdeveloped local philanthropy was reluctant to fund organisational development, enterprise planning or core costs. In the transitioning CEE economies and societies, people had a huge appetite for new, increasingly market-oriented approaches, as well as new methods and skills. NESsT considered this a propitious time to introduce a rigorous methodology for social enterprise development. The early funders of NESsT were innovative foundations (e.g. the Rockefeller Brothers Fund, the Charles Stewart Mott Foundation and the Soros Foundation) and individuals (mostly with a business background), who believed in the social enterprise model and the need for diversifying CSO funding.

In 2004, when the Czech Republic, Hungary and Slovakia joined the European Union, NESsT hoped that significant amounts of pre-accession and structural funds would be used to promote social enterprises. The EU and national-government funding programmes did little to strengthen the organisational capacity and governance of impact-delivery organisations; instead, they channelled most of the funds directly to the beneficiaries. As a result, CSOs became accustomed to an abundance of public funding, and depended heavily on project grants. In Hungary, for instance, 35% of the income of traditional CSOs in 2006 came from government subsidies (KSH, 2008) and an additional 23% from public sector grants targeting their "core programmes".[2] The government had not reformed public procurement, so CSOs specialising in service provision could not build sustainable business models based on delivery contracts with the public sector. Consequently, the desired social enterprise boom did not take place.

The key challenges during the design of the programme were as follows:

- **Lack of awareness of social enterprise concepts and examples**: NESsT had to design and fund regular awareness-raising and educational campaigns targeting CSOs and funders.
- **Lack of financial and human resources for social enterprise development**: the local philanthropic scene numbered few domestic donors; public sector agencies and governments were uninterested, or insufficiently skilled; the rare academics studied foreign social enterprises; and CSOs mostly employed grant-funded, project-focused staff, who lacked the business know-how or time to become effective social entrepreneurs.
- **Lack of partners**: In the early pioneering phase, NESsT lacked partners. Local donors, the public sector and academia were not interested or did not have the human resources to investigate the social enterprise concept and collaborate with NESsT. Its key allies were mostly CSOs – who had a forward-looking strategy, yet lacked the resources to fully embark on the social enterprise journey – and businesses from the private-equity and finance industry, who embraced NESsT longer-term "investment" approach.

Activities

Through its engaged-investor approach, NESsT invests in social enterprises by providing long-term, tailor-made capacity-building, mentoring and financial support. These are the key components of the venture-philanthropy[3] toolkit – featuring exercises, tools, manuals, workshops and one-on-one support methodologies – first introduced by NESsT in CEE in 1999-2000,[4] with the primary expectation of maximum social return on investment. This impact-focused approach is still very innovative in the region.

The NESsT methodology for social enterprise development comprises the following stages:

- NESsT invites **early-stage** social enterprises to participate in its workshops on social-enterprise readiness and business planning to help them create a viable business model.
- After rigorous due diligence, NESsT selects the most promising businesses for inclusion in its **incubation** portfolio. These social enterprises pilot and prove their business concept during an incubation period of five to seven years.
- In the **scaling/replication phase**, NESsT provides further investment through a variety of financial instruments (e.g. blended finance, debt and equity).
- Throughout the investment process, NESsT builds the social enterprise's ability to **measure and manage its performance and social impact**, using a tool developed over 15 years of portfolio experience.

Capacity building

Highly trained and experienced NESsT staff deliver capacity building during workshops, portfolio events, conferences, seminars and one-on-one consultations. Early-stage enterprises are taught basic business-planning and financial skills, while enterprises in the incubation and scaling portfolio are coached to become investment-ready and take on repayable finance. Capacity-building support averages EUR 7 500 a year for each organisation; portfolio enterprises consider it the most valuable aspect of the NESsT package.

Impact measurement and management

All portfolio social enterprises use the NESsT performance management tool, which sets goals and targets, measures baseline and monitors performance regularly, based on agreed indicators tailor-made to each social enterprise in four areas: 1) enterprise (business) performance; 2) organisational capacity; 3) social impact; and 4) financial sustainability. The tool also contains a few common indicators (flagships) on which all portfolio enterprises must report, so that NESsT can aggregate performance at the portfolio level. While NESsT enterprises compare performance to their own targets, NESsT also uses external benchmarking, comparing data to the global IRIS data set.[5]

Financial support

NESsT invests EUR 22 000 on average in each social enterprise. Start-ups or very early-stage enterprises receive grants to finance seed capital and operating costs during the launch period. While this amount may seem low, it is crucial for most social enterprises in CEE, which still struggle to obtain start-up funding from other sources.[6] As growth enterprises in the NESsT portfolio need larger amounts and different types of finance, NESsT pilots loans and equity transactions targeting EUR 88 000 on average in the incubation phase and EUR 220 000 in the scaling phase.

Innovative features

In an effort to expand the range of available resources and engage new stakeholders, NESsT created a **Business Advisory Network**[7] of local and international business professionals, who offer their expertise and networks to NESsT and its portfolio on a pro bono basis. This advisory role was an innovative way of involving stakeholders who could later become donors and investors. The NESsT "Private Equity Shares"[8] initiative proved exceptionally successful in that light, raising EUR 877 000 in funds and the equivalent of EUR 175 000 in pro bono support from investment professionals and their funds.

NESsT was the first to use competitions in CEE in order to attract social enterprise proposals. In 2007, it introduced the first "NESsT-Citi Social Enterprise Competition" in partnership with Citibank.. The competition had a highly innovative format: 1) it provided an opportunity for long-term co-operation with a multinational bank, offering both funding and volunteer support by its employees; 2) it promoted the social enterprise model to the wider public; 3) it provided a rigorous process and timeline for organisations to complete and present their business plans; and 4) it allowed comparing and selecting proposals (including, for the first time in CEE, proposals submitted by for-profit social enterprises), based on their potential business viability and social impact.

Changes in the NESsT approach: NESsT 2.0 (from 2011 onward)

NESsT believes the social enterprise model has now proved itself. Consequently, the agency has shifted the emphasis to working with high-impact enterprises that are ready to validate and scale their business model. NESsT now focuses on specific impact areas, such as labour inclusion, sustainable income and affordable technologies, to achieve more social impact by providing significant long-term support to a smaller number of social enterprises addressing the root causes of a social issue.

- **Validate, scale and replicate successful social enterprises**: the most successful members of the NESsT portfolio receive further investment, advanced capacity building and tailor-made technical assistance.
- **Increase access to finance:** consolidated and growth enterprises need more – and different – types of capital than start-ups. To fill the financing gap, NESsT: 1) provides a more diverse range of financing instruments, including recoverable grants for growth plans, patient loans for infrastructure investments, working capital and loan guarantees to help leverage third-party investment sources; 2) offers larger amounts of blended capital, ranging from EUR 88 000 to EUR 132 000; and 3) identifies other financiers who could offer the missing debt or equity component, and engages with them as co-financiers in specific transactions.
- **Improve impact measurement practices:** to determine whether employment, placement and sustainable income have indeed resulted in improved quality of life, NESsT is piloting indicators (e.g. income improvements over time and job longevity) relative to social enterprises' beneficiaries. The Agency is also tracking environmental impact indicators, in a bid to ensure that its portfolio of enterprises are reducing their carbon footprint and adopting environmental best practices.
- **Demonstrate the crucial role of intermediaries and incubators**: as an intermediary itself, NESsT advocates allocating sufficient financial and other support to intermediaries, as their sustainability is vital to the survival and growth of the overall social enterprise sector.

Challenges encountered and impact

Challenges

The NESsT 2.0 strategy continues to build on the organisation's many strengths and take advantage of opportunities in the European and global contexts. On the one hand, the increased interest in social enterprise and social investment, combined with social enterprises' will to engage private-sector resources in their development, means that skilled intermediaries will play a crucial role in matching successful scaling social enterprises and social investors. On the other hand, crowdfunding has opened a window to an extraordinary resource – retail investors – whose numbers and commitment to social value can be harnessed by investment-ready social enterprises and support organisations such as NESsT.

Many more partnership opportunities exist today than 10 or 15 years ago, and NESsT is in a good position to capitalise on its know-how and reputation. It could find ways to share its methodology with others while remaining at the cutting edge, focusing on scaling and replicating social enterprises.

Table 21.1. shows a strengths, weaknesses, opportunities and threats (SWOT) analysis of the NESsT programme.

Table 21.1. **SWOT analysis of NESsT**

Strengths	Opportunities
● Robust methodology in social enterprise development and social impact ● Almost 20 years of social enterprise and investment experience ● Highly skilled, innovative and committed staff ● International as well as local expertise ● Extensive professional network ● High quality of activities, strong reputation ● Consultancy business	● Continued interest of the public and private sectors in social enterprise and social investment ● Increased focus on social impact by investors, public-sector commissioners and social enterprises ● New EU programmes, e.g. EU Programme for Employment and Social Innovation ● Availability of social investment funds and repayable finance ● Success of crowdfunding platforms ● Partnerships with support organisations, and private and public sector stakeholders ● Increased need for intermediaries ● NESsT Partners Programme[1]
Weaknesses	**Threats**
● Small team compared to operational needs ● Portfolio social enterprises are smaller compared to other social enterprises worldwide ● Financial sustainability ● Communication of achievements	● Competition among intermediaries and incubators ● Lack of global/local funding for CEE ● Inability to raise sufficient investment funds meeting donor and investor conditions

1. For more information, please refer to: *http://www.nesst.org/join-nesst-partners-new/*.

Even though NESsT will celebrate its 20th anniversary in 2017, financial sustainability continues to be its most important challenge. To achieve its goals, NESsT will need to raise more funds and create a sustainable financing model for itself by raising awareness among a growing number of actors. A commitment to high-quality, targeted communication will help NESsT meet the heightened competition among incubators and intermediaries.

Raising funds to invest in the scaling portfolio could also prove challenging, as very limited patient capital is on offer in the EUR 25 000-250 000 range. NESsT wants to raise funds to supply the combination of debt, long-term equity-type funding or blended finance its portfolio needs to prepare for higher levels of social investment going forward.

Impact

As of 2015, NESsT supported a portfolio of 167 social enterprises worldwide, reaching 540 000 low-income individuals. It had invested over EUR 10 million in financial and capacity-building support, provided training in social entrepreneurship and business planning to 12 000 leaders from 5 300 organisations, and helped generate over 33 000 employment opportunities (NESsT, 2015). NESsT enterprises are viable businesses, achieving a 25% revenue growth on average.[9]

NESsT has been very successful in its sector-building efforts. It has developed a robust methodology for early-stage social enterprises, and published books, manuals, legal assessments and case studies in 16 languages. NESsT has laid the foundations of the social enterprise sectors in all of its countries of operation. It has helped train and prepare hundreds of professionals and organisations, who later became multipliers and future social entrepreneurs or investors. It has helped transform a large part of the CEE finance and investment community, whose members now understand and support social enterprises. Thanks to its international contacts, CEE social enterprises now participate actively in global networks and the flow of ideas.

Lessons learnt and conditions for potential replicability

Lessons learnt

- **Social enterprise development takes time**. NESsT had to streamline the process by announcing an annual competition. This increased participants' motivation, resulted in stronger proposals and shortened the development phase to 8-12 months. By using referrals and focusing on more advanced social enterprises, the current due-diligence and investment-decision processes have been much shortened, and currently last three to four months.
- **Social enterprises experience similar success rates as start-ups**. NESsT has learnt that only one or two out of ten early-stage social enterprises succeed, and that it needs to be more selective during the initial investment and first-year evaluation stages. This benchmarking exercise helps NESsT keep the scalable enterprises in its portfolio.
- **Grants are crucial**. Since most social enterprises will always need them to fund working capital, development or innovation, NESsT has decided to continue to offer grants, either as a smaller percentage of the total funding or as part of a blended-finance package.
- CSOs and social enterprises lack strategic skills, good governance and an impact-measurement culture. Support organisations' capacity-building and mentoring agendas need to include these skills.
- **Leadership is key to success**. Even if it offers the best products and services and has a well-structured business model, a company that lacks a strong management team will ultimately fail to consolidate and grow.
- **The lack of access to public sector markets is a major impediment to social enterprises specialising in service delivery**. Social enterprises and their support organisations, including NESsT, must continue to push for public procurement processes emphasising social value, so that social enterprises have a better chance of competing in tenders.
- **The involvement of corporations and foundations is critical**. In today´s shared-value approach, corporations should see doing "business" with social enterprises as a "win-win" opportunity to respond to the needs of both employers and service providers. Foundations can support the innovative aspects of this investment-oriented approach, for example by seed-funding the research and pilot stages.
- **Sector-building activities are essential**. Social enterprises cannot thrive in a vacuum – they need markets and financing. Government support is crucial, as it can help develop the infrastructure and promote the concept of social enterprise. Consequently, engaging with public sector agencies, policy makers and funders must remain on the agenda, even though it is very resource-intensive.
- **Viable intermediaries and incubators are vital to a healthy social enterprise sector**. They act as translators, conveners and matchmakers, and share the risks. Both funders and regulators have an interest in supporting their viability, either directly or indirectly, through contracts. Intermediaries must work together to avoid duplicating efforts; they must see each other as part of a value chain.

Conditions for potential replicability

1. **Funding and understanding of the local realities**. Because of the deep, long-term relationship between investors and investees, the NESsT approach requires significant financial commitments over a 10-15 year period. If such funding is not available,

the intervention may remain an isolated incident, and potentially successful social enterprises will never make it to the growth stage. Local funding realities (i.e. the types and sources of funding available) and conditions for enterprise development (e.g. regulation, support structures, market conditions) influence social enterprise development, market penetration and commercial viability.

2. **Staff**. One key to the success of NESsT is its staff, who deliver the bulk of its value, i.e. capacity-building support.
3. **Environment**. To be financially viable, a social enterprise targeting either the private or public sector market needs to compete on at least a level playing field with other businesses.

While it is possible to replicate its model, NESsT has concluded that it is neither necessary nor sustainable for one organisation to replicate the entire model. Today's CEE social enterprise ecosystem is such that NESsT can now leverage a number of partners (accelerators, universities) to support its start-ups, and rely on a growing community of impact investors and innovative funders to provide financing. As a result, NESsT now positions itself as an investor, focusing on the validation and prepare-to-scale stages, and working intensively with a smaller portfolio of social enterprises to maximise their social impact.

Notes

1. The Monitor Group's research identified four stages of enterprise development: blueprint, validate, prepare and scale. **Blueprint** refers to the enterprise design phase. **Validate** means testing the commercial viability and sustainability of the business through market trials. **Prepare** means preparing the conditions within the enterprise, as well as in the market, for scaling a sustainable business model. **Scaling** is the growth phase intended to reach a wide customer base and scale the social impact. See Koch et. al (2012).
2. Core activities or programmes (*alaptevékenység*) is a legal and statistical term in Hungary that refers to the basic activities defined in an organisation's statutes. In statistical reports, this category is used to denote an income category, namely, all the income the organisation receives from core activities, regardless of source. The bulk of such income tends to derive from public-sector grant programmes.
3. The European Venture Philanthropy Association (EVPA) defines venture philanthropy as a "high engagement and long term approach to generating societal impact through three core practices: tailored financing, organisational support and impact measurement and management" (EVPA, n.d)
4. The NESsT venture-philanthropy toolkit was developed over time and provides non-financial support to its portfolio, in combination with finance. Some of these tools (e.g. publications) have been published and are available on its website.
5. IRIS is a generally accepted set of performance metrics used by impact investors to measure social, financial and environmental success. For more information, see: *https://iris.thegiin.org/*.
6. Some exceptions exist in Hungary or Poland, where social co-operatives were favoured by special European structural funds or government funded programmes, as they were seen as effective vehicles of employment creation, rather than market-oriented enterprises.
7. For more information, please refer to: *www.nesst.org/advisors/*.
8. For more information, please refer to: *www.nesst.org/equity*.
9. Ibid.

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