



SOCIAL ENTERPRISES: WHAT CAN POLICIES DO TO SUPPORT THEM?

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Social enterprises are developing all around the world in increasing numbers, as confirmed by national and international statistics and analysis.¹ However, because of the diversity of economic structures, cultural traditions and legal frameworks across the world, measuring them still remains a challenge, particularly for the purposes of making international comparisons.² Still the general public does not yet understand exactly what social enterprises do and in what way they differ from traditional (commercial or just for profit) enterprises. This is in spite of the numerous studies produced at national and international levels in the last decades, and the increasing attention paid by mass media to social enterprises that are presented as innovative economic agents who address social and environmental challenges using an entrepreneurial approach.

So, what are social enterprises?

Many definitions exist together with many organisational models and legal forms³ that can vary from country to country. But in a nutshell, social enterprises are businesses (no matter what their legal form is) that pursue a social mission through an entrepreneurial approach. They are not primarily driven by profit because their explicit aim is to benefit the community and individuals and to pursue the general interest and not make profits for the sake of profit. But in order to be viable on the market - as social enterprises operate in the market as any other business - social enterprises do need to make profits. Nevertheless, these profits may or may not be partially distributed to the stakeholders (there are no shareholders in social enterprises), but are typically re-invested in the business to fulfil its mission. Social enterprises generally, but not always, adopt democratic and participative governance (a "one head one vote" principle and involvement of beneficiaries, employees and clients). This represents another characteristic which makes them different from traditional 'for profit' businesses. Those are by definition driven by profit, in contrast to social enterprises.

What do social enterprises do?

Social enterprises exist in many economic sectors. In Europe they are active in a wide spectrum of activities and in many different fields ranging from social and welfare services, education, housing, health, renewable energies, utilities, environment, culture and tourism. They sell products and services in these sectors and often re-integrate vulnerable individuals into the labour market. A good example of this is the French social enterprise Juratri, which was created as a limited liability company and then transformed into a co-operative (SCOP, Société cooperative et participative) in 1996. Juratri developed a process of social and professional integration for people excluded from the labour market through an economic project related to waste sorting (household and industrial waste and waste electrical and electronic equipment). Juratri's turnover was around six millions euros in 2011, an increase of 15% from 2010 and 190% from 2006. The cooperative employs a

¹ See for example Terjesen S., Lepoutre J., Justo R. and Bosma N. (2011) Global Entrepreneurship Monitor Report on Social Entrepreneurship.

² Noya A., Clarence E. (2013) Policy brief on social entrepreneurship, OECD/European Union 2013 (http://www.oecd.org/cfe/leed/Social%20entrepreneurship%20policy%20brief%20EN_FINAL.pdf, also available in French and German); CIRIEC (2012) The Social Economy in the European Union, CESE/contract CES 18.106-2012, The European Economic and Social Committee (EESC).

³ For a review of the definitions see "Social Entrepreneurship and Social Innovation" in OECD (2010) SMEs, Entrepreneurship and Innovation, OECD, Paris. For an analysis of the legal forms on social enterprises in a number of countries see, for example, Cafaggi F. and Iamiceli P., (2009), "New Frontiers in the Legal Structure and Legislation of Social Enterprises in Europe: A Comparative Analysis", in Noya A.,(ed.), The Changing Boundaries of Social Enterprises, OECD, Paris.

hundred and thirty-five people and has created fifty-three of these jobs in the past five years. Sixty-three individuals are in an 'integration process' that means working under a fixed-term contract of integration and at the same time are provided with close supervision and mentoring (<http://juratri.fr>).⁴ The success of Juratri is not only due to its expertise and engagement in a buoyant sector but also to the wider public policies that support its activities.

Why should public policies support social enterprises?

Social enterprises are proven to play an important role in addressing social, economic and environmental challenges, fostering inclusive growth, increasing social cohesion, nurturing local social capital, supporting democratic participation and delivering good quality services.⁵ They also have shown more resilience during the economic and financial crisis and created more jobs than they destroyed.⁶ These are all good reasons why policies should support social enterprise creation and development, not to mention the studies that show⁷ how public money spent to support job creation or the provision of goods and services by social enterprises represent a more efficient way of utilising resources than alternative methods. Therefore public policies supporting social enterprises allow governments to meet employment and other challenges in a more effective and efficient way, while at the same time improving the spending of public money.

What can public policies do to support social enterprise development?

Across Europe, social enterprises face a number of important barriers related to legal and regulatory frameworks, financial resources, access to markets, business support and development structures, training, and workforce development. A business environment conducive for social enterprises to emerge, consolidate and thrive is required. Public policies should create an enabling eco-system to developing social businesses and facilitating, among others, access to funding.⁸ But establishing useful frameworks for social enterprises implies that policy makers adopt a systemic vision of social entrepreneurship and the contribution that it can make to the improvement of economic and social wellbeing. This way the framework would be tailored to suit social enterprises' needs and created in such a way as to optimise their impact. The OECD works in several member countries to analyse the conditions and pre-conditions needed to set up a social economy and social enterprise organisations. It has highlighted the following key areas for national and local policy action: to promote social entrepreneurship; to build enabling legal, regulatory and fiscal frameworks; to provide sustainable finance; to offer business development services and support structures; to support access to markets and to support further research. It is important to adopt a holistic approach to support social enterprises and that an internal coherence is pursued among the different components within the enabling environment.

⁴ For other examples of successful social enterprises see (2013) Chauffaut D.; Lensing –Hebben C. and Noya A. (eds) *L'entrepreneuriat social en France. Réflexions et bonnes pratiques*, Centre d'analyse stratégique et OECD, Rapports et Documents, n, 2013 [5:18:26 PM].

⁵ Noya A., Clarence E (2007) eds; *The Social Economy. Building inclusive economies*, OECD, Paris; Barthélémy A., Keller S., Lensing-Hebben C. et Slitine R. (2013), « *Entrepreneuriat social : de nouvelles solutions pour sortir de la crise* », in : Association d'Économie Financière, *Rapport moral sur l'argent dans le monde 2013*. ; Lensing-Hebben C., "Quelle place pour l'entrepreneuriat social en France?", Centre d'Analyse Stratégique, 2011.

⁶ See CIRIEC (2012) op cit; Buckingham H., Teasdale S., *Job creation through the social economy and social entrepreneurship* www.oecd.org/cfe/leed/jobcreationthroughthesocialeconomyandsocialentrepreneurship.htm

⁷ Ashoka/Mc Kinsey and Company (2011) *Etude d'évaluation de l'impact de l'entrepreneuriat social* (unpublished).

⁸ Recently (2011) the European Commission adopted the "Social Business Initiative" which proposes ways to improve social businesses' access to funding, including EU funding through Structural Funds, and the future establishment of a financial instrument to provide social investment funds and financial intermediaries with equity, debt, and risk-sharing instruments. The Social Business Initiative also envisages activities to measure social business activity and improve the visibility and recognition of social businesses and to create a simplified regulatory environment, including a future proposal for a European Foundation Statute, as well as a forthcoming revision of public procurement rules and state aid measures for social and local services. These efforts at European Union level need to be complemented and exploited at national and local levels by further measures to address the barriers to social enterprise development.

Promoting a culture of social entrepreneurship and positive attitudes towards it can be a preliminary step towards social enterprise creation. One of the ways this can be achieved, among others, is to attract young talents into the sector. A good policy example of this approach is the French Jeun'ESS⁹ initiative that was launched in 2011 as a public-private partnership between a number of ministries, enterprises and foundations from the social economy sector. It promotes the social economy among young people through three channels: firstly through the education system; secondly, through initiatives for young people in the social economy; and thirdly, through integration of young people in the enterprises of the social economy. A budget of €1.3 million euros was allocated for the years 2010 and 2011, and a further €600,000 euros has been engaged until the end of 2013.

Building **legal and regulatory frameworks** are important to bring clarity because the field, policy makers and investors need it. However, although legislation is required, it is not enough and must be accompanied by a wide range of strategies to support the development of social entrepreneurship. Moreover, it is important not to over-regulate when legislating so as to avoid using the law for matters that do not necessarily need it. There are a number of laws that have been adopted in several countries in the last few decades which have regulated social enterprises.

Providing sustainable finance for social enterprises is essential. Just like any other businesses they require capital at all stages of their life cycle. However the reality is difficult because traditional banking systems do not understand the social enterprise business model and do not want to risk lending to these businesses. The emergence of a strong financial marketplace for social enterprises is needed, and the changing financial landscape,¹⁰ which is composed of innovative tools such as crowd funding, venture philanthropy, business angels etc., demonstrates great potential for this. A number of successful practices are shown in the table below.

In terms of policies, more innovative institutional arrangements between governments and financial institutions should be pursued through policy measures that co- invest with the private sector and seek social returns as well as financial ones. Examples of this exist in several countries. Governments can also facilitate access to private capital through tools such as credit guarantees or fiscal incentives for potential investors through tax credits.

Table 1. Synthetic overview of evolving sources of finance

Source	Examples
Solidarity finance	<ul style="list-style-type: none"> • Solidarity finance network (Quebec) • Finansol (France, 30,000 solidarity subscribers in 2001; 200,000 in 2005), INAISE, FEBEA, Réseau financement alternatif (Belgium, 1987), Fineurosol (2005) ;
Venture philanthropy	<ul style="list-style-type: none"> • Programme-related investment and social venture philanthropists (SVP) acting as investors in social enterprises (<i>Venture Experiment Program</i> by the Rockefeller Foundation, the <i>Acumen Fund</i>, etc.)
Institutional investors	<ul style="list-style-type: none"> • Pension and insurance funds (shareholder activism) • Donor-advised funds (DAFs): Pioneered by <i>Fidelity's Nonprofit Charitable Gift Fund</i> (donor activism) • <i>Calvert Community Investment Notes</i> (1995, partnership between the Calvert Group and the Ford, MacArthur and Mott foundations)

⁹ Jeun'ESS's is a play on the French word Jeunesse (youth), thus expressing the goal of promoting the social economy among the young.

¹⁰ Mendell M., Nogales R. (2009), "*Social Enterprises in OECD Member Countries: What are the Financial Streams?*", in Noya A. (ed.), *The Changing Boundaries of Social Enterprises*, OECD, Paris.

Source	Examples
Individual investors	<ul style="list-style-type: none"> • Angel investors • High Net Worth Investors • 'Diaspora' financing • Individual savers and investors
Social capital market	<ul style="list-style-type: none"> • Patient capital/quasi-equity: <i>Fiducie</i> • Blue Orchard's <i>Private Equity in Microfinance</i> and <i>NEsT</i> • ETHEX
Crowd funding	<ul style="list-style-type: none"> • <i>Kiva</i>; <i>Just giving</i>

Source: based on Mendell and Nogales (2009).

Social enterprises require **business support** and evidence shows that they benefit from **integrated support strategies and structures**. A "braided" system of support, which includes both generic business support and specialist social enterprises components is an interesting model.¹¹ Hubs and incubators are important tools that are developing and a good example is the NESsT incubators, operating in 10 countries (<http://www.nesst.org>).

There is a need to **develop market access** for social enterprises. There are several levers that can be used in order to do so, including strengthening the managerial capacity to build effective strategies to enter the market, creating a level playing field (social enterprises might be given access to support measures applicable to SMEs) and making public procurement policies more open to the social enterprise sector. European procurement law allows local government authorities to insert certain social clauses and the European Commission's *Buying Social: A Guide to taking account of Social Considerations in Public Procurement* is a very useful tool to learn how public procurement can help achieving social goals.

Training and research would also increase the knowledge of the sector and its needs, and should also focus on issues such as measuring the social impact. Co-constructed research mechanisms such as the Canadian Community-University Research Alliance (CURA) are effective to insure strong links between researchers, policy makers and practitioners.

Conclusion

Adopting a coherent and holistic framework to support the emergence and the consolidation of social enterprises is essential to maximise their social and economic impact. The policies in themselves are very important; however the policy processes are just as important. This is because they are more effective if they are built through horizontal co-operation (working across government portfolios) and vertical co-ordination (working across levels of government) and in co-operation with the actors. When this happens, the information asymmetries are reduced, as well as the transaction costs, and the final result is greater policy coherence and greater effectiveness.¹²

Big challenges and big opportunities are ahead of Governments to support and mainstream effective social enterprises!

¹¹ Daniele D., Johnson T., Zandonai F (2009), "Networks as Support structures for Social Enterprises" in Noya A. (ed.), *The Changing Boundaries of Social Enterprises*, OECD, Paris.

¹² Mendell, M. (2010), *Improving social inclusion at the local level through the social economy: designing an enabling policy framework*, OECD CFE/LEED.