

# Creating Competitive Markets for Service Delivery

## Policy Options and Country Experiences

By Natalia Agapitova, Senior Economist, World Bank Group

April 27, 2017

### Objectives

This note is prepared at the request of the Ministry of Finance (MoF) of Russian Federation to support drafting and implementation of new law on outsourcing municipal social services. Additionally, to comments and inputs into the draft law by the World Bank Group (WBG), the Government requested a policy review of relevant international experiences which could validate the proposed solution in the law as well as in the consequent sub-legislation.

This note is part of the technical assistance provided to the MoF. The note explores various policy options for engaging social enterprises as services providers and creation of a competitive market for service provision in Russia. In particular, the MoF expressed interest to learn from examples of Canada, Germany, France, Sweden, United Kingdom (UK) and United States (US).

This note is based on the existing work by the WBG and additional literature review to complement existing work with examples from the above mentioned countries. The objective of the note is to:

- Review policy options to stimulate quality service provision by social enterprises
- Illustrate various aspects of policy options with examples from the relevant countries, and
- Provide a comparative table of selected country experiences

### Definitions

Social enterprises (SEs) are defined as private organizations that use business approaches to achieve social, environmental and economic outcomes. The common criteria that the governments use to define social enterprises are:

- Social objective. The most defining characteristic of SEs that sets them apart from other profit-driven enterprises is their pursuit of a social or environmental mission.
- Business principles. SEs operate on business principles, using entrepreneurial and/or business activities as a means to generate revenue and/or advance their social objectives.
- Financial sustainability. A key factor that distinguishes SEs from charities, classic NGOs, and other subsidy-dependent organizations, is their pursuit of a financially sustainable business model. SEs are also often distinguished by their tendency to reinvest any profits generated back into their business model; however, some SEs (for example, those supported by government revenue) may not generate a profit.

- Flexible organization status. SEs can include both for-profit and non-profit entities, and are not limited to a particular legal structure. In many cases, SEs are classified as 'hybrid' structures between for-profit and non-profit.
- Innovation. SEs often represent a form of innovation from the status quo, whether in the products or services they deliver, or the means through which they do so.

## Rationale for public sector support to social enterprise sector

The number of SEs providing social services has grown rapidly across the world, and is reaching sizeable populations. For example, government statistics identify around 70,000 social enterprises in the UK contributing USD 40 billion to the economy and employing nearly a million people (SEUK, 2015). Data suggests that consumers often exhibit relatively high degrees of trust in these services and have relatively high perceptions of their quality (Kannan 2013, Wodon 2013). Emerging evidence indicates that SEs may also have advantages in terms of quality, affordability, and equity (OECD, 2015). Finally, SEs bring dynamism to local economies by developing new products and services, taking risks that traditional public and private service providers are unable to take, and creating local capacity (Canadian National Social Enterprise Sector Survey Report, 2016). In light of this, many governments took the opportunity to recognize and support SEs as partners in a shared mission to improve service delivery (Agapitova, Triponel, 2017).

International experience demonstrates that decentralization of public services provides a window of opportunity for these new actors to enter the service delivery market with the following benefits:

- Fill access gap to social services,
- Improve quality and equity of services and employment, and
- Increase social cohesion and economic benefits.

However, the hybrid nature of SEs may lead them to be more severely impacted by business environment constraints, and may subject them to difficulties not faced by mainstream enterprise (Smith and Darko 2014). These include:

- Limited access to appropriate capital. While this is also true for SMEs, early-stage capital for SEs is even scarcer for SEs. SEs often struggle to secure available funding because they do not meet investor requirements due to the hybrid nature of their business models (Intellect 2012).
- Volatile markets. SEs take on additional risk by catering to a customer base that is often has limited resources (for example, elderly) and/or does not have awareness about the value of social services offered (for example, preventive medicine)
- Legal and regulatory constraints. Lack of clear legal status for SEs can limit their ability to secure both government contracts and investment capital. Even when there is a legal framework and legal form for SEs, many continue to operate as company, NGO, association, cooperative, etc.
- Capacity constraints. Many SE face capacity constraints due to the dual nature of their business model, limited financial resources and lack of qualified human resources (including management).

Moreover, insufficient collaboration and engagement between governments and SEs can lead to the development of a growing, yet fragmented sector that does not necessarily align with government priorities or focus on areas where there is greatest need. Governments can play a critical and continued role in market-shaping, supporting, and in some cases, a regulation on SEs.

Figure 1 below summarizes the key opportunities and constraints to SE engagement in service delivery agenda.

Figure 1 Government Engagement with the SEs

	Filling access gaps	Improving quality and cost-efficiency	Alignment and Integration: building a cohesive system
What challenges does public service delivery face?	<ul style="list-style-type: none"> <li>- Ongoing service delivery gaps, particularly for the marginalized population (e.g. handicapped, elderly)</li> </ul>	<ul style="list-style-type: none"> <li>- High cost</li> <li>- Lack of innovative solutions</li> </ul>	<ul style="list-style-type: none"> <li>- Ongoing funding gaps for service delivery</li> <li>- Need for greater innovation in public sector services</li> <li>- Need for sustainability</li> </ul>
How can SEs help?	<ul style="list-style-type: none"> <li>- Address immediate service-delivery gaps across sectors in a sustainable and cost-efficient way</li> </ul>	<ul style="list-style-type: none"> <li>- Improve quality of service delivery</li> <li>- Flexibility to better meet the needs of the customers</li> <li>- Increase local employment opportunities in services</li> <li>- Reduce costs</li> </ul>	<ul style="list-style-type: none"> <li>- Leverage private sector resources to make public spending go further</li> <li>- Develop innovations that can be incorporated or scaled through public systems</li> <li>- Create opportunities for private investment in long-term social impact</li> <li>- Generate additional, socio-economic returns</li> </ul>
Why is there a need for government stewardship?	<ul style="list-style-type: none"> <li>- SEs still face high barriers to entry in the market and obstacles that impede their growth</li> </ul>	<ul style="list-style-type: none"> <li>- Many SEs still struggle financially to provide social services in a sustainable way</li> <li>- Lack of unified quality standards</li> <li>- Fragmentation and duplication of effort</li> <li>- SEs face additional obstacles from mainstream businesses</li> </ul>	<ul style="list-style-type: none"> <li>- SEs have proliferated as individual entities, often in an ad-hoc way that is not tightly integrated with public sector delivery and government policy</li> </ul>

## Mechanisms for Government Support to Social Enterprises

This section presents the policy tools that are most commonly used in OECD countries to build competitive markets for service provision by SEs through demand and supply side policies.

### Enabling Demand for SE Goods and Services

Reaching and serving marginalized populations can be challenging, and the barriers at entry into new markets can often be high. Governments can foster the demand for SE services through:

- **Social procurement.** Public services contracts that take into account the social and environmental well-being in connection with the value for money. The objective is to incentivize public sector collaboration with SEs and work jointly to maximize social and financial return on investment. Specific measures include: preferential treatment of SEs when bidding for public service contracts (e.g. automatic shortlisting), incorporate social considerations as part of the public contracts (e.g. 25% of public service contracts incorporate social considerations); revision of public procurement criteria to incorporate social externalities that the enterprises bring.

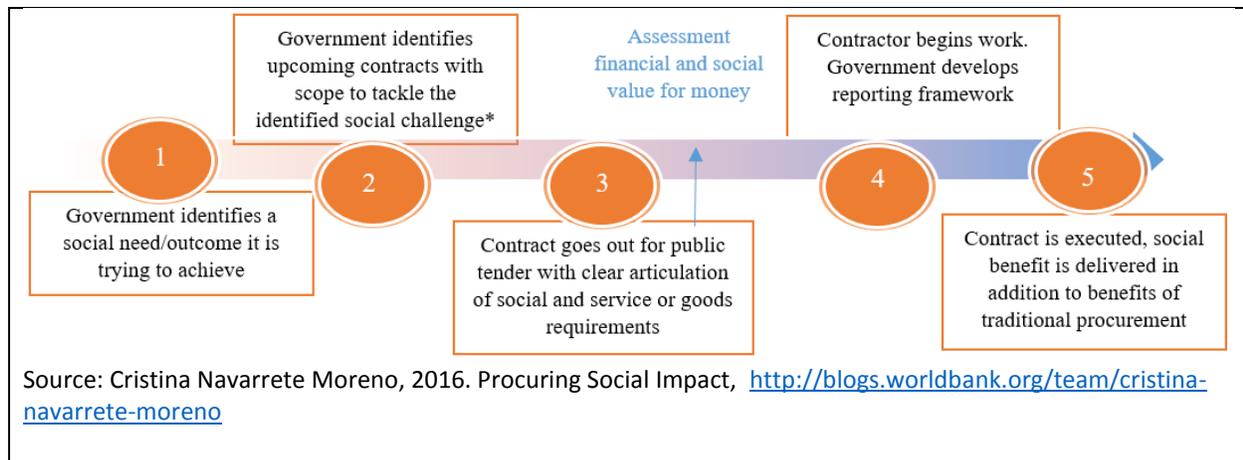
- Consumer incentives for the purchase of social services. The advantage of consumer incentives is that it drives demand for social services, but also gives the power of choice to consumers and promotes competition among providers. Consumer subsidies can also promote and facilitate usage of social services by reducing financial burden on the beneficiary through direct government subsidies for dedicated programs (e.g. education services for children with learning disabilities). Certificates of government funding usually allow beneficiaries to fully or partially cover for social services. In some cases, the certificates can be used to reimburse expenses. Additionally, a tax exemption directed to consumers of products or services of SE would be an example of a tax exemption as a demand policy tool.
- Awareness campaigns. In contexts where SEs are relatively new to the service delivery market, government endorsement of SEs can stimulate demand for SEs solutions from the beneficiaries. It can also create more understanding about the advantages of working with SEs among public servants. Additionally, government campaigns for new service areas can increase awareness about the availability and use of new social services and pave way for SE activity (e.g. counseling services for unemployed).
- Training for public servants. Training course can help get more value for money out of procurement of public services, and improve effectiveness of SE contracting. Training often combines technical and collaboration aspects that help public servants understand the nature of SEs, value of their services, technical aspects of contracting of social services, M&E arrangements, and “soft” aspects like communication.

Figure 2 Social Procurement

Government social procurement is gaining interest from institutional buyers because it provides an opportunity to generate greater value for through the procurement process.

- For government, the added value is created through the delivery of social benefits beyond those conferred by the products and services being purchased, allowing governments to get better deal for taxpayers and public-service users and finding solutions to untacked problems with positive externalities. Moreover, governments can play a catalytic role by using their financial power to create new markets that benefit both the economy and society.
- For social enterprises, this new type of procurement creates a level playing field to bid for contracts and scale their business models. It also helps to grow and attract investments thanks to government collaboration and longer term government contracts.
- For society, social procurement aligns with the increasing focus on a more sophisticated and multi-stakeholder understanding of the solutions available to government to address demanding social problems. It also aligns with an increasing demand from consumers and taxpayers for socially responsible products and service delivery chains.

Social procurement integrates social outcomes in the requirement of a contract, alongside the goods or services to be delivered. In practice, it usually works as follows:



## Stimulating Supply for SE Goods and Services

Governments can also try to increase the SE's incentives to invest and grow the supply of innovative solutions to social and environmental problems. Interventions in the financial, regulatory and capacity development area of the ecosystem are the most common.

Financial mechanisms to stimulate supply of SE solutions to service delivery include:

- Concessional Loans (Social Finance) help pursue sustainable financial management of social services through recoverable investments.
- Grants, returnable grants and matching grants can support SEs, especially at early stages of development.
- Impact Bonds are results-based financing tools, focusing the allocation of money to social programs that yield effective results. Help governments fund critical social programs through a combination of government initiation, private investment and non-profit implementation. In an Impact Bond model, an investor (or group of investors) provides up-front financing for the operations of a service provider, receiving a return from the outcome payer (usually a government or donor) once results have been achieved.
- Guarantee Funds facilitate the financing of SEs and stimulate sound credit transaction by extending credit guarantees (often backed by the government) for the liabilities of promising SEs, which lack tangible collateral.

Regulatory measure could include:

- Standards and certifications allow recognition of SEs that can receive benefits, such as priority in public procurement, tax reduction, social insurance premium and financial assistance.
- Tax incentives for SEs allow to lower the cost of doing business for SEs and make their models more sustainable. It also allows the SEs to offer more affordable services to their customers. Sometimes tax incentives are associated with a particular type of SEs: sectoral (e.g. preventive medical services), by organization types (e.g. non-profits) or age (e.g. startups under a certain threshold of revenue).

Capacity development can also help build the pipeline of new SEs and enhance the capacity of SEs already operation on service delivery market:

- Extension services can help to build a pipeline of start-up social ventures into the social investment market (e.g. training and skills development programs for SEs, business development services, SE incubators).
- Strengthen SE skills to bid for public service contracts. These can include tools and techniques (understanding of public procurement processes, proposal writing, M&E, tips on how to communicate with public servants) to win and deliver public service contracts.
- Create incentives and platforms for SEs to coordinate and collaborate and harnessing community, stakeholder and volunteer involvement
- Support intermediary organizations to provide capacity building to SEs

In addition to specific instruments, strong coordination and institutional arrangements are often needed to implement the policies at national and subnational levels. A public-private space for coordinating interventions and policies is Social Enterprise UK, which has SEs, charities, private business and public sector organizations among its members. All of these actors are active at the policy level through dialogue, research and consultation processes.

- trade-off linked with distortions some of the demand-side policies/instruments that change prices could have.

## Conclusions and Options for Consideration

Although comprehensive policy approaches to support social enterprise sector are rare, there is a wide range of instruments that are deployed to support various part of the ecosystem. Only a handful of governments (e.g. UK) adopted legal or operational definition of social enterprises, and have dedicated government bodies responsible for SE policy formulation. However, this is an emerging area and EU countries are increasingly moving in this direction.<sup>1</sup>

However, there is a wide range of policy instruments that was deployed to support supply and demand for SE services.

Evidence on effectiveness of policy support is limited. Policies affecting the SE ecosystem are often not targeting the SEs as such. Even when dedicated policies are adopted, their effectiveness is difficult to assess because the baseline data on SE sector is often missing. Impact evaluations of public policies affecting SEs are extremely rare.

Additionally, there might be significant market distortions effects, especially from supply side instruments that can create private sector dependence of public incentives, and crowd out market based solutions. Market and competition analysis helps identify the appropriate incentive systems, and the appropriate timeframe for government support.

The following steps might be helpful to identify the scope of support to build supply and demand of SEs that will support the implementation of the law on outsourcing municipal social services in Russia:

---

<sup>1</sup> <https://www.employment.gov.sk/en/the-slovak-eu-council-presidency/news/conference-on-social-economy-social-enterprises.html>

- Workshop to discuss various policy options with international experts and prioritize the most promising instruments
- Map the SE sector in Russia to understand the demand and supply for service provision, and the current state of the SE sector including the level of activity, capacity of SEs, sectoral attribution, etc. The mapping could be based on survey methodology developed by UK or Canada. The mapping could be further deepened through the ecosystem analysis that will take into consideration the enabling environment for social enterprises in Russia (policy and regulations, financing solutions, human capital and culture, information and networks). The World Bank implemented this type of social enterprise ecosystem diagnostic in 20 countries.
- Organize study tours to most relevant countries (for example, UK and Canada) to learn from peers and concrete examples of implementation.
- Design the program and conduct pilots in 4-6 municipalities to test the validity of approaches, which will be important in the context of relative lack of evidence about impact of SE support.

## References

- Agapitova, N. Triponel, A. 2017. Legal Framework for Social Enterprise: Lessons from a Comparative Study of Italy, Malaysia, South Korea, United Kingdom, and United States. World Bank, Washington, DC. © World Bank. <https://openknowledge.worldbank.org/handle/10986/26397>
- Agapitova, N., Linn, J. 2016. Scaling up social enterprise innovations: Approaches and lessons. Working Paper Series, #95. Brookings, Washington D.C. <https://www.brookings.edu/research/scaling-up-social-enterprise-innovations-approaches-and-lessons/>
- BLAB. "What is a Benefit Corporation". Accessed on May 18th, 2016. <http://benefitcorp.net>
- Challenge.gov. "About" Accessed on May 17th, 2016. <https://www.challenge.gov/about/>
- Corporation for National & Community Service. "Social Innovation Fund." Accessed on May 18th, 2016. <http://www.nationalservice.gov/programs/social-innovation-fund>
- EFESEIIS. 2015. Social Enterprise, Social Innovation and Social Entrepreneurship in Germany: A National Report. <http://www.fp7-efeseiis.eu/?wpdmdl=708>
- Elson, P. Hall, P. Wamucii, P. 2016. Canadian National Social Enterprise Sector Survey Report. <https://ccednet-rcdec.ca/sites/ccednet-rcdec.ca/files/final-national-report-may-16-2016.pdf>
- European Commission, 2014. A map of social enterprises and their eco-systems in Europe. Country Reports: Germany, France and Sweden.
- Executive Office of the President. "Memorandum to the Heads of Executive Departments and Agencies." [https://www.whitehouse.gov/sites/default/files/omb/memoranda/2012/m-12-14\\_1.pdf](https://www.whitehouse.gov/sites/default/files/omb/memoranda/2012/m-12-14_1.pdf)
- Gov UK. "2010 to 2015 government policy: social Enterprise". Accessed on May 14th, 2016. <https://www.gov.uk/government/publications/2010-to-2015-government-policy-social-enterprise/2010-to-2015-government-policy-social-enterprise>
- OECD, 2014. The Social Enterprise Sector: A Conceptual Framework. Paris
- OECD, 2015. Social Impact Investment: Building the Evidence Base.
- Quarter, J., Mook, L. 2010, "An Interactive View of the Social Economy," ANSERJ Canadian Journal of Nonprofit and Social Economy Research, vol. 1, no. 1.
- SEFORİS, 2014. The State of Social Entrepreneurship. Country Reports for Germany, France and Sweden.

Social Enterprise UK, <http://www.socialenterprise.org.uk>

The National Archives, "Public Services (Social Value) Act 2012" Accessed on May 14th, 2016.  
<http://www.legislation.gov.uk/ukpga/2012/3/enacted>

The White House. "National and Community Service at CNCS". Accessed on May 16th, 2016.  
<https://www.whitehouse.gov/administration/eop/sicp/initiatives/national-community-service>

The White House. "Steps to Catalyze Private Foundation Impact Investing." Accessed on May 17th, 2016.  
<https://www.whitehouse.gov/blog/2016/04/21/steps-catalyze-private-foundation-impact-investing>

World Bank. 2016. Economic and Social Rationales for Government Support of the Social Enterprise Sector. The Case for Public Stewardship.

World Bank. 2016. Government Support to the Social Enterprise Sector: Comparative Review of Policy Frameworks and Tools. Policy Note by Natalia Agapitova, Belén Sanchez and Elaine Tinsley.

# Annex: Country Cases

List of Country Cases:

1. Canada
2. Germany
3. France
4. Sweden
5. United Kingdom (UK)
6. United States (US).

## 1. CANADA

Social Enterprises have been part of the Government vision during some periods along the last decade, especially during the period 2004 – 2006, when the Social Economy Initiative was implemented. Different visions of the Governments in turn made it difficult to build a long-term national vision for the sector. However, at the local or regional level, social enterprises have tracked more attention and support from the public sector.

The Economic Action Plans of 2014 and 2015 of the Federal Government included support to social entrepreneurs with innovative solutions and announced the implementation of a social finance accelerator initiative to help develop promising social finance proposals (Government of Canada, 2014 - 2015).

The Government also supported the development of the Canadian National Social Enterprise Sector Survey 2016, which got a response of 1350 social enterprises, and through Canada Business Network, social enterprises have access to comprehensive information about all the resources available to start and growth their social ventures.

At the local level, the government of Ontario developed a Social Enterprise Strategy in 2015 that focuses on building a social enterprise brand, creating a vibrant social finance marketplace, connecting social enterprises with stakeholders and improve service delivery by integrating social enterprises on public procurement. In Quebec, the Government implemented an Action Plan for Collective Entrepreneurship from 2008 to 2013, and last year launched a new plan for 2015 – 2020 which includes the recapitalization of the Social Investment Network of Quebec (RISQ) to \$ 10 million in height, the allowance of \$ 20 million of collective entrepreneurship Infrastructure Program (CEIP) and the budget of 30 million dollars for the revival of the Program to Promote the capitalization of social economy Investment firms of Québec.

Regulatory measures. The common legal structures used by social enterprises at the national level are charities, non-profit societies, co-operatives and corporations. At a local level, the Community Contribution Companies (C3s) and the Community Interest Companies (CICs), were introduced as new legal forms for social enterprises in British Columbia and Nova Scotia respectively (O'Connor, 2014).

Financial Mechanisms. The Ministry of Employment and Social Development is piloting innovative funding schemes with social enterprises like pay for performance schemes and matching taxpayer

dollars with non-government contributions to extend the impact of interventions. An example is the Project Employment Support to Ex Offenders – Rideau Social Enterprises implemented in Ontario from 2011 – 2013 to test if providing skills development and work experience through social enterprises to ex-offenders improves their chances of securing permanent employment, thereby preventing and reducing the incidence of homelessness (Employment and Social Development Canada, 2014).

Another example is how social enterprises are actively engaged in affordable housing projects in Canada. They are engaged in several endeavors from the provision of affordable housing to related activities that help improve the quality of life for tenants (Canada Mortgage and Housing Corporation).

At the local level, different Social Finance Investment Funds provide access to capital for social enterprises, for instance the Social Enterprise Demonstration Fund of Ontario and the Edmonton Social Enterprise Fund.

Capacity Development. The Ministry of Employment and Social Development commissioned the Social Finance Accelerator Initiative to facilitate workshops, advisory services, mentorship, networking opportunities and investor introductions to help promising social finance proposals become investment-ready and turn social entrepreneurs' proposals into action.

The Government also promotes workshops and trainings like the “New pathways to health and well-being through social enterprise workshop” co-hosted by the Canadian Institutes of Health Research and other institutions to start collaboration and engagement of social enterprises to impact health in Canada.

At the local level, initiatives like the Youth Entrepreneurship Challenge in Quebec are promoted to support experimental entrepreneurial activities with potential to contribute to lessening spatial disparities in entrepreneurial and economic performance.

## 2. GERMANY

In 2000 chancellor Schröder with the help of McKinsey and the ProSieben Sat1 Media AG founded the start social competition with which they awarded and supported emerging social entrepreneurs. The initiative was later transformed into a registered association (2003) and enjoyed the patronage of chancellor Merkel since 2005. Since then, the government supported a number of SE initiatives:

- Award for sustainable social entrepreneurs as part of the award for the German sustainable entrepreneur (DNP)
- the National Engagement Strategy of the Federal Ministry for Families, Senior Citizens, Women and Youths (BMFSFJ)

However, at the national level the support for social entrepreneurs is not systematic, and there is a lack of a unified definition and framework for social entrepreneurship.

Regulatory Measures. Most regulatory aspects relate to the delivery of social services as enshrined in the German Social Code, other social services and various forms of civic engagement dominated by a strong biotope of foundations and associations:

- The Social Code (Sozialgesetzbuch, SGB) incorporates welfare services regulated by the former Federal Social Assistance Act (Bundessozialhilfegesetz, BSHG) sets out forms of financial support

and in-kind welfare services, financed from social security funds, which citizens in corresponding life situations have a right to claim.

- Individuals entitled to a welfare service have the right of choice of the institution delivering that service ("Wunsch- und Wahlrecht"). This was originally referring to a choice between institutions belonging to different confessions or non-religious welfare organizations, but the concept can today also be understood to refer to the opening up of the market of supplying certain welfare services of the SGB to providers not affiliated with the welfare federations, for-profit companies and a number of municipality-operated services.

Financing mechanisms. Various financing mechanisms are made available to SEs by governments at national and sub-national levels.

- Public Procurement. The Federal Ministry for Transport, Construction and Urban Development (Bundesministerium für Verkehr, Bau und Stadtentwicklung, BMVBS; today BMVI) has been issuing regular calls for application for socially innovative entrepreneurial initiatives targeting sustainable urban development.
- The national development bank KfW has a funding program to invest in SEs, defined as "small and medium sized enterprises that want to solve social problems in Germany with an entrepreneurial approach and an innovative business model", that have already established themselves in their respective market and are in the growth phase. Also, the foundation of the KfW bank (KfW Stiftung) supports various social initiatives with grants or investment.
- Funding at sub-national level (Länder and municipalities). For example, the State Bavaria supports, inter alia, the start-up of 'social cooperatives'.

Capacity Development. German cities often specific policies towards the promotion of social entrepreneurship, organise networking events and other capacity development support to SEs.

- The Social Impact Labs in Berlin, Hamburg, Frankfurt and Leipzig (operated by the Social Impact gGmbH) as well as the Social Lab Köln (in the field of education) offer various services especially for start-up social enterprises: co-working infrastructure, consultancy, financial matchmaking, networking, research and pilot projects. The project "AndersGründer" of the Social Impact gGmbH supplies all-round support to social innovators.
- The Impact HUBs in Munich and Berlin offer co-working space, meeting rooms and other business infrastructure for persons establishing themselves as social entrepreneurs.<sup>34</sup>
- COLABOR in Cologne supplies young social enterprises, NGOs, especially those with an ecological mission, and supporting professionals with work facilities and a networking platform.
- IdeaCamp from Berlin targets young (student) social entrepreneurs with a co-working facility, a mentoring program, guidance material, workshops and seminars, as well as networking opportunities.
- Many local municipalities have forums around civic engagement concerning social inclusion, integration of migrants, ecology and sustainability. For example, the town of Minden - following examples from the Netherlands - organizes regular exhibitions and market exchange opportunities for NGOs and social entrepreneurs, potential donors, cooperating companies, customers and volunteers.

### 3. FRANCE

Although France has been a pioneer in the development of the broader concept of 'social economy', the term of social enterprise is fairly new: the legal form of social enterprise, the Société Coopérative d'intérêt Collectif (SCIC), was created in 2002. SCICs are the legal embodiment of the idea of a social cooperative that is an enterprise with social objectives. However, most social enterprises in France use the form of an association because it is flexible and cheaper.

Regulatory Measures. There is no formal policy or legal framework specific to social enterprise, but there is a strong political recognition of the SE sector at national and sub-national level. For example, the Supreme Council for Social and Solidarity Economy was established in 2010.

The number of available public support schemes and general interest of public authorities in the development of social economy/social enterprises is one of the highest among EU Member States, especially at the subnational level.<sup>2</sup>

Although 'social clauses' have been available in France for more than 10 years, the proportion of public procurement procedures with 'social clause' is about 15 percent of public contracts. In general, social clauses were more frequently used by local communities than central authorities. Recent analysis by the French National Observatory on Social Economy concluded the government needs to build awareness and capacity of public authorities (e.g. mayors of cities, relevant decision makers in central government and state agencies responsible for public procurement) to expand the uses instruments and procedures on 'social clauses' already in place.

There are no formal policies specifically defined to support social enterprise. In general, the public support system (but also non-government initiatives) is geared toward specific types of entities (e.g. associations) or specific type of contribution (e.g. work integration) rather than specific group of organizations defined as social enterprises per se.

Financial Mechanisms. The following financing tools and schemes have been set up to promote social investment:

- Tax incentives for social economy/philanthropy: 50 percent of donation to NGOs is exempted from taxation. Individuals can benefit from a tax credit up to 66 percent of the donated amount.
- Dedicated SE funds: The Caisse des Dépôts (public long-term investor and the most important fund in France) offers support to social investment through: fund of funds with a focus on social entrepreneurship; and EUR 500 million available for long term leases available to social enterprises. As a part of Future Investments Programme (Programme d'Investissements d'Avenir), a budget of EUR 100 million has been allocated to fund social enterprises.
- Socially-oriented pension funds: Since 2010, each French company with more than 50 employees has to provide a socially-oriented pension scheme to its employees. For example, FCPES (Fonds Commun de Placement d'Entreprise Solidaire) invest from 5-10 percent of their funds in social enterprises or social funds.

---

<sup>2</sup> Since EU funds play a relatively small role in the French context, we have not included them in this analysis.

- Impact Investment. A part of the Public Investment Bank (BPI55) is exclusively channeled to SEs. Some regions are active in supporting social investment, e.g. Region Ile de France, which made EUR 2 million EUR available to support social investment.
- There are also over 20 Territorial Centers for Economic Cooperation in France that offer a variety of services for SEs.

Several regions (sub-national entities in France) offer support to SEs:

- Rhône Alpes Region offers Forum of Solidarity Employment ('Le Forum de l'emploi solidaire'), one of the largest employment fairs in the region established to promote employment in the SE sector. iDéclic Solidaire program provides funding and capacity development for SEs.
- Provence-Alpes-Côte d'Azur has established a regional development strategy that recognizes the role of SEs. The regional PROGRESS Program has an SE observatory and collects data on SEs.
- Languedoc-Roussillon Region provides support services to social innovation projects through 'REALIS' program (SE business incubator, school for social entrepreneurs and advocacy activities on behalf of the SE sector).

#### 4. SWEDEN

Sweden has a long tradition of social engagement and SE involvement, including through the popular mass movement. However, there is no legal form that is specifically designed for use by social enterprises in Sweden. Social enterprises use adaptations of the cooperative (economic association), non-profit association, limited company, limited company with distribution restriction and foundation forms to carry out their activities. The most commonly used legal forms adopted by social enterprises are the cooperative, non-profit association and limited company which are adapted to provide for a social purpose in their constitutions.

There are no ministries specifically responsible for social enterprises in Sweden, and a number of government agencies have been tasked with supporting the development of the SE market – primarily the Swedish Agency for Economic and Regional Growth (formerly NUTEK and since 2009 Tillväxtverket), the Swedish Agency for Youth and Civil Society and the Swedish Public Employment Service.

Regulatory measures. The Swedish Government among others recognize the

- WISE certification (work integration social enterprise). WISE can be obtained by an organization that operates with the aim of integrating people into society and working life and creating involvement by co-workers. WISEs are required to reinvest profits into furthering their aims and be independent of public authorities. However, there is no explicit recognition/incentives for SEs with WISE certificate.

Financial mechanisms. There are a number of government initiatives that support SE funding:

- The Swedish Inheritance Fund. If a deceased person has no spouse or close relatives and has not left a will, his/ her property goes to the Swedish Inheritance Fund. The Fund provides grant funding to organizations and other voluntary associations wishing to test new ideas for developing activities for children, young people and persons with disabilities.
- Municipalities acting as the guarantor or even providing the loan. For example, the municipality of Hudiksvall supports a model based on coordination and cooperation between public

authorities and social enterprises. The risk-sharing schemes also involve other actors: Coompanion Gävleborg, the Public Employment Service, the Social Insurance Agency.

Capacity Development. Most of the capacity development programs are offered by universities or private providers. However, government also provides support to SEs at national and subnational levels:

- Incubator for social entrepreneurship, which is located at the Centre for Social Entrepreneurship (CSES) in Stockholm, and Social Initiative, which helps social entrepreneurs/ enterprises create operational business models and/ or social impact indicators.
- Impact Hub Stockholm, which provides co-working office space, and Inkludera Invest, which provides non-monetary support and guidance for social enterprises in exchange of social impacts.

## 5. UNITED KINGDOM

Social Enterprises have been part of UK's Government policy agenda for almost two decades. Important milestones characterized the evolution of government support towards social enterprises. In 1997, during his first policy speech, former Prime Minister Tony Blair committed to support social entrepreneurs. In 2001, the Social Enterprise Unit was created in the Department for Trade and Industry. Later, in 2005 a new legislation was enacted to introduce a new form of corporate entity suitable to social enterprises, the Community Interest Company<sup>3</sup> (Social Enterprise UK, 2016).

More recently, social enterprises were included in the Coalition Government Program 2010 – 2015, which reflects the commitment of the government to keep fostering social enterprises and to create mechanisms through which they can get involved in the provision of public services.

Regulatory measures. Important regulations were approved during this period. In 2012, the Social Value Act was passed in order to open up more opportunities for social enterprises to deliver public services, and in 2014 the Government launched the Social Investment Tax Relief, which gives 30% personal tax relief for investors in social enterprises up to £5m.

UK has pioneered initiatives like the Red Tape Challenge to facilitate and speed up the creation of social enterprises and studies like the Dame Mary Marsh Review of Skills & Leadership in the Voluntary, Community and Social Enterprise Sector which identified social sector's most vital needs around attracting and developing a skilled workforce and leadership.

Financial mechanisms. A rich array of financial support schemes is available for social enterprises including impact bonds and grants like Big Society Capital, launched in 2011 with £600m of investment for social enterprises and the Big Lottery Fund that supports the aspirations of people who want to make life better for their communities, by giving grants from £300 to more than £500,000.

The Government has also provided financial support to social enterprises in order to help them develop the skills necessary to manage contracts with the State for delivering public services. For instance, the Investment and Contract Readiness Fund (a £10 million fund managed by the Social Investment Business

---

<sup>3</sup> According to the Government of the United Kingdom, a Community Interest Company is defined as special type of limited company which exists to benefit the community rather than private shareholders.

on behalf of the Office for Civil Society) that aims to ensure social ventures are better equipped to secure new forms of investment and compete for public service contracts.

Capacity Development. The Government launched funds like the Investment and Contract Readiness Fund which helps social enterprises to be ready for engaging on public contracts, and the Social Incubator Fund that provides grants to social incubators and aims to help drive a robust pipeline of start-up social ventures into the social investment market, by increasing focus on incubation support, and attracting new incubators into the market.

Networks like Social Enterprise UK and the Social Entrepreneurship Partnership (formed by the School for Social Entrepreneurs, UnLtd, CAN, Plunkett Foundation and Social Firms UK) are strategic partners for the Government and they receive public financial support over four year programs in order to continue representing the sector to government and vice-versa among other commitments.

Last but not least, the government offers support for Human Capital development through a series of training focused on increasing the commercial skills of social enterprises and their ability to engage on public service delivery through public procurement.

## 6. UNITED STATES OF AMERICA

The Edward M. Kennedy Serve America Act signed in 2009 triggered an important public effort to promote social enterprises domestically and internationally during the last years, specially under the notion that service is a solution to educational, health, clean energy and economic opportunity challenges.

During the last years, the Administration has focused several efforts towards catalyzing social innovation, impact investing and has emphasized the importance of using evidence and evaluation of policy decisions to guarantee a more effective government (Executive Office of the President, 2012).

As of 2016, the Office of Social Innovation and Civic Participation, the Corporation for National and Community Service and the US Small Business Administration were key public actors in the social enterprise ecosystem, and are providing different programs to foster the growth of this sector. USAID has been focusing its efforts on promoting social enterprises with a global perspective.

Regulatory measures. Among the most relevant regulations to support social enterprises are the different State reforms through which a new legal form for social enterprises has been created. In 2010, Maryland became the first U.S. state to pass the benefit corporation legislation. 31 additional states including Washington D.C. have passed similar legislations (Benefit Corporation<sup>4</sup>, 2016). Similar legislations in other states reflect other alternatives like the Low – Profit Limited Liability Company (LC3) or the Flexible Purpose Corporation (FPC).

At the federal level, regulations to facilitate the flow of private capital toward business models that can generate social, environmental and financial returns, like the Program – Related Investments (PRIs) of the US Treasury Department and IRS, or the Economically Targeted Investments (ETIS) of the U.S. Department of Labor have been approved.

---

<sup>4</sup> According to B Lab, a benefit corporation is a new legal tool to create a solid foundation for long-term mission alignment and value creation. It protects mission through capital raises and leadership changes, creates more flexibility when evaluating potential sale and liquidity options, and prepares businesses to lead a mission-driven life post-IPO.

The Administration also passed in April 2015, the Jumpstart Our Business Startups (JOBS) Act, which allows social enterprises to use crowdfunding as a raising capital strategy (up to \$1 million US dollar) from micro investors who can purchase a part of the venture.

Financial mechanisms. The U.S. Government is also providing funding initiatives that provide financial solutions for social enterprises, specially grants programs like Social Innovation Fund of the Corporation for National and Community Service, that provides grants that range from 1 to 5 million US Dollars for up to five years to grow promising community-based solutions that have evidence of results in areas like: economic opportunity, healthy futures, and youth development. Significant public investment is also allocated through impact investment schemes like the Impact Investment Fund of the US Small Business Administration, which each year makes roughly \$200 million US Dollar available to support small business investment strategies that maximize financial return while also yielding enhanced social, environmental or economic impact, or the Pay for Success Grant Program that will provide up to \$10.6 million in grants in 2016 to organizations seeking to advance and evaluate emerging models that align payment for social services with verified social outcomes (The White House, 2015).

Capacity Development. Different efforts have been deployed by the State under the National Impact Initiative (NII), to support capacity of SEs. One of the main focuses was on raising awareness and promote successful stories through initiatives like the Community Solutions Tour, where the President of the United States visits local initiatives in order to highlight good examples of service, social innovation and partnerships that are having impact. Finally, on a coordinating effort between the White House Office of Social Innovation and Civic Participation (SICP), the Office of Science and Technology Policy (OSTP), and the Federal agencies, the Government promotes the use of prizes and challenges to engage civic innovators, entrepreneurs, and citizen scientists to solve problems in areas like energy, public safety, health, cyber security, and infrastructure through the platform Challenge.gov.