Capacity building seminar

Building enabling ecosystems for social enterprises

Brussels, 22-23 April 2015

Moderator's report

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1. Executive summary

The capacity building seminar

The capacity building seminar was organised by the OECD and the European Commission to exchange information on the most successful programmes and policies for supporting the establishment of effective ecosystems for social enterprises across the European Union. It focused on two aspects of such ecosystems, namely national support structures for social enterprises, and frameworks that foster investment readiness coupled with tailored access to different funds.

There is growing interest in social enterprises both at a European Union level and in its Member States and regions, based on their ability to contribute to employment, entrepreneurship, social inclusion, public service quality, local development and environmental protection. This seminar takes place under a contract between the European Commission and the OECD, which also includes also national policy reviews (in the Czech Republic and Croatia), policy briefs, and a compendium of good programmes and policies.[1] Over the last 15 years, the OECD has been advising governments on how they can understand the strengths and weaknesses of their policy frameworks for the support of social enterprises.

The seminar proved extremely popular, and was attended by 63 people from 21 EU Member States as well as by representatives of European institutions and networks. It was moderated by Toby Johnson, the expert supporting the Social Entrepreneurship Network (SEN) within the European Social Fund. Max Uebe, head of the unit in the European Commission's Employment DG responsible for entrepreneurship, and Antonella Noya, Senior Policy Analyst of the OECD, then set out the policy framework.

The main content of the seminar was then divided into two thematic sessions covering **support structures** and **finance** respectively. The support structure theme was introduced by Flaviano Zandonai of Euricse (Trento, Italy) and was illustrated by cases from the UK (Alberto Masetti-Zannini of Impact Hub London) and Romania (Despina Iancu of NESsT Romania and Anca Gheorghica of the Urban Centre for Good Initiatives (CUIB) in Iaşi.

The finance theme was introduced by Yiorgos Alexopoulos of Agricultural University of Athens and illustrated by the cases of CEDRA and Ebank in Croatia (Goran Jeras) and Social Investment Scotland (Andrew Millson).

Małgorzata Lublinska of the Polish Ministry of Infrastructure and Development (MIR) presented the experience of the Social Entrepreneurship Network (SEN), which involved ESF Managing Authorities from nine EU countries and regions.

The presentations given during the seminar and videos presenting key messages are available on the OECD website.[2]

A comprehensive ecosystem

If policy-makers are to develop policies to promote social economy enterprises, they need to be clear about the missions and structures of these enterprises. They need to develop a comprehensive vision which embraces not only the way social enterprises offer work integration and services to low-income people, but also their global function. It is only in this way that they can develop a coherent policy.

[1] http://www.oecd.org/cfe/leed/social-entrepreneurship-oecd-ec.htm
[2] http://www.oecd.org/cfe/leed/social-entrepreneurship-oecd-ec-cbs.htm

Social enterprises are businesses which trade in the market and create economic value, but they also have an ethical base. For example, by creating jobs, improving social inclusion and building social capital, they also create social value and contribute to public policy objectives. However, social enterprises also face a number of barriers which impede their growth. Governments thus have much to gain from bringing down these barriers and creating an **ecosystem** within which social enterprises can flourish. Such ecosystems consist of five main components:

- The **legal and regulatory** framework, which brings clarity, visibility and recognition
- Access to **finance**, which should be of a range of types and sources
- Access to **markets**, particularly through public procurement
- **Business support** structures, both generic and specialist, and catering for both start-up and growth
- **Training and research**, including the co-construction of policy through partnerships

Support structures

Support structures play a vital role in enabling social entrepreneurs to start up and grow their businesses. They not only provide practical support such as finance, premises, advice and expertise in researching markets and preparing business plans, but also, and perhaps most importantly, they build the confidence of inexperienced social entrepreneurs.

In establishing a system of support structures, public authorities have two main options, both of which are rich in potential for creating jobs and improving services for the benefit of the community:

- Where the social enterprise landscape is sparse, they can focus on start-ups by helping to establish **incubators** that nurture new ideas and provide a supportive environment within which social entrepreneurs can develop their ideas and launch their businesses;

- In contexts where the social enterprise sector is already well-developed, they can work with existing organisations to multiply existing successful models, for instance by assisting the growth of **consortia and social franchises**.

In both situations, a key role – and a relatively new one for public authorities – is to catalyse relationships with new stakeholders that can contribute to the growth of social enterprises.

Social enterprises are in a period of rapid growth, not only because of new policies at a European level, but because many initiatives, old and new, are producing goods and services for the general interest. Support structures play a key role in this resurgence, and may take various forms. They may be agencies supported by public authorities, networks created by social enterprises themselves, or communities of social entrepreneurs. Their most important role is to intermediate relationships with the great variety of actors – institutions, enterprises, consultants, trainers – who want to collaborate with social enterprises.

Finance

Successful social finance institutions must understand the needs of social enterprises, develop products that suit them, build partnerships within and outside the sector, be flexible, and build relationships based on trust and transparency.

Social enterprises require access to social and intellectual capital, but also to finance. They need access to a range of financial tools, including not only grants but loans and equity which can sustain them throughout their lifecycle, from idea selection, market research and development until they achieve sustainability.

A key role of governments is therefore to establish a **social finance marketplace**. Investment readiness programmes for social enterprises have to be matched with the right sort of finance intermediaries that can channel investment into social enterprises. To do this, policy-makers need to gain a clear understanding of how the social finance community works and engage with stakeholders to find the right investors, rather than trying to adapt social enterprises to the needs of the investors. Public money should be used to educate and train mainstream financers so that they know how to support social enterprises. Impact measurement is key in increasing transparency and trust in the system.

2. Introduction – Building comprehensive ecosystems for social enterprises

2.1 An auspicious policy climate – Max Uebe, European Commission

Max Uebe, Head of Unit of EMPL/C2 of the European Commission,[3] opened the seminar by noting the high level of interest the seminar had aroused: it was originally envisaged that 25 people would attend, but 63 had booked.

There is a high level of interest in social enterprises at the European level because of their capacity to create growth and jobs, promote a climate of entrepreneurship and contribute to the **sustainable social market economy** that President Juncker mentions in his political guidelines.[4] As Commissioners Thyssen and Bieńkowska have both recognised the role of social enterprises, the framework conditions for further work in this field are good. The Commission developed an action plan as part of the Social Business Initiative, which ran from 2011 until 2014 and addressed issues including **finance, visibility and the regulatory environment**.[5] These remain valid issues for the Employment, Growth and Financial Stability, Financial Services and Capital Markets Union Directorates-General.

2.2 An enabling policy framework – Antonella Noya, OECD

An enabling policy framework should comprise five components: the legal and regulatory framework, access to finance, access to markets, business support, and training and research.

Antonella Noya, Senior Policy Analyst and Manager of the Forum on Social Innovations at the OECD, welcomed the mix of actors present, which will enable a dialogue on policy. Policy cannot be developed behind a desk.

The relationship between governments and social economy enterprises is a **reciprocal** one. On the one hand, social economy enterprises require government policies to enable them to overcome the barriers they face, and on the other hand governments might work in partnership with social economy enterprises to achieve their own policy objectives. Social enterprises explicitly address social, economic and environmental challenges, and thus contribute to the general interest. Their actions not only create economic value but also have an added value by contributing to employment and social inclusion. They can address challenges that have not been addressed satisfactorily by the public or private sectors. Many choose to operate where private enterprises do not – i.e. areas with low social infrastructure – and they help build social capital. Many studies, such as SEN's study of *Intervento 18* supporting social co-operatives in Trento, show that such support has a clear economic value.[6]

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[3] Unit C2 of the Directorate General for Employment, Social Affairs and Inclusion is responsible for Sectorial Employment Challenges, Youth Employment and Entrepreneurship
[4] http://ec.europa.eu/archives/juncker-commission/docs/pg_en.pdf
[5] http://ec.europa.eu/internal_market/social_business/index_en.htm
[6] http://socialeconomy.pl/node/99

An enabling policy framework comprises five components:

- **Legal and regulatory framework**

These bring clarity and open the way for targeted support policies. Their importance is sometimes overstated, and social enterprises can flourish even without a specific legal form. However, in countries that lack an adequate legal framework, social enterprises often find it difficult to achieve recognition as double-bottom-line organisations. However, governments do not always need to reinvent the wheel: it is often possible to adapt existing legislation rather than start afresh.

- **Access to finance**

Social enterprises use a mixture of financial sources: market, non-market and non-monetary. The landscape of social enterprise finance is evolving rapidly and includes debt, equity, quasi-equity and guarantees, as well as performance-related instruments such as social impact bonds. The role of governments is shifting from that of provider to that of catalyst; however, government finance may be required in the short- and medium-terms to enable social enterprises to become sustainable. They can help by giving loan guarantees, giving tax incentives to private investors and by making partnerships with social-financial intermediaries and investors.

- **Access to markets**

This involves ensuring a level playing field, improving managerial capacity and in particular work on public procurement, which makes up 19% of national expenditure. The revised EU public procurement directive offers big opportunities to municipalities and regions by allowing them to focus on quality and bring their purchasing power to play in achieving their policy objectives.

- **Business support structures**

Social economy enterprises have specific needs over and above those they share with all other businesses. This argues for a 'braided' support structure, in which all business support organisations are aware of social enterprise and can respond to initial enquiries appropriately. They then refer more complex cases to a system of specialist advisers. The new types of business support structures that are emerging, such as hubs and incubators, need to be spread and supported.

- **Training and research**

Skills and capacities need to be built, among policy-makers as much as among social enterprises. This is best done in partnership. The development of appropriate policy for social enterprises is shown to be most effective when it is co-constructed between the government and the social enterprise sector. The process involves working horizontally across silos and vertically across levels of government, and involving the relevant stakeholders – i.e. social enterprise organisations. This co-construction process operates at different levels – international, national, regional and local – to reduce information asymmetries and transaction costs, and result in more coherent and effective policy.

3. Theme 1: support structures for social enterprises

3.1 Key functions of support structures for social enterprises – Flaviano Zandonai, Euricse

The growth of a multifaceted 'second generation' of social enterprises calls for a new style of support structures. Rather than emphasising the common features of the sector, they build on its diversity. They act as entrepreneurs themselves, provide complex services and partnerships with a wide range of actors, and involve stakeholders such as customers and beneficiaries.

Rather than presenting an overview of social enterprise support structures, Flaviano Zandonai spoke about the challenges they are facing and the transformations they are undergoing.

There is, in Italy for instance, a long history of support for some types of social enterprises, notably social co-operatives. However a second generation of social enterprises has been established, which remains to a certain extent '**hidden**'. Some developments to recognise and support these, like the status of the Community Interest Company (CIC) in the UK, have worked well, while others, like the *impresa sociale* status in Italy, have largely failed. Many associations and foundations work just like social enterprises but are not recognised as such.

New types of social enterprise support structures have been established, but it is a challenge for them to support these hidden social enterprises effectively. There are overlapping definitions, strong concentrations in certain niches, a low visibility to customer and the public, and a mismatch between the supply of and demand for financial resources.

We therefore now have the knowledge to promote a new sort of support structure. Recently, support structures have tended to fall into three ideal types:

1. Public agencies – which promote visibility by emphasising the common features of this new sector
2. Networks and consortia – which replicate successful business models
3. Communities – which complement the entrepreneurial action of the enterprises (e.g. through communication and recruitment), provide training and education in entrepreneurship and valorising internal skills. This equates to self-produced support.

But a new type of support is indicated which enables social enterprises to produce their own development. This means:

- supporting social enterprises in an **entrepreneurial** way, producing complex goods and services that individual social enterprises cannot produce
- taking an **ecosystem** perspective and intermediating relationships with other actors such as investors, consultants, universities, think-tanks and other collaborators
- promoting **coproduction** – becoming like an industrial district and involving the beneficiaries in production

This implies a change from homogeneous to **multistakeholder** structures. To benchmark such a support structure we would look for local rootedness, a **replication** system and a **holistic** support programme, such as exists in Scotland. The structure would resemble a local development agency. To scale up innovations, it would create strong **brands**, which both build internal identity and stimulate dialogue with the public. It would include a marketplace so that social enterprises can buy social value. It would promote cross-fertilisation.

Finally, it should be recognised that not all social enterprises need to be innovative; there are many needs to be met, and scale is also an important factor.

European initiatives to support the social economy

The **Social Business Initiative**[7] ran from 2011 until 2014 and worked on 11 key actions covering regulation, finance and visibility. It established the GECES expert group and organised the major event in Strasbourg in January 2014. Research projects such as WILCO and BENISI, and networks such as Euclid and the Social Entrepreneurship Network (SEN) within the European Social Fund, have come into existence. The social economy is a key part of work on social innovation. The Employment and Social Innovation (EaSI) programme (EaSI) provides finance and promotes new approaches, social economy bodies are well integrated into dialogue on social policy, and the European Regional Development Fund also supports a number of networks in the social economy.

3.2 Case study: A business incubator for social enterprises – Alberto Masetti-Zannini, Impact Hub London

The Impact Hubs offer space where social entrepreneurs can develop their ideas and give each other peer support. They support business ideas to improve the world, but do not restrict themselves to social economy structures.

Why should start-ups be supported? One reason is job creation. The evidence is that large firms do not create jobs – so if you want to create jobs, support early-stage enterprises. There is a new generation of entrepreneurs, for instance art and design students, a high proportion of whom want to do work that 'matters' and not work that merely looks good. The Hubs provide peer support for this new breed of entrepreneurs.

The first Impact Hub opened in London 10 years ago, and today there are 65 Hubs across the world, with 11,000 members. An estimated 500,000 people attend Hub events each year. Each Hub is owned and operated by a local team, and has one vote in decisions of the Impact Hub Association.

The Hubs were asked to provide an answer to the question: if someone has an idea to improve the world, where do they go? Such ideas are the premise on which the support ecosystem is built. But as well as increasing the number of people who take action to develop their ideas, the Hubs also aim to boost the number of ideas that scale up to multiply their impact. They do this by building a collaborative community that tackles issues as a whole and not just through individual actions.

Hubs are established using various different legal structures depending on the context. For instance, those in Rovareto and Siracusa in Italy are co-operatives, while that in the San Francisco Bay Area is a Benefit Corporation. They believe in breaking down silos between different types of enterprise. They are in the social economy but they do not promote only the social economy.

The Hubs raise resources from the private firms, which are feeling 'old' and want to effectively outsource their R&D. They can sponsor a one-year Hub Fellowship. These connections with business are important as they provide routes for scaling-up new ideas.

Public authorities that would like to see a Hub in their area can support one in any way that is convenient to them. For instance, Westminster is a shareholder in its Hub, while Milan offered premises. Whatever form it takes, **support should be given with a light touch** so as not to crush the new initiative.

[7] http://ec.europa.eu/internal_market/social_business/index_en.htm

3.3 Case study: A national network supporting social enterprises – Despina Iancu, NESsT Romania

NESsT has been working in Romania since 2007. It has invested over €1.2 million in capacity building and financial support to develop business models for 98 social enterprises and launch 18 high-impact social enterprises, which have directly improved the lives of 5,900 marginalised people.

Given that most of its clients lack business skills, NESsT uses its Social Enterprise Competitions to raise awareness and attract applications from entrepreneurs who have strong business ideas. Selected businesses receive a business planning grant in order to prepare a feasibility study. If this is positive, a five-year incubation programme follows, largely delivered through one-to-one advice and consultancy and accompanied by experience exchange among entrepreneurs.

Finance is provided in the form of grant, loan or equity according to need. One barrier NESsT faces is the low number of sources of flexible ethical finance, and to remedy this it works with the Romanian-American Foundation, Citibank, RBS and Unicredit to promote venture philanthropy. Romania's biggest Social Enterprise Competition, *Made in Andrei's Country*, is funded by the oil company Petrom and provides start-up capital of up to €350,000.

There is a big issue regarding EU funds: they cause confusion because they are designed to support short-term projects rather than businesses that are viable in the long term. The initiative faces a number of other challenges, among them the various definitions of social enterprise, the low awareness of public authorities, and the lack of a legal framework, support networks or best practice examples.

Anca Gheorghica, Urban Centre for Good Initiatives (CUIB), Iaşi

CUIB is based in Iaşi, the capital of Romania's Moldavia region, and the poorest region in the EU. In 2013 the Mai Bine association opened a vegetarian slow food bistro, shop and events space, which acts in all three pillars of sustainability – economy, society and environment. It uses 95% local seasonal produce and promotes education through responsible consumption.

The enterprise provides ten permanent jobs, two jobs for handicapped persons and also sustains a family farm. It promotes and buys from 17 other social enterprises and nine sustainable enterprises, and has substantial environmental benefits.

CUIB entered NESsT's Social Enterprise Competition in 2012, and was successful. Following prefeasibility and feasibility studies, it was awarded a further grant to carry out market research. This process was important in bringing initially over-ambitious ideas down to earth. A year later the project won a further prize from Unicredit. It subsequently took nine months to find premises. Ongoing coaching is provided on a pro bono basis.

The most important support CUIB received was the finance (worth over €25,000), technology, and the confidence that was gained by winning the competition. CUIB has received enquiries about replicating the business elsewhere, but feels it is too soon to take that step.

3.4 Discussion – start-ups or existing clusters?

The foregoing presentations demonstrate contrasting approaches: to focus on coaching new ideas and **start-ups** like the Hubs do, or to work on expanding **existing clusters** of social enterprises using methods such as consortia and social franchising.

It is quite possible to **support both start-ups and replication**. Since start-ups have no experience in managing large amounts of money, one model is to finance them in steps: e.g. an initial amount of €5,000 followed by larger amounts in case of success.

The initiative that has made the most difference in supporting start-ups in the UK is **Unltd**.[8] Set up in 2002, it offers tailored packages of support including funding and coaching. It offers 'Do it' awards for start-ups, 'Build it' awards for existing social enterprises that want to expand, and several other types of award. It is funded from a public endowment of £100 million (€140m). **NESTA**[9] is another public endowment that supports social innovations. This type of support works well; more sophisticated mechanisms such as social investment bonds (SIBs) come later.

Another type of support can be given through **stimulating demand** for the goods and services that social enterprises provide, by educating public authorities and companies on the advantages of buying from social enterprises.

What is needed is an **ecosystem** within which different organisations provide a range of high-quality services, some of which may be semi-market. The ecosystem depends on a network of peers, and the state's role is to enable them, not control them from the top down.

Social enterprises need to become more professional and need sources of good advice. Governments can create **online platforms** to facilitate peer learning and the necessary exchange of information on **impact measurement**. A task force could be established to provide Member States with tailored technical assistance.

SEN – the Social Entrepreneurship Network

Małgorzata Lublinska of the Polish Ministry of Infrastructure and Development (MIR) explained the lessons learned from managing an ESF learning network involving nine EU Member States and regions. SEN's members comprised not only ESF Managing Authorities and policy ministries, but also social economy representative and support organisations, all of whom worked in teams to analyse policy needs and options. The network's work programme ran from 2013 until 2015 and comprised five **peer review** meetings as well as planning and promotional events. The members reviewed 18 support measures for social enterprises, grouped into five clusters: identity and visibility, support infrastructure, consolidation and growth, finance and governance, and policy co-ordination. The network's partnership structure successfully **involved stakeholders**, and achieved visibility with high-level politicians in some countries.[10]

The main benefit for Poland was enabling it to apply its ESF resources more wisely and sustainably. The main lesson organisationally is that, as well as the transnational network, it is important to have **national stakeholder networks** within each participating country or region, which can spread the learning more effectively.

[8] https://unltd.org.uk/
[9] http://www.nesta.org.uk/
[10] http://www.socialeconomy.pl

4. Theme 2: EU support for social enterprises’ access to finance

4.1 European Commission initiatives in social enterprise finance – Andrea Maier, European Commission

The European Commission is helping social enterprises to raise finance through a loan and guarantee fund, pilot projects in social finance, new investment priorities in the Structural Funds and a ‘passport’ for private ethical investment funds.

Andrea Maier, Team Leader Entrepreneurship and Microfinance, EMPL/C2, European Commission, set out the Commission’s work on access to finance for social enterprises. It addresses five problems:

- the rate of return investors expect from investments in social enterprises
- a mismatch in the size of investments demanded and offered
- a mismatch between supply and demand
- the absence of a secondary market – which privileges debt over equity
- the lack of lifecycle cooperation

The Commission has a number of tools at its disposal:

1. **The Employment and Social innovation (EaSI) programme**

Finance is one of the three axes of EaSI, which also comprises Progress (which supports the modernisation of employment and social policies through pilot projects, peer reviews, studies etc.) and Eures (which stimulates labour mobility). Progress Microfinance was launched in 2010 and in the 2014/20 period is joined by support for social entrepreneurship.

The **Microfinance and Social Entrepreneurship** axis[11] has a budget of €193m in the 2014-20 period. Of this, at least 45% is allocated to microfinance and at least 45% to social entrepreneurship. The fund is administered by the European Investment Fund (EIF), which funds intermediaries that deal with social enterprises. Finance of up to €500,000 is available to businesses with a balance sheet and annual turnover both under €30,000, and which are not listed on the stock market. Part 1, which was launched in July 2015, will create a guarantee facility that will be free of charge. Part 2, covering loans, quasi-equity and maybe equity, is still under negotiation between the Commission and the EIF.

2. **Pilot projects in social finance**

The Commission has funded 21 pilot projects in social enterprise finance under three strands, two on the supply side and one on the demand side. Their results will be compiled into a manual, and a dissemination seminar will be held in late 2015.

3. **European Social Fund (ESF)**

The 2014-20 programming period brings two novelties:

- There is an **investment priority** for “Promoting social entrepreneurship and vocational integration in social enterprises and the social and solidarity economy in order to facilitate access to employment”. Operational programmes worth a total in €1.3 billion in 18 Member States have social enterprise as a priority, although some of these are regional, and information is still incomplete.

- **Financial instruments** can now be used to further all thematic objectives. They can be national, cross-border or transnational (managed by the Managing Authority concerned) or European (managed by the EC). They can be ring-fenced by country and combined with funding made available under EaSI (under article 38 of the Common Provisions

[11] http://ec.europa.eu/social/main.jsp?catId=1084&langId=en

Regulation). Five or six Managing Authorities in Spain and Italy have expressed interest in doing this, and Slovakia has established a fund of funds.

4. **The EuSEF**

The European Social Entrepreneurship Fund (EuSEF) is a European passport for private investment funds which invest at least 70% of their assets in social enterprises.

4.2 Tips for turning lessons learned into best practices – Yiorgos Alexopoulos, Agricultural Univeristy of Athens, Greece

Building a good social finance strategy depends on learning from the successes and failures of the past. In order to do this, public authorities can benefit from forming learning networks like SEN (see box above).

Good strategies are based on partnership with stakeholders, raising demand through the strategic use of public procurement, training social enterprises so that they are ready to invest and grow, and bringing investors and social enterprises together.

Developing a social finance strategy

In developing policy for social enterprise financing, we need to learn from experience. This relies on analysing experiences, accepting that some experiences will fail, and sharing learning transparently. This allows us to build an evidence base which can inform policy-making.

In order for us to evaluate whether public policy is successful, it must have an explicit strategy and clear objectives. At the moment there is a lot of showcasing but not enough learning about what is working and what is not, and what the true costs and efficiencies are.A very effective way to stimulate policy learning is to create **learning networks**. These should:

- develop the necessary definitions, language and frameworks – concerning the demand, the intermediaries, the supply and environmental factors;
- gain a clear view of the size and potential of the social finance market and its imperfections;
- design and implement the necessary interventions in that market, building on existing providers. To create an effective ecosystem you may need to create a broad range of financial instruments across the full risk/return spectrum. It is better to look for investors who support your strategy than attempt to adapt the strategy to the wishes of investors;
- continue to collect data on the way the market is functioning. This may require the use of appropriate impact assessment methodologies and reporting systems.

The public authority role

In doing this, public authorities need to learn and practice new roles. As well as developing policy, setting the rules and providing funding, they are called upon to play a more relational role: to **bring stakeholders together** and help them share good practices and build their own support structures. In this way, institutions in the social enterprise sector grow hand in hand with those in the public sector. Procedures, contracts and codes of conduct should be transparent.

One area in which government can play a crucial and proactive role is in **developing demand** for the services provided by social enterprises, through identifying barriers that social enterprises face in accessing public markets (such as the inadequate use of social clauses, large contract sizes, excessive pre-qualification requirements and payment delays), and through providing practical guidance on how to procure more effectively.

Public authorities can boost the **supply** of social finance through improving the intermediation of investors and social enterprises, to reduce search and transaction costs and increase risk-taking. They can support **investment readiness** programmes, which accompany investment with business support, such as England's Investment and Contract Readiness Fund, a £10m (€13m) fund which helps charities and social enterprises acquire the skills they need to raise investment and compete for public service contracts.

They can also give **tax relief** to social investors. In France, 'Solidarity finance' or '90/10' funds are based on employee savings and amount to over €1 billion in total. Companies with over 50 employees must contribute, and 10% of the funds must be invested in government-recognised 'solidarity organisations'. These funds are managed in partnership with banks, microfinance institutions and investment firms.

A checklist of principles for social finance strategies

Governance

- ensure **coordination** between different ministries and levels of government;
- maintain trust by ensuring **transparency** (a codification can be found in the European Code of Conduct on Partnership[12]);
- recognise the social mission of social enterprises through an enabling **fiscal framework**;
- mitigate risk through effective **monitoring**.

Cater for the whole range of social enterprise needs

- ensure **neutrality** in the treatment of different legal forms (the EMES definition[13] is a good basis);
- encourage a transition away from grant dependence towards **commercial** finance, to ensure long-term sustainability and growth;
- keep a balance between grants for **start-ups** and repayable finance for the **expansion** of existing social enterprises;
- support not only the start-up of new social enterprises, but the **transformation** of existing public and private enterprises into social enterprises.

Financial markets and intermediaries

- combine **different types of financial tools** (grants, loans, guarantees, quasi-equity etc.) to meet different needs. Use grants as risk capital and disburse them according to milestones;
- use **multiple sources** (public, ESF, ERDF, financial products, private money etc.);
- catalyse a sustainable private **social investment market**, and avoid crowding out private investment or creating uncertainty through political interventions;
- spread the **culture** and develop **skills** in financing social enterprises among conventional banking institutions and investors.

[12] http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=2019
[13] http://www.emes.net/site/wp-content/uploads/EMES-WP-12-03_Defourny-Nyssens.pdf

4.3 Case study: Building an ethical bank from the bottom up – Goran Jeras, CEDRA HR and Ebank, Croatia

The Croatian social enterprise support network CEDRA HR has been instrumental in founding Ebank, a co-operative bank to be launched later in 2015. It is innovating by writing its own software and integrating financial and non-financial support. Loans will follow the business lifecycle and the bank will participate in profits. A process of 'capacity matching' will allow co-operative members to support projects. A close relationship with borrowers will enable the bank to proactively find solutions to mitigate risk, such as improving distribution channels to create win-win-win solutions that benefit the bank, the borrower and third parties.

CEDRA HR, the Cluster for Eco-social Development (Cluster za Eko-društvene Inovacije i Razvoj) is Croatia's national network of support centres for social development and social enterprise. Set up in 2011 at the initiative of several non-profit organizations, it has a national office in Zagreb and five regional support centres in Osijek, Split, Rijeka, Čakovec and Dubrovnik. It has 24 staff members, 21 volunteers and 40 consultants who provide information, advice and training to social enterprises, normally free of charge. It is financially stable and sustainable, and is funded by membership fees, EU and national grant aid, and earned income.

Along with 400 individuals, NGOs, enterprises, trade unions, cooperatives and municipalities, CEDRA is one of the founders of the Co-operative for Ethical Financing, which is in the process of setting up an ethical bank – **Ebank** – with the support of the European Commission under call for proposals VP/2013/017 'Supporting the demand and supply side of the market for social enterprise finance'. It has so far raised some €10 million, and plans to start operations in the second half of 2015.

It proposes to set up a EuSEF, under the aegis of an existing fund manager, which will initially be financed to the tune of €15.5 million from three sources: €7.5 million from the EIF's Social Impact Accelerator programme, €7 million from the Croatian Ministries of Labour and Entrepreneurship, and €1 million from municipalities. In 2017 it hopes to attract a further €1 million from private investors. Offers of finance from ethical banks abroad have been refused in favour of a bottom-up approach.

The bank aims to fill a gap in the market for loan and equity investments of between €100,000 and €250,000 in social economy enterprises. It will start in Croatia, but there is interest from Slovenia and Greece in expanding into a regional institution. To mitigate risk, it will combine finance with obligatory mentoring support and extensive monitoring, and also intends to obtain a 50% guarantee from HAMAG BICRO, the Croatian Agency for SMEs, Innovation and Investments.

The project is based on close contact and networking. Market research over the past two years indicates that an interest rate of under 4% will be appropriate, so the bank will therefore not pay interest on deposits, but it will also launch an investment fund. The bank will reinvest in excess of 90% of its surplus.Nevertheless, the project is facing a number of problems:

- long-term funding needs to be found for support structures
- co-operatives pay more tax than other companies
- impact measurement implies higher operational costs
- the Basel Accords impose unnecessary costs as they demand reporting on derivatives etc. that the bank will not use

4.4 Case study: supporting investment readiness of social enterprises – Andrew Millson, Social investment Scotland

Social Investment Scotland adopts the principles of simplicity, trust, transparency and flexibility. It makes loans to social economy organisations that cannot raise finance from banks. It has worked with social economy enterprises to break down the fear of borrowing, change the financial culture, and has thereby successfully primed the pump for social investment in Scotland.

Social Investment Scotland is a social enterprise that is also a registered charity and one of the largest social investors in the UK. It works in a context where the demand for social investment is rising, as public finances have been straitened, and its task is to match supply with demand.

It was set up with funds from four banks, and does a job that they cannot do: it sees itself as a 'lender of last resort' and expects its clients to come to it only after they have been refused by a bank. It does use public funds to operate some programmes, but is now fully self-sustaining. Since 2001 it has invested €62 million in over 200 organisations. It is growing fast, and now employs 15 staff, of whom eight are investment managers.

Social Investment Scotland only invests in organisations with an asset lock and non-distribution to individuals. Therefore, it will fund the trading third sector and community interest companies (CICs), but not 'social businesses' owned by individuals. It only invests by way of loan, and does not make equity investments. It faces the challenge of persuading clients to switch from grant to loan finance. It is not the rate of interest that is the problem, but a fear of taking any sort of investment. It works hard to raise awareness of social investment: its website hosts factsheets and case studies, and more than 70 organisations have attended its investment readiness workshops.

Simple, flexible products

Social Investment Scotland offers holistic support, and accompanies finance with business advice. It has learned to keep things simple, and not be too sophisticated. It believes in providing a service to its customers, and therefore takes the time to understand the needs of the sector. It therefore **focuses on the smaller end of the market** (although it is less profitable), avoids jargon and does not try to invent new products. For start-ups there are **step loans**. The average loan is of £25,000, with the first year free of interest payments. It prefers to take security against a floating charge, but will lend **unsecured**. It has formed a partnership with supermarket chain ASDA, which gives SIS half of the proceeds of a levy of 5 pence per plastic bag used. This allows SIS to make unsecured 5% loans.

It is also very flexible: it often **reschedules** loan repayments if clients get into trouble. It has a **very easy application procedure**, and does not use application forms. It prefers to talk to clients directly rather than put them through the trouble of preparing a formal business plan. It processes applications quickly.

Despite this, it has an excellent performance record and suffers few bad debts – over 12 years the level of losses is under 5%. This is because SIS takes care to visit potential clients so that it can build relationships based on trust and transparency, which are factors that enable it to intervene in time if a problem arises.

5. Small group exercises

5.1 Exercise 1: Success factors, barriers and action plans

For the first exercise, participants divided into four groups to examine what the success factors are in the cases presented, and what the main barriers their home countries and regions face in building a comprehensive ecosystem for social enterprises. They then drew up priorities for their respective action plans.

Success factors

Public sector capacity:

- "State 3.0" – the state as a stakeholder, not a top-down actor
- sustainable support structures (long-term financing)
- structuring of support – national and community
- listening to stakeholders and developing tailored support
- role of intermediaries in getting social enterprises, financiers and business all speaking a common language
- investment readiness through dialogue with financers
- tax incentives for investors

The social enterprise:

- involvement of women
- good, customer-focused business idea and business plan
- relevant to community and territory – listening to stakeholders
- balance between social and business aspects
- mixture of sources of finance, not only public funds
- skills development; combined skill sets

Barriers to building comprehensive ecosystems

- lack of political will, low ambition
- low understanding and customer awareness of what a social enterprise is
- insufficient supply of finance
- financial illiteracy, grant dependency
- thinking social but not business
- non-integrated approach with fragmented support structures, so social entrepreneurs do not know where to go
- accusations of unfair competition, associations' fear of being swamped

Participants' action priorities

Policy co-ordination:

- map stakeholders
- propose national strategy – create cascade of responsibility
- put legal framework in balance
- do ESF pilot

Culture:

- promote political buy-in
- promote better understanding of role and values of social enterprise
- put social enterprise on the economic development agenda

- put social enterprise on the school curriculum to influence culture
- create round table(s) for stakeholders – generic social economy + thematic?
- culture of co-operation with stakeholders
- build market

Support:

- support structures – ensure both financial and non-financial support
- build financial supply by packaging risk, granting tax incentives to investors, and encouraging patient finance institutions

Finance:

- investigate an ESF loan fund
- find out how to combine ESF and EaSI finance

5.2 Exercise 2: Learning priorities

Participants then carried out a second exercise, in which they diagnosed the strengths and weaknesses off the ecosystems for social enterprises in their home countries and regions, and developed learning priorities.

The learning priorities are:

- best practices in business support
- more on access to finance, fiscal incentives
- good practice in access to markets, creation of markets, public procurement, social clauses
- impact measurement
- how to handle governance (ESF)
- premises & incubation
- visibility & recognition
- developing demand
- legal frameworks: what works best? how strict should they be?

6. Conclusions

A growing consensus

There is a growing consensus across society that **supporting social enterprise is an effective means of creating jobs, increasing social inclusion and improving services of community benefit**. A wide range of public authorities, institutions, private enterprises and financial organisations are all developing ways of engaging with social enterprise, and experimenting with new support mechanisms. The public sector is looking to participative organisations to deliver social innovation, while corporations see social enterprises as R&D labs. The organisations within the existing social economy are also innovating and networking with increasing effectiveness, both nationally and at the European level. The existing sector is immensely varied and operates in a large number of legal forms, but even so, new types of social enterprise are continually being developed to address emerging social issues. These new demands call for **innovative forms of support structures** and **new financial mechanisms**. Public authorities at all levels have a key role to play in setting the tone and establishing policy frameworks that enable other actors to make a contribution.

The universe of social enterprise is very diverse: some social enterprises score by being innovative and reacting quickly to social problems, while the great strength of others lies in their governance and the way they empower their member-beneficiaries. For policy-makers seeking to maximise the impact social enterprises make, **this diversity is valuable**.

Co-construction of policy

Policy initiatives to support social enterprise should be undertaken through bringing together the various stakeholders. This dialogue is a valuable learning process. Public authorities should have a soft touch, respect the sector and be ready to learn from it.

The key lessons are:

- When establishing support for social enterprises, **involve the stakeholders**;
- Support services for social enterprises should be **clearly structured** at local, regional and national levels so that potential entrepreneurs know where to turn for help;
- It should not be forgotten that **women** make up a high proportion of social entrepreneurs, so any policy to support social enterprises should meet their needs;
- Successful social enterprises take a balanced approach to entrepreneurship, which pays due attention to **both the business and social aspects**. They are likely to fail if they ‘think social’ without also ‘thinking business’, or rely solely on public sources of finance.

Effective learning networks

The social enterprise landscape has grown up in very different ways across the EU’s Member States, and consequently there is a massive scope for mutual learning to take place between governments. Making best use of the EU’s Structural Funds to support social enterprise is one key area where such learning can pay dividends. The Social Entrepreneurship Network has used the **peer review** method to great effect.

Capacity needs to be built on all sides: not only among potential social entrepreneurs but also among public authorities, financial intermediaries and investors. Governments can create online platforms to facilitate peer learning and the necessary exchange of information. European-level networking is very useful in transferring learning, but when such networks are established, mechanisms to disseminate the learning within the participating countries also need to be established.

Be flexible regarding definitions

In countries without a great deal of experience with social enterprises, there is no well-established working definition of their characteristics, and the various approaches taken by different European institutions can cause confusion. In these circumstances, nascent support organisations are working out their own definitions through dialogue and consensus-building with stakeholders.

Where there is no strong social enterprise sector or movement, organising a competition for business ideas and offering support to the winners can be an effective way to stimulate interest from potential social entrepreneurs.

Supporting conversion, growth and replication

Policy should support not only **start-ups**, but also social enterprises springing from the takeover of existing firms (either on the **retirement** of their owner or through worker buyouts of firms in **crisis**), from self-help organisations or NGOs **establishing trading units**, and as a result of **spin-offs** from larger public or private organisations.

Social enterprises do not spring from nowhere, and one of their great strengths is their capacity for networking and co-operation. One of their preferred methods of scaling up and growth is through replication: as an enterprise reaches maturity in one market niche, it branches and sets up another enterprise to address new tasks. Organisational support for this process is often given through consortia and social franchising. **Consortia** are secondary structures controlled by a group of enterprises working in complementary fields, which can carry out strategic development tasks as well as manage larger contracts on behalf of their member enterprises. **Social franchises** are structures through which an existing successful business model is codified and replicated in new places. However, the development phase of a new business model requires resources. Public authorities can very usefully support the development of such new replicable business models.

Appropriate financial tools

It is important that the right type of finance is available to suit the stage of the social enterprise business lifecycle. **Grant** finance has an important role to play in building capacity, training social entrepreneurs and supporting the establishment of new businesses. However, **repayable** finance is a more suitable tool for enabling business expansion. For this purpose, public authorities should seek to catalyse a sustainable social finance market, and should not undermine it by flooding the market with grants.

In this respect, the availability of EU grants can cause confusion because they are designed to support short-term projects rather than businesses that are viable in the long term.

Where start-up grants are used, it is often best to provide these in stages, linked to specific milestones such as the preparation of a feasibility study or the carrying out of market research.

However when it comes to finance for social enterprises, there is no need to be over-sophisticated: a simple revolving loan fund may be all that is needed to fill the gap that banks are not currently meeting.