

# G40 Urban network

## Increasing impact with social entrepreneurship

### Roadmap for municipalities

#### Foreword

##### **Increasing impact through social entrepreneurship!**

As a councillor, I see it as my task to deal with social issues in an enterprising way.

I wrote that in the foreword of the first edition of the Roadmap (June 2017), and it still holds true today.

In Ede, we now have an approach that we are implementing.

In 2016, I declared social entrepreneurship a priority for the G32 Urban network. The Urban network has since developed into the G40. The first roadmap for the Urban network sold out quickly. Another reason for us to release an updated second edition was the number of new examples of how cities foster social entrepreneurship.

The G40 is eager to establish links between the government and social entrepreneurs.

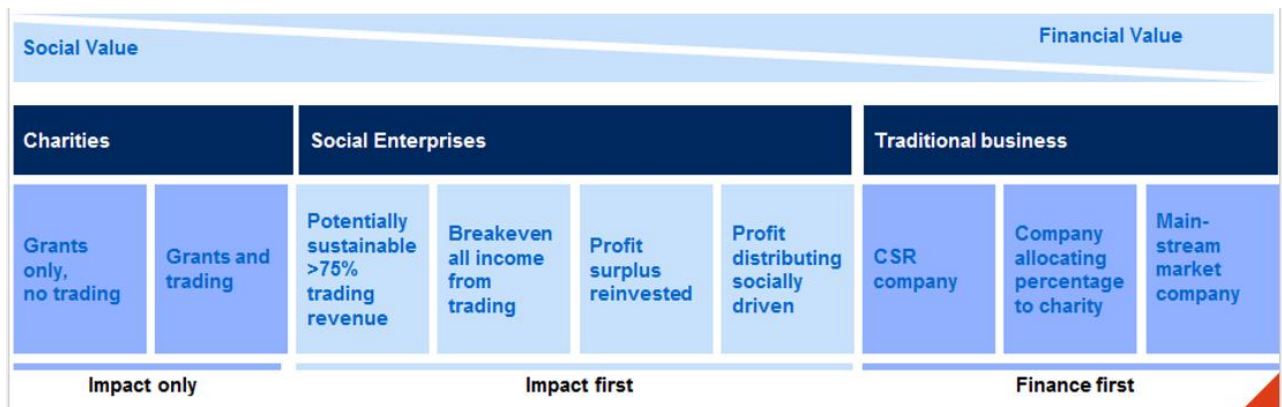
Municipalities can use the roadmap as a source of inspiration on how to use social entrepreneurship to tackle social issues. Last summer, I was invited to give a guest lecture at Social Enterprise NL's *Summerschool* to discuss with social entrepreneurs how they should approach doing business with the municipality. We organise meetings with Platform31 to exchange knowledge and to work together. We recently reviewed Social Impact Bonds. We discussed what we can learn from bonds that have already been concluded and how cities can work together to create bonds involving young adults. We have also entered into discussions with the new cabinet. Social entrepreneurship is a gaining greater awareness. By printing this second edition, we want to inspire municipalities with many tips and examples, so that we can further increase the impact obtained through social entrepreneurship! *Willemien Vreugdenhil, Municipal executive in Ede, chair of the Economy and Work G40 Urban network pillar.*

#### **1. Introduction**

Society is changing. Today's social challenges call for a government that involves society and offers scope for citizens' and entrepreneurs' initiatives. In this participatory society, the government is looking for partnerships and new forms of cooperation. Innovation and entrepreneurial solutions are needed to tackle social issues, which the government cannot address on its own. Social entrepreneurs respond to this need and prioritise social impact. They are increasingly proving to be a natural partner of the government and the municipality, thanks to their local character. They make a direct contribution to various important social themes such as sustainability, the circular economy, care and welfare and a more inclusive labour market. Over the past five years, the G40 municipalities have gained experience in using the business acumen of social entrepreneurs to tackle social issues. This experience then provides municipalities with tools to learn from each other. In addition, instruments have been developed over time to further stimulate social entrepreneurship. This roadmap combines these experiences and insights and focuses on the municipality's perspective.

##### **1.1 What is social entrepreneurship?**

In 2016, the Social and Economic Council of the Netherlands (SER) provided a schematic representation of where social enterprise stands between profit-driven entrepreneurs and philanthropic organisations. This positioning is shown below.



A working document entitled *Guaranteeing Social Enterprises* was prepared by the EU in February 2017.

A social enterprise:

- is active within the social economy of the market, and its main objective is to achieve social impact rather than to distribute profits to shareholders;
- delivers goods and services for the market in an entrepreneurial and innovative manner and primarily uses the profits to achieve the social aims;
- is organised in an open, responsible manner in relation to human resources policy, consumer interests and stakeholders involved in commercial activities;
- has the following characteristics:
  - > innovative, especially in its approach to commercial activities in order to achieve the social objective;
  - > investment-minded, particularly with regards to reinvesting profits and building balance sheet equity;
  - > transparent and involves stakeholders, taking social justice into account.

In general, the EU Working Group behind the working document sees that new or existing social enterprises contribute to innovative solutions not yet provided by the government or markets, while viewing them as a response to social issues. These solutions add value and meet consumer needs – especially for weaker or more vulnerable consumers, or groups in society for which offerings by the markets or government are lacking or do not match the needs present. Thanks to their unique qualities, more often local than not, social enterprises are better able to meet needs than central governments. They often provide customised services that are largely independent of funding and donations. The dependence on creating added value for customers combined with market forces ensures that entrepreneurs focus on efficiency, innovation and therefore creating greater impact.

While it may not be their primary goal, 'ordinary' companies also have opportunities to achieve social impact. Put simply, this starts with transparency regarding the impact, whether social or sustainable, in the general annual report or social annual report. An impact can also be achieved by actively contributing to social return and by applying a social policy towards suppliers. B Labs or PSO-Nederland (an organisation that aims to encourage companies to conduct business in a socially minded way) can provide certifications. Recently, Social Enterprise NL started an initiative to determine the degree to which an enterprise is social: de Code Sociale Ondernemingen (The Code of Conduct for social enterprises) (2017).

### 1.3 Future challenges

The studies including those done by McKinsey and the SER as well as our own experiences show that social entrepreneurs face four challenges.

#### Capital

The first challenge facing social entrepreneurs is obtaining start-up or working capital. Providers of finance appear to be reluctant to provide capital because of the relatively low returns and the higher-than-average risks of the business model. One such risk is that the municipality is often highly dependent on the inflow of working capacity.

#### Ecosystem

A second challenge is creating an ecosystem that accommodates social entrepreneurs. Social entrepreneurs are a relatively new phenomenon in society and, as such, how they work together with other players, such as the municipality, still requires alignment. The aforementioned McKinsey study shows that social entrepreneurs' current degree of access to government is an obstacle to more growth. Good cooperation with banks, other providers of finance, knowledge and educational institutions and governments contributes to success. It is noteworthy that many entrepreneurs think the government is organised in a complicated way. Start-up social entrepreneurs could stand to gain a lot from internal cooperation within municipalities, between departments such as the Ministry of Economic Affairs, work and income, the environment and sustainability and permits.

### **Professionalisation**

The third challenge is professionalising existing social entrepreneurs' business operations and entrepreneurial skills. Many social entrepreneurs are in the start-up phase and encounter problems with attracting high-quality employees when moving into the growth phase, among other problems. Major differences also exist between 'people with an inspired idea' who need to grow into entrepreneurship and 'inspired entrepreneurs' who are less familiar with the social domain, for example.

### **Measuring the impact**

The final challenge is to make the impact visible. Social entrepreneurs distinguish themselves precisely because they prioritise impact, and an entrepreneur's business model serves to achieve that impact. In light of this, stakeholders such as providers of finance and the municipality need to clearly demonstrate the entrepreneur's impact. Measuring such an impact is no easy task, however. If the impact cannot be measured objectively – or if the method is open to question – then suppliers are reluctant to provide capital because due to the perceived risks to returns.

## **1.5 Municipalities and social enterprise**

Social entrepreneurs can contribute to tackling social issues.

Municipalities can use policy and implementation to offer scope to social entrepreneurs and, in doing so, enable them to take on their role in an enterprising and innovative way.

By giving a role to social entrepreneurs, the position of municipalities as regular clients or funding providers is changing. Municipalities also have an interest in the enterprises' objectives. Social entrepreneurs directly contribute to tackling a social issue, and as a result they pursue the same goals as municipalities. This makes it attractive for a municipality to facilitate and encourage social entrepreneurs.

Within the country, collaboration between municipalities and social entrepreneurs is already leading to inspirational examples of a new way of working to achieve the objectives of municipalities. There are a number of ways in which municipalities can create scope for social entrepreneurship! These include:

- organising account management more effectively
  - creating opportunities for social entrepreneurs through purchasing
  - positioning certain social issues as challenges for markets
- taking on a role in organising or fostering an ecosystem in which social entrepreneurship is given scope for development. (The municipality is only one of the actors and as such depends on other parties such as financiers, provinces, employers/entrepreneurs, education and, for example, partnerships including Public Employment Services or Economic Boards.)

## **2. Organising account management in its entirety**

Collaboration with the municipality is essential for social entrepreneurs, as they operate within the triangle of government, civil society and the market. The method of collaboration depends on the entrepreneur's business model. For example, in practice, we often see that the municipality is one of the most important partners in providing potential employees or temporary employees under the Participation Act (*Participatiewet*) or Social Support Act (*Wmo*). It is imperative that this is well organised, as the entrepreneur's business model is often based on access to this working capacity. The municipality also often acts as a purchasing or contracting party.

The municipality can get involved in a number of ways, varying from creating support at the administrative or official level to establishing links with other entrepreneurs, providers of finance or stakeholders such as educational institutions. Sometimes, scope for experimentation is necessary to ensure the success of a social enterprise or an 'intervention', so that it can be scaled up. A

municipality is the party that can guarantee this scope for experimentation through the 'axes' of funding, regulations or support. In practice, entrepreneurs struggle to find the right methods of approach and the right people in a municipal organisation. Municipalities often have one or two dedicated desks for entrepreneurs. When a municipality has two desks, one is usually run by the Ministry of Economic Affairs to facilitate in matters concerning permits (environmental or otherwise), finances and funding schemes. The other desk then focuses on creating working opportunities and participation, usually at regional level or at an employer service point.

Social entrepreneurs engage with many different domains such as the economy, finance, work, participation, social employment, reintegration, income and care and must therefore deal with the different budgets that come with them.

Effective account management for social entrepreneurs therefore requires an integrated, cross-domain approach. In addition to the 'classic' business issues (in the domain of the Ministry of Economic Affairs), it is important to establish a link to the social domain. Which budgets are available for providing care or encouraging participation in work? Which damage limitation and impact will be achieved? Does the impact that entrepreneurs achieve fit in with the social objectives pursued by the municipality? What is the interdependency between entrepreneurs and the municipal implementation, including employer service points and social service case managers, and how should it be arranged?

Which forms of funding are available? This includes those provided by the municipality (funding, innovation funds, local or regional impact funds) as well as those made available by the market (Social Impact Bonds, funds, crowdfunding)

The municipality can give entrepreneurs input on the various forms of financing, including questions such as: how can risk be spread so that the investor threshold is lower? Private investors, governments and banks are often cautious about financing social entrepreneurs. 'Pizza financing' could solve this problem. This is a combination of different forms of financing, such as part loan, part funding and part crowdfunding. If an entrepreneur has met part of their financing needs, this could work to their advantage when approaching other providers of finance. As a supplementary option, crowdfunding could create more support for the total financing required. Entrepreneurs can use crowdfunding to test whether there is an audience that believes in their idea and will spend money on it. This can further convince private investors, such as those in Social Impact Bonds, of the plans and their financial feasibility. That's why this combination is so potent.

Account management aimed at social entrepreneurship means making connections between domains, both at the policy level and implementation level. It sometimes also applies at the neighbourhood level, such as in meeting and development places, where target groups, activities and financial flows are combined.

We see an array of organisational solutions, ranging from a single point of contact or desk for social entrepreneurs, a cross-departmental team that helps entrepreneurs, or the reservation of a physical space, such as the *Ondernemerstafel* ('entrepreneurs' table') in Haarlem. The organisational solution naturally also depends on the ambition or objectives of a municipality. Given the scale of social entrepreneurship, the challenge facing municipalities is organising account management in its entirety, creating a suitable infrastructure for both social entrepreneurs and 'normal' companies.

### **3. Encouraging social procurement**

Each year, municipalities purchase millions of euros worth of labour, services and supplies. The municipalities' procurement methods therefore offer opportunities to influence the way in which the business community can contribute to social issues. What follows is an explanation of the following three instruments: Social Return, the *Prestatieladder Socialer Ondernemen* (Performance Ladder for 'more social' entrepreneurship) and Rapid (Circular) Contracting.

#### **3.1 Social Return**

Social return is an approach that creates more employment opportunities for people who find it more difficult to gain employment in the short term. The municipality can also apply social return in a broader way by including an obligation or incentive for circular procurement. The most common

way is for the government to oblige the supplier to fulfil a fixed percentage (usually 5% or more) of the value of the contract by providing a service with a social impact.

Social return in its current form has its limitations. Displacement in the case of social return represents a challenge, as well as the negative role of the temporary nature of a job on a project. This method encourages the use of 'revolving door practices'. This ultimately discourages the people for whom social return is used – individuals who find it more difficult to gain employment in the short term.

### **3.2 Prestatieladder Socialer Ondernemen**

TNO (the Netherlands Organisation for applied scientific research) collaborated with PSO-Nederland (an organisation that aims to encourage companies to conduct business in a socially minded way) and stakeholders to develop the *Prestatieladder Socialer Ondernemen* (PSO, the performance ladder for 'more social' entrepreneurship) instrument. The PSO instrument measures the extent to which organisations demonstrably offer employment opportunities to vulnerable groups in the labour market and compares this result with other organisations within the same size class to create a benchmark. The following things are measured:

- the **direct** contribution, which means the number of persons who find it more difficult to gain employment in the short term in relation to the total number of employees.
- the indirect contribution, which means the extent to which organisations purchase from other PSO-certified organisations and *SW bedrijven* (social enterprises).

More and more municipalities and public clients are accepting a valid PSO certificate as a way of fulfilling all or part of the social return obligation in tenders. The new public procurement act allows public organisations to reserve contracts for enterprises, workshops or programmes 'provided that at least 30% of the employees of these workshops, enterprises or programmes are disabled or disadvantaged workers', according to Art. 2.82 the Dutch Public Procurement Act of 2012 (*Aanbestedingswet 2012*).

### **3.3 Rapid Circular Contracting**

The *Stichting Circulaire Economie* (circular economy foundation) developed the Rapid Circular Contracting (RCC) method. A tender is based on a group of parties selected for their expertise, professional skill and innovative capacity as opposed to extensive specifications, a legal approach and a request for a quotation. The contracting party enters into a partnership with the winner, with the aim of arriving at a result that produces the maximum added value in social and sustainable terms.

## **4. Procurement for social issues**

Social enterprises want to solve social problems while providing a service or product. The municipality can play a role by actively bringing together demand (the social issues) and supply (entrepreneurial ideas). This can be done by organising a challenge.

### **4.1 Challenges**

A 'challenge' means that the government calls on society's innovative capacity. The government challenges local or other stakeholders to come up with socially enterprising solutions for social issues.

The government makes funds or support available for this purpose as a 'prize' for the best idea. An Impact Challenge is usually organised by a municipality, although other organisations can do so. An example of this is the Social Impact Factory in Utrecht.

### **4.2 Social Impact Bonds**

A number of impact bonds were concluded in the Netherlands in the period 2014-2017, including those in Rotterdam, Utrecht, Eindhoven, Enschede and The Hague.

Although there are advantages to using a social impact bond (SIB), it can also be a complex instrument. That is why it is good for the municipality to consider early on whether an SIB can succeed. The municipality of Rotterdam created a decision tree that focuses on a number of the following questions:

- Are the social benefits or savings clear? Is there a social business case?

- Is there a relationship between the intervention/project and the social return? Are the revenues measurable and monetisable? This forms the basis for financial agreements on investments and returns.
- Is the number of parties that benefit clear? Collaboration quickly becomes complicated if many parties are involved.
- Is there a business case? In other words, are the revenues higher than the costs?
- Are there entrepreneurs and investors who believe in the project and want to commit to it?

Municipalities and entrepreneurs are concerned with different things. Cooperation through a Social Impact Bond can create synergy, while requiring a mutual understanding between the parties. For example, it is important for the parties to discuss what the 'impact' is and what the municipality and the entrepreneur can or should offer each other. What guarantee can the municipality offer in terms of sufficient supply of people under the Participation Act (*Participatiewet*)? What does the entrepreneur need in terms of competencies, availability and skills?

## **5. Improving the ecosystem**

Social entrepreneurs in the Netherlands are relatively new players in the social ecosystem. The shift from the welfare state to the participatory society has created more room for socially enterprising solutions to social issues while leaving the infrastructure of the ecosystem lagging behind. This is, in part, due to less-than-ideal combinations of the government, entrepreneurs and capital flows. Added benefits can be obtained from the further development and optimisation of the social ecosystem in which social entrepreneurs play an increasingly prominent role.

### **5.1 Exploring the local ecosystem**

It is advisable to start by drawing up an inventory or exploring the ecosystem in which social entrepreneurship functions. One way of starting this is by using the Social Impact Factory's opportunities map.

### **5.2 Creating networks and promoting an 'ecosystem that accommodates social entrepreneurs'**

There is no blueprint to build an ecosystem or to make the right connections. However, adhering to the following basic principles keeps an ecosystem healthy: 1. drawing up an inventory, 2. ensuring that the reciprocity is set out in sufficiently explicit terms, 3. maintaining cohesion and 4. providing an internal or other engine.

### **5.3 Additional support for social entrepreneurs**

Many social enterprises are start-ups. In recent years, large companies, investors and the government have devoted a great deal of attention to start-ups, as they are the source of innovation. The incubator model is well suited to enable start-ups to grow successfully and to facilitate cross-pollination. An incubator or accelerator programme could be adapted for the challenges facing social entrepreneurs.

### **G40, Platform31 and KplusV**

The Economy and Work G40 Urban network pillar focuses on economic development, entrepreneurship, the role of government in the economic ecosystem, the labour market and inner cities. The pillar's priority areas are 'space for enterprise' and 'social entrepreneurship'. The Urban network works closely with Platform31 and KplusV to this end.

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