

## EU consultation on the Small Business Act for Europe

### Consultation site:

<http://ec.europa.eu/yourvoice/ipm/forms/dispatch?form=SBAeurope&lang=en>

### General section

#### **Q: What are the most important problems that European SMEs are facing and which prevent their growth? How to tackle them?**

The Social Enterprise Coalition (the 'Coalition') welcomes the opportunity to respond to the EU consultation on the Small Business Act for Europe.

The Coalition was established in 2002 as the national voice of social enterprise. Social enterprises are businesses with primarily social or environmental objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners. The Coalition represents a wide range of social enterprises, umbrella bodies and networks, with a combined membership reaching of over 10,500 social enterprises. These include co-operatives and mutuals, housing associations, leisure and football supporters' trusts and Social Firms. Social enterprises in the UK generate more than £27 billion in turnover, and contribute more £8 billion to GDP per year.

The three key problems that social enterprises in the U.K. are facing and which prevent their growth relate to business support, access to finance and public service procurement.

- **Business support**

The availability of appropriate, high quality and readily available business support is crucial to the success of social enterprises, as it is for all SMEs. However, business support for social enterprise has been described as 'increasingly fragmented, incoherent and patchy'.

As businesses, social enterprises share many business support needs with private sector businesses. However, research undertaken by infrastructure and support organisations indicates there is a need for specialist social enterprise support because of the distinct needs that mainstream business support does not adequately meet.

Changes to business support in England are having a significant impact on the growth of social enterprises. In particular, mainstream funding for business support is changing. In the past, specialist business support for social enterprises was funded through a variety of national and European programmes. Many funds have now closed which raises the risk that the new model of provision will not be able to deliver support of the quality, reach and depth required by social enterprise.

Our key recommendation to improve the quality of business support for social enterprise is for the European Commission to support national governments in ensuring that sufficient resources are allocated for appropriate business support services for social enterprises.

- **Access to finance**

Finance is the motor for all business development and social enterprise is no different. A lack of access to appropriate finance can be a significant barrier to growth. While access to finance has improved for social enterprises in recent years, our members have told us more needs to be done. They have a number of important concerns.

1. There is a lack of risk capital available to invest in long-term business growth. Risk capital such as equity finance is hard to access for social enterprises. Many social enterprises either do not have legal structures which allow them to issue shares in return for investment, or have governance arrangements which make it difficult to give up ownership to an investor.

Even where equity can be released, there are limited ways in which investors can sell on their shares. Most social enterprises are unlikely to become listed on the stock market and there is no alternative 'social stock exchange'.

2. The social investment market is under capitalised and fragmented: there are gaps in provision, duplication of efforts and the system lacks overall capital. In the mainstream finance sector an investment bank takes on the role of connecting the market - supplying capital to intermediaries, tying the market together and identifying gaps. A social investment bank could play this role.

3. Standard ways of measuring and representing the 'blended return' of financial, social and environmental outcomes are not yet available. Although work has taken place to develop Social Return on Investment (SROI) as a way of putting a financial value on the social investment into an organisation, there is no official standard and the approach is still relatively untested.

4. There are no specific tax incentives to encourage direct investment into social enterprise. Because of their combined business and social aims, financial returns to investors from social enterprises are likely to be lower than in the private sector. This can act as a disincentive to investment. Creating an appropriate investor tax relief would provide investors with a basic return, making social investment a much more attractive option.

- **Public sector procurement**

There remains a lack of awareness among commissioners at all levels of what social enterprises are, their potential role in delivering public services, and the added social benefits they bring. In addition, a risk-averse culture underpins the majority of public service commissioning.

There is also a need for redefining value-for-money in relation to public service delivery. Many social enterprises look beyond traditional public service delivery mechanisms developing services which address needs in a much more holistic way. For example social enterprises often provide a number of different public services such as housing support, employment advice as well as health care. These approaches add value to public spending which is often not recognised.

Within the framework of existing policy and regulations there are a number of ways in which public bodies can increase their purchasing from social enterprises – getting more for their money as a result. Steps include: identifying existing social enterprises, including establishing relevant forums and networks; simplifying the procurement process to allow social enterprise to compete for contracts and

to focus more on outcomes rather than processes; thinking carefully before aggregating contracts and encouraging social enterprises to explore sub-contracting and consortia opportunities; taking a strategic approach to purchasing from social enterprises by developing overarching policies and frameworks, coupled with high level leadership and commitment to social enterprise; basing procurement decisions on demonstrated good financial management rather than an organisation's profit levels and the size of their asset base.

## **Section 2 – Putting SMEs at the forefront of society**

### **2.4 Would you suggest any other obstacles or additional issues to address?**

1. Current government data suggests that there are more than 55,000 social enterprises in the UK with a combined turnover of £27bn. Social enterprises account for 5% of all businesses with employees, and contribute £8.4billion per year to the UK economy.

Despite this, there is a lack of understanding of the contribution of social enterprises and the social economy across all sections of society, ranging from policy makers to the public.

As the voice of the sector, the Coalition provides a national platform for showcasing the benefits of social enterprise. We share best practice and influence policy in order to create an enabling environment for social enterprise. To raise quality within the sector and enhance its capacity to grow, the Coalition undertakes a wide range of activities including: working with all levels of government to inform policy; organising seminars and conferences; publishing policy documents and best practice guides; and providing information about the sector.

Nevertheless, there is a great deal more to be done to achieve widespread understanding of social enterprise. Government at all levels can support the goal of achieving greater understanding about social enterprise through measures such as ensuring the government employees from policy makers to commissioners are informed about the contribution of social enterprise, including social enterprise within educational programmes on business and enterprise, and informing job seekers of the opportunities available to them through working in the social economy.

2. A further obstacle facing social enterprise is the divergence between government policy regarding economic growth which comes under the remit of the Regional Development Agencies and policy regarding economic well being and social justice which remains the remit of local and national government.

Social enterprise unites these objectives. They further economic development and generate meaningful employment with a significant proportion of social enterprises operating in areas of market failure and in the most deprived areas. They create an environment that supports economic competitiveness and growth by: delivering training and education, to build the skills base; developing under optimised assets into productive spaces; boosting entrepreneurship, especially amongst women, young people and BAME groups; and often improving overall well-being through better public service outcomes.

The divergence in economic growth policy and economic well being and social justice policy, however, is an obstacle to recognising and realising the potential of social enterprise to deliver on the government's targets for these policies.

## **Helping SMEs acquire the skills they need**

### **2.12 Would you suggest any other obstacles or additional issues to address?**

Business support for social enterprise in the U.K. has been described as ‘increasingly fragmented, incoherent and patchy’. This has significant implications in terms of ensuring that those working in social enterprise are equipped with the skills necessary to create and maintain a successful business.

In particular, there are three areas of skill which are not being sufficiently supported due to the inadequacies of business support for social enterprise.

#### **Technical skills**

At the early stages of business development it has been shown that social enterprises may not be able to afford business support. Where there is a charge for support services social enterprises may be excluded, especially when technical advice is required. This is a serious hindrance to the success of social enterprise start-ups.

#### **Financial skills**

Social enterprises require access to specialised business expertise to support them in managing the complex triple bottom line method of accounting. In addition, some social enterprises lack the financial management skills needed to handle more sophisticated finance. Although social enterprises have built up their financial management skills in recent years, there is still a shortfall, particularly when it comes to handling bigger budgets and using more sophisticated forms of finance.

Particular areas where training is needed include cost management, presenting financial data for the purposes of securing finance, understanding investment readiness, and comparing the suitability of different financial products.

A lack of tailored business support solutions hampers the ability of many social enterprises to successfully implement this method of accounting, which is one of the main tools used by social enterprises to report on the social and environmental value of their work.

#### **Corporate skills**

Some social enterprise leaders do not have a background in business and therefore may not understand business terminology. As such, they require support from business advisors to help them adjust to a business culture. However, there is a real lack of business advisors with an understanding of the nature of social enterprise. Business support advisers in this position are likely not to understand the business culture of social enterprise and will therefore be ill-placed to support the transition of new social enterprise leaders into this way of working.

## **Section 3 – Facilitating SMEs’ access to markets**

### **Facilitating SMEs’ access to public procurement**

#### **3.7 Would you suggest any other obstacles or additional issues to address?**

There remains a lack of awareness among commissioners at all levels of what social enterprises are, their potential role in delivering public services, and the added social benefits they bring.

In addition, a risk-averse culture underpins the majority of public service commissioning. This includes; a focus on organisations' financial track record above all else, a complex and time consuming procurement process, an emphasis on process rather than outcomes and increased pressure to aggregate contracts. This limits the ability of smaller and more specialised social enterprises to compete for tenders, hinders the ability to commission innovative new solutions and prevents new entrants to market.

There is also a need for redefining value-for-money in relation to public service delivery. Many social enterprises look beyond traditional public service delivery mechanisms developing services which address needs in a much more holistic way. For example social enterprises often provide a number of different public services such as housing support, employment advice as well as health care. These approaches add value to public spending which is often not recognised.

Definitions of value for money currently do not take into consideration the wider social, environmental and economic consequences of particular spending decisions. Furthermore, there is little incentive for individual service commissioners to meet multiple objectives and no mechanism for one public body to achieve recognition for expenditure that creates savings in another.

#### **Section 4 – Supporting SMEs' access to finance and innovation**

##### **4.3 Would you suggest any other obstacles or additional issues to address?**

It seems unlikely that grants will cease to be an important finance option for social enterprises in the UK. Grants are likely to be particularly important for start-up organisations, as they may form the alternative to mainstream businesses ability to access finance from an individual's saving, personal risk, or friends and family. These forms of finance are often not appropriate for social enterprises as they do not exist for private gains, and the prospect of a return maybe limited. The overall policy in the UK is currently to move away from grant funding, however, we believe that these will remain an essential part of social enterprise financing provided they are used as start up capital rather than to support core costs.

#### **Section 5 - Turning the environmental challenge into opportunities for SMEs**

##### **5.4 Would you suggest any other obstacles or additional issues to address?**

Whilst many SMEs struggle to comply with environmental legislation, social enterprises working in the environment provide not only environmental services to other SMEs to help them achieve their green targets, but also provide excellent examples of best practice. A report written by the Scottish Social Enterprise Coalition and Triodos bank in September 2007 found that 'not only is social enterprise far greener than the wider business sector, its approach creates genuine economic benefits from which all other sectors can learn'.

Social enterprises in the U.K. provide excellent environmental products and services in many fields including the waste and the materials cycle, renewable energy , the management of woodlands, and sustainable construction and transport.

Social enterprises are often better placed than private sector businesses to operate in the environmental sector because of their commitment to environmental goals as opposed to private profit. This enables social enterprises to operate in low- or no-profit markets, as well as tackling issues such as renewable energy through community-based approaches that reduce opposition to projects such as wind-farms.

Despite these advantages, barriers to maximising the potential of social enterprises to deliver on environmental goals still exist. Many of these relate to the issues highlighted above surrounding procurement, including a lack of understanding of social enterprise amongst commissioners, an approach to commissioning which is not holistic and fails to consider the added value of procuring from social enterprises across government departments, and market structures that mitigate against small suppliers such as the aggregation of contracts.