



## **Social Enterprise Policy Consultation Paper**

January 2021

## **The Consultation Process**

This paper will involve a substantial amount of research and consultation, ultimately producing an in-depth and lengthy document. A three-stage consultation process is therefore envisaged:

- Full consultation paper – This will propose policy ideas and options to address the identified issues and those highlighted in the pre-consultation process. Throughout this process, it is also envisaged that there will be direct engagement with some of those who are currently working in this field, and visits to some best practice examples.
- In parallel with the consultation paper, there will be considerable internal consultation with elected representatives on relevant committees and those with a specialism in some of the areas outlined.
- Final policy document – Following the consultation process a final policy paper will be adopted that will inform future DUP manifestos.

As part of the preparation of the full consultation paper an internal engagement group has been identified. This paper will be circulated to them for comment and input before final publication. This will be undertaken via electronic communication due to restrictions in place relating to COVID-19. Nothing contained within the consultation papers constitute DUP party policy, unless pre-existing policy.

## **Background**

Social enterprises are defined by Social Enterprise UK, as:

*‘businesses that are changing the world for the better. Like traditional businesses they aim to make a profit but it’s what they do with their profits that sets them apart – reinvesting or donating them to create positive social change’.*

A BBC NI report in 2018, *‘Social enterprises: Giving back to the community’* gave an insight into the growth of the sector.

*"I think there is a generation rising up that is more socially driven to fixing problems and they will use business to do that."*

“David Linton, founder of Craigavon-based ‘Madlug’. It makes backpacks and other bags and works with children in care on a ‘Buy one, Give one’ approach.”

There are approximately 100,000 social enterprises throughout the UK, contributing £60 billion to the economy and employing approximately two million people. Social Enterprise UK define their membership with the following points;

- *Your business has a clear social or environmental mission that is set out in its governing documents.*
- *You are an independent business and earn more than half of your income through trading (or are working towards this)*
- *You are controlled or owned in the interests of your social mission*
- *You reinvest or give away at least half your profits or surpluses towards your social purpose*
- *You are transparent about how you operate and the impact that you have*

Northern Ireland has a vibrant social enterprise sector. The most recent Social Enterprise NI report, ‘*Rebalancing the Northern Ireland Economy*’ published in 2019, detailed its already significant economic contribution - contributing £625 million to the local economy, a growing employment trend, estimated at 24,860 and turnover growth rising to £980 million. The impacts of the COVID-19 crisis have yet to be fully realised but there will inevitably be long lasting economic consequences. This is an area we will explore further in the consultation process, examining both how the sector can take advantage of new opportunities and what supports are required to encourage this growth.

## **Previous Manifesto Comments**

We have previously not focused specifically on social enterprises in our manifestos. Instead, they are implicitly referenced in the context of building stronger communities, improving employability and creating the environment to allow enterprise to succeed. In our 2016 Assembly election manifesto, we reported our success in the ‘*Creating Stronger Communities*’ section, noting:

*“hundreds of new social enterprises created under the Social Enterprise Hub project”.*

*“...enabled Community Asset Transfer where Third Sector organisations such as voluntary and community sector groups, faith-based organisations and social enterprises can use surplus public sector assets to regenerate communities”.*

## **Social Enterprises – Definition**

There is an argument by some that all businesses support communities, by providing employment, many provide sponsorship for community-based activities, etc. They argue that they all aim to provide positive opportunities for their workforce, provide products and services of the same quality and seek to be profit making. What distinguishes them is how they distribute their profits. This is an area we will seek to explore in the consultation – whether or not different types of business should receive different levels of support, when all essentially provide positive social benefits.

### **Questions**

- a) How effectively is the sector responding to the COVID-19 pandemic and what long term opportunities may it present?**
- b) What are the current opportunities for growth?**
- c) How can a framework to support social enterprises be further developed and what should it comprise?**

## **Social Value Act**

There is a broadly favourable political environment towards growing the social enterprise sector in Northern Ireland. However, it is notable that there were no direct references to the sector in the Draft Programme for Government 2016-2021. In the interim period there has been considerable engagement around the creation of a Social Value Act for Northern Ireland, principally by those representing the local social enterprise sector. In early 2017 it was announced that such an Act would be introduced in Northern Ireland. This originated with a Private Members Bill in the Assembly, which was then supported by the then Minister in the Department of Finance (DoF). Notably,

the DoF Procurement Board gave approval for the Bill in January 2017. However, the subsequent collapse of the Assembly effectively put this legislation into 'cold storage'. There was no reference to the Act in the 'New Decade, New Approach' paper in January 2020.

Such as Act came into effect in England in January 2013. It requires:

*"people who commission public services to think about how they can also secure wider social, economic and environmental benefits".*

According to the UK Government website:

*"Before they start the procurement process, commissioners should think about whether the services they are going to buy, or the way they are going to buy them, could secure these benefits for their area or stakeholders. The Act is a tool to help commissioners get more value for money out of procurement. It also encourages commissioners to talk to their local provider market or community to design better services, often finding new and innovative solutions to difficult problems".*

It is notable that within two years, a review had been commissioned by the Government and overseen by a senior figure, Lord Young. Whilst it is not possible to reproduce the whole report here it is a useful read to understand attitudes towards the Act. At the point of the review it was found to have a number of barriers:

1. *Awareness and take-up of the Act is a mixed picture.*
2. *Varying understanding of how to apply the Act can lead to inconsistent practice, particularly around:*
  - *knowing how to define social value and how and when to include it during the procurement process.*
  - *applying social value within a legal framework and procurement rules.*
  - *clarifying its use in pre-procurement.*
3. *Measurement of social value is not yet fully developed.*

### **Questions**

- **Should the Northern Ireland Executive proceed to introduce a Social Value Act for Northern Ireland**

- **What are the lessons to be learnt by similar Acts already in existence in other parts of the United Kingdom?**

### **The Role of Social Clauses**

Social clauses have been in existence locally for some time. They are most commonly associated with the construction sector, including via the Strategic Investment Board's Buy Social programme. However, over time a level of cynicism has grown up around these clauses and their credibility is now questioned by communities who are supposed to see practical benefits from them. On paper, these clauses are supposed to involve placements as part of awarding construction contracts. Many now doubt that there are any real benefits to these clauses and certainly there is little evidence of them providing lasting benefits for those they are designed to support, including vulnerable adults, the long-term unemployed and the economically inactive.

This forthcoming consultation will explore how social clauses may be better employed by a variety of sectors, perhaps with a focus on how they can be better linked with those sectors where there is found to be skills shortage.

### **Building Entrepreneurship in Communities**

We are keen to examine how local communities can build entrepreneurial skills and provide new opportunities for many of those regarded as disconnected from the local education and employment market. Northern Ireland has a well-developed 'community sector', although one largely built on grant funding. There is a recognition of the need for greater sustainability and the development of the social enterprise sector provides one such opportunity to build that sustainability into local communities. There are many opportunities for 'social entrepreneurs' to build businesses which can then reinvest in their local communities, primarily in the provision of employment opportunities. There are many examples across Northern Ireland of such successful enterprises, and with a new era of public funding demanding greater sustainability there is potential for further growth. New opportunities in areas such as Neighbourhood Tourism, leisure and food services etc, but we are interested in

understanding how a greater level of ambition can be achieved by applying the sector principles to product development and advanced technology opportunities.

The importance of sustainable communities should be at the heart of the social enterprise ethos. In 2015, the Northern Ireland Housing Executive developed its first Social Housing Enterprise Strategy. This strategy was developed in response to challenges faced by many local communities, in terms of social disadvantage and exclusion from the wider economy. These challenges are common to communities across Northern Ireland, irrespective of background, and this strategy was designed to provide finance and resources:

*“to invest in the development of the local social economy and in the creation of community-owned social enterprises within and for the benefit of our housing communities”.*

Reviewing this report, it is clear that NIHE feel that their engagement with the social enterprise sector has been a positive experience. We are interested in feedback on how this public sector investment has been developed and what lessons can be learned for both the wider public sector and other social entrepreneurs.

This paragraph, from the strategy’s 2020-2024 report, outlines where we the greatest strength in social enterprise exist, providing support for communities to develop their economic potential and reenergise many to become active in their communities, whilst providing an economic return:

*“The objectives of the new Social Enterprise Plus Strategy are focused on continuing to expand work related to supporting social enterprises with an emphasis on developing individuals, strengthening our communities and maximising partnership working. It is known that the longer a person is out of work the more their health and wellbeing is likely to deteriorate and the more likely they are to remain outside the world of work. It becomes increasingly more difficult for them to return. The Social Enterprise Plus Strategy will work with other government initiatives to address this downward spiral”.*

Whilst the NIHE have taken the lead in this field, it will be interesting to understand how other public sector agencies can play a more active role in this area. However, it should be on the basis on providing real added value.

The role of Local Government is another area which has a growing role in developing social enterprises within their boundaries. In Belfast, 2019 saw the close of a three-year programme called 'Go Social', which was estimated to have created 44 social enterprises and cooperatives, generated 82 new jobs and secured over half a million pounds in funding.

Other initiatives exist within the various Council areas including:

- ✓ The Ards and North Down Social Entrepreneurship Programme (ANDSEP)

*Designed to help social entrepreneurs start a business and encourage existing social enterprises to grow. Its aim is to help social enterprises create additional employment and maximise their positive impact on society. The programme offers assistance for start-up entrepreneurs and provides tailored mentoring, business planning support and advice to participating groups, helping them to successfully develop their socially-oriented business. The value of the programme is in the region of £900 and all participants are fully subsidised by Ards and North Down Borough Council.*

- ✓ Londonderry & Strabane Rural Business Investment Scheme (RBIS)

*The primary objective of the Rural Business Investment Scheme (RBIS) is to create new jobs - with funding targeted at micro, small and social enterprises engaged in non-agricultural activities. The scheme is primarily for capital grants (e.g. equipment, construction) with a small level of resource funding available (e.g. marketing, training).*

- ✓ Lisburn & Castlereagh NTERREG North West Europe Programme - Support for Social Entrepreneurs (SuNSE)

*The Council works in partnership with economic development organisations from France, Holland, Switzerland and the Republic of Ireland, and has developed an INTERREG North West Europe Social Enterprise Programme led by the Highlands & Islands Enterprise. This free programme will assist the start-up of new social economy enterprises as well as assist established social enterprises to grow and develop. This will be achieved through one-to-one*

*support, innovative idea generation workshops, best practice learning from other countries and networking opportunities.*

These are three examples of programme support for social enterprises within our local government. We are interested in learning more about how these programmes are impacting communities and how the positives can be more widely applied.

### **Questions**

- a) How can communities better engage to promote potential social entrepreneurs?**
- b) What advantages are there for community groups (for example) to pursue a social enterprise strategy?**
- c) How can skills best be developed within community settings?**
- d) What sectors have best potential for growth within Northern Ireland communities?**
- e) How can we better integrate social enterprises into wider social and economic strategies, both at local and central government level?**
- f) How can we improve social enterprise access to procurement and supply chain opportunities?**

### **Support for Social Enterprises**

The business support requirements of social enterprises should differ little from that required by any other form of enterprise of comparable sizes. The nibusinessinfo website provides a wide-ranging guide for starting and growing social enterprises. Earlier in this paper, it was noted there was no specific reference to social enterprises in the most recent draft PfG or the New Decade, New Approach Agreement. The Department for the Economy webpage on the sector notes:

*“social economy sector has been a priority for the Executive for some time and the Executive is well aware of the important and unique contribution which the sector can and does make to the local economy. This is evidenced by the Executive reaffirming its commitment to the sector by including in the Programme for Government measures to boost and grow Northern Ireland’s ‘strong entrepreneurial tradition’. One of the key priorities is to ‘Grow a Sustainable Economy*

*and Invest in the Future' and continued investment in Social Enterprise growth is an important element of this work as we seek to increase the sustainability of the social economy sector".*

The research online is somewhat dated and there will clearly be a need for an updated *assessment* to be undertaken in light of the new economic situation following the COVID-19 pandemic situation.

The key issue of support for social enterprises, like many businesses, is access to finance. Many also report it is a barrier to growth, like many others.

In the UK Lord Victor Adebawale launched a '*Commission on Social Investment*', tasked to look improvements can be made for social enterprises to access finance. The term '*responsible finance providers*' is common throughout his work. In addition, there is an interesting report from a thinktank, New Philanthropy Capital, which is primarily relevant to England, but it would be interesting how it would be applicable to Northern Ireland. The report found:

*"...in deprived areas – and in particular many of the UK's 'left behind' places – there is a dearth of charities, which are disproportionately concentrated in England's most affluent areas. According to the author, due to the benefits that charities bring to the place where they are based this exacerbates 'geographical inequality in social capital and infrastructure'. On the other hand, social enterprises are disproportionately located in more deprived areas. One in five are based in areas that fall into the most deprived quintile according to the Index of Multiple Deprivation, with a further quarter are in the second most deprived quintile. They create value in these areas which is shared with everyone, whilst also being commercially resilient. Despite this, many social enterprises across the UK state that access to appropriate finance is their biggest barrier to their growth and sustainability".*

Many within the sector in Northern Ireland don't believe that Social Impact Bonds are a real benefit to the sector in NI. The concept has never really been understood in an NI economy which over the years has been slow in the uptake of other innovative measures such as Peer to Peer Lending and Crowdfunding. In England, Social Enterprise UK has been critical of its use and benefit. They appear complicated and many are suspicious of who really benefits from them. They also tend to be costly and due to this will rule out a lot of smaller organisations from getting involved. As such,

size is also important as in order to make it worthwhile, the need to be significant volume, something which Northern Ireland is not set up for.

Banks have highlighted the issue of recapitalisation, and there is a question whether this applies to social enterprises? Due to the size of most of the social enterprises in Northern Ireland and also the limited number that have taken on debt. Any borrowing has mainly been under the beneficial government loan schemes and will be repaid, having availed of the low-cost terms.

How is a 'responsible finance provider' defined? In the aforementioned report, it is defined as a lender who:

*"offers finance and support to social enterprises...which employ those who are disadvantaged, champion environmental sustainability, and reinvest their profits to deliver their mission. As social enterprises themselves, responsible finance providers understand their needs and can therefore tailor their products and services accordingly. They assess loan applications based on the social impact that the enterprise will create, offering finance to start-up and grow socially and environmentally impactful businesses".*

This will be a key part of the consultation process for this paper and we will explore in depth the current opportunities in Northern Ireland, as well as future needs.

### **Questions**

- a) What is the current attitude of lenders towards the social enterprise sector?**
- b) Is there sufficient capacity in the local 'responsible lending' sector?**
- c) Is there scope for the development of innovative financing such as Angel-style networks?**
- d) What is the current and project future situation with regards to the finance and the social enterprise sector?**
- e) What structural changes could benefit social enterprises in terms of being able to access finance?**
- f) How well do social enterprises access the various forms of business support available?**

- g) How accessible are start-up programmes for the sector?**
- h) What areas of support need strengthened/expanded, which will help the sector grow?**

## **International Examples**

There is clearly a vibrant global social enterprise sector, with almost every country examined having a dynamic sector, working closely with partners in the private and public sectors.

With it having the largest economy in Europe and its reputation for industry and innovation, Germany was examined to determine if the social economy played a part. In 2018, *Social Enterprises and their Ecosystems in Europe* was published. There was evidence of a strong sector, collaborating with the country's biggest corporation and both regional and national governments. Some of the statistics in the report demonstrate the strength and innovative nature of the sector:

- ✓ Collaboration with non-profit organisations (42%), and other social enterprises (35%)
- ✓ almost half of the German social enterprises surveyed collaborate with corporations (40%).
- ✓ They also collaborate with government. However, Germany was the only country in which the collaboration with the national government (21% of social enterprises) was more important than collaboration with local and regional government.
- ✓ The collaborative attitude towards other social organisations is a defining feature of German social enterprises: they scored the lowest (alongside Spanish ones) on competitive aggressiveness.
- ✓ 88% of the German social enterprises in the survey created a new product, service or process in 2014. Only social enterprises in Sweden (99%) and China (97%) scored higher.

- ✓ 23% of the surveyed German social enterprises collaborated as part of their innovation processes, most of them with individuals (55%), followed by non-profit organisations (29%) and businesses (27%).
- ✓ German social enterprises focus primarily on community development, employment and training (25%), education and research (22%), and health care (15%).
- ✓ The main sources of funding for German social enterprises were fees and sales on the market or to governments (43%), grants (29%) and donations (10,5%).
- ✓ 55% of the German social enterprises in the survey were run by male CEOs. Sixty-eight percent of the CEOs of German social enterprises were over 40 years old, and 60% of them have a Master's degree.

It is unsurprising that the business culture of social entrepreneurs is similar to that of other entrepreneurs in Germany, given its focus on collaboration and innovation. This reinforces the belief that the business principles are essentially the same, it is the desired outcomes which may diverge.

Another example studied was the United States of America, known for its highly entrepreneurial attitude but also major social challenges. You get the feeling from studying its literature that social entrepreneurship is more disparate in the USA, with a much greater sense of localism (perhaps inevitable given the scale and diversity of the nation). The Social Enterprise Alliance notes that until its founding, the sector was:

*"...social enterprise was a burgeoning field with little attention, structure, influence or connection"*

In order a lot of good ideas but with direct direction. It is interesting that the Alliance notes a long history of social enterprise activities in the USA, referring to:

*"goodwill industries who pioneered the concept a hand up rather than a hand out".*

This remains true today but it also recognises that the sector has a long way to grow. The common factor in all these environments is a desire to improve and strengthen conditions for communities, especially those who are most disconnected from education and employment opportunities.

## Summary

We find there is a vibrant social enterprise sector in Northern Ireland but one that faces the same problems as businesses from other backgrounds. It is too early to tell the impact from the COVID-19 pandemic situation, and while there will inevitably be business failures as a result, whether there will also be longer term opportunities. It is important to state that having examined examples of the sector in other parts of the world, it does not lag behind in any real sense locally or have any lessons to learn from international examples. This may be partly due to a generally strong community infrastructure in Northern Ireland from which many social enterprises have developed and a favourable environment towards economic activity with strong community links.

In this paper the focus has been on two areas – access to finance and building social entrepreneurship in communities. These have been identified as key areas for social enterprises in Northern Ireland, and whilst many other issues exist, they can be described as those faced by any form of business, micro-to-large, in today's competitive environment. Therefore, for the purpose of the final consultation paper we will focus on the two areas above.

Please send responses to:

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If you wish to meet and discuss further the consultation paper email the address above.