

DEVELOPMENT MARKETPLACE

10 Policy Tools that Governments Are Implementing to Spur Social Enterprise

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Governments around the world are recognizing the potential of Social Enterprises (SEs) in order to build more inclusive social and economic agendas. For instance, the Government of the United Kingdom is praising innovative solutions of social enterprises as a vehicle to close the gap on the provision of public services, such as education and health. Other countries like the United States and Italy are seeing in SEs the opportunity to improve the quality, affordability, and equity of service provision, and Chile, South Korea, Canada, and Poland envision SEs as a way to increase social cohesion and derivate economic benefits for their nations.

This does not seem to be a surprise, considering that SEs are demonstrating that they can generate sizeable national-level returns. The sector as a whole is becoming an important contributor to gross domestic product, like in South Korea where, according to the British Council, the contributions of the sector accounts for 3% of the GDP.

It is also outperforming profit-driven small-sized enterprises on a number of indicators in the UK. The Social Enterprise UK Survey reports that 41% of SEs created jobs in the past 12 months compared to 22% of small-sized enterprises. Furthermore, in the United States, SEs are proving to have a high economic rate of return, especially over the long term. The report on Economic Self-Sufficiency and Life Stability shows that one year after starting a social enterprise job in the US, the return of investment of social enterprises include an economic multiplier of 2.23 and savings for US taxpayers of \$1.31 for every dollar invested in SE due to reductions in government transfer benefits.

Finally, SEs are also proving to reduce inequalities by providing stable employment to those typically excluded from the labor market. In Manitoba, Canada, the sector contributed more than \$200 million each year in saved cost associated with unemployment.

In the face of these opportunities, how are policies evolving to support social enterprises?

Countries with a more mature policy framework recognize the role of SEs in the long term vision of the country. For example, the UK included SEs in the National Plan of Government 2010-2015. Laws have been put in place in some countries, like the Edward M. Kennedy Serve America Act in the US (enacted in 2009), or the Social Enterprise Promotion Act of South Korea (enacted in 2007). Moreover, specific institutions, like Social Enterprise UK or the Korea Social Enterprise Promotion Agency, have been created to support SEs.

In addition, they are implementing different policy tools that are nurturing the social enterprise ecosystem. Here is a list of 10 policy tools identified after mapping the policy frameworks of 14 countries, including UK, USA, Canada, Chile, Colombia, Thailand, India, South Korea, Kenya, and South Africa. The policy tools correspond to those countries where the social enterprise policy frameworks were at a growing or mature stage.

Policy tools used by governments to spur social entrepreneurship

- 1. Legal forms.** Different countries have enacted laws that recognize new legal form for SE. For example, the Community Interest Company in the UK, Social Enterprise in South Korea, Social Cooperatives and Social EX Ledge in Italy or the Benefit Corporation in the US. By legally recognizing SE, this opens the doors to formulating policies that support them.
- 2. Fiscal Incentives.** The UK is implementing the Social Investment Tax Relief to benefit those who invest in social enterprises by giving a reduction of 30% of the investment in income tax bill for that year.
- 3. Public Procurement Systems.** Used by governments to demand and consume from social enterprises. The Social Value Act enacted in 2012 in the UK is a good example of how a government can open up opportunities for SEs to deliver public services.
- 4. Grants.** Used to strengthen the ability or capacity of actors in innovation ecosystems to generate knowledge and produce innovation. The Social Innovation Fund and Investing in Innovation Fund of the Department of Education in the US, as well as the Big Lottery Fund in the UK are undertaking such initiatives.
- 5. Public Venture Capital Funds.** They look to achieve attractive, risk-adjusted returns through long-term capital appreciation of investments made in investee companies. For example, the Maharashtra State Social Venture Fund in India, which aims at generating superior returns by investing in start-ups, early and growth stage capital primarily in medium-sized enterprises that would add economic, social or environmental value to the State of Maharashtra.
- 6. Guarantee Funds.** These facilitate the access to finance when social enterprises stimulate sound credit transactions. For example, KODIT in South Korea or the II Guarantee Fund for Social Cooperatives in Italy extend credit guarantees for the liabilities of promising social enterprises which lack tangible collateral.
- 7. Social Impact Bonds.** These are financial mechanisms through which investors pay for a set of interventions to improve social outcomes that are of critical interest to the government. The model combines government initiation, private investment and implementation of a third actor that can be a non-profit organization or a social enterprise. Social Finance in the UK is an example.
- 8. Awareness Campaigns.** To help identify, engage and promote social innovators, entrepreneurs, and scientists that are contributing to solving social problems. Some examples are the Thai Social Enterprise Awards in Thailand, the Community Solutions Tour in the US, the Amplify Awards in Malaysia, and the Social Value Awards in the UK.
- 9. Incubation and Acceleration.** Some governments are engaging or financing directly the incubation and acceleration of Social Enterprises. For instance, the Social Incubator Fund in the UK, and the Seoul Creative Lab in South Korea.
- 10. Training and Capacity Building.** Through mentorship programs, social entrepreneurs are developing the commercial and social skills needed to develop their ventures. Some examples include the Young Social Entrepreneur Program in South Korea and Egypt, or the Malaysia Social Enterprise

Track.

While many of these policies and reforms are too recent to fully assess their impact, some countries with a longer history of social enterprise policies, such as the UK, have conducted studies on individual policy instruments, and SE surveys that shed light on broader patterns of the evolution of the sector. The National Evaluation of the Social Enterprise Investment Fund in the UK is one of these cases. However, at the global level, there is a lack of comprehensive and comparable data sources. The challenge for governments implementing these sets of policy tools is to gather information, monitor, and evaluate their results and impact. The Social Enterprise team, within the World Bank Group's Trade & Competitiveness Global Practice, is working on a forthcoming paper with more detailed information.

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