

Date: 31 October 2002
Time: 09:00 to 12:30
Venue: Committee Room 1, National Assembly, Cardiff Bay
Title : **THE BUSINESS SUPPORT NEEDS OF SOCIAL ECONOMY ENTERPRISES - FIRST REPORT OF THE SOCIAL ECONOMY SUPPORT TASK & FINISH GROUP**

Introduction

1 On 28 November, the First Minister announced that a Task & Finish Group would be set up to consider whether setting up an Community Development Financial Institution (CDFI) to take advantage of the forthcoming Community Investment Tax Credit (CITC) could also have a role in providing business as well as financial support for enterprises in the social economy. The Group's full terms of reference and membership are set out in Annex 1.

2 The Group's approach to its terms of reference has been to consider the questions of:

- whether an all-Wales CDFI should be set up; and
- how the business support needs of social economy enterprises may be met;

as two separate issues. The Group will therefore be presenting two reports, of which this is the first.

Summary

3 This report:

- recommends that appropriate research is conducted on the business support needs of social economy enterprises;
- provides a draft specification of the research; and
- suggests the formation of a differently constructed Task & Finish Group to take forward the results of the research.

Business support needs of social economy enterprises

4 In approaching the issue of business support, the Group has taken the view that social enterprises have business support needs that are very similar to those experienced by any SME, but that there are, in addition, support needs that are unique to the sector. These unique needs arise partly because social enterprises generally have more democratic ownership and

management structures and issues of governance arise, which are unique to the sector. The history of the development of many social economy enterprises may also dictate a need for specialised forms of support, particularly among those enterprises trying to move away from grant dependency into a more self-sustaining mode of operation. Finally, enterprises having social objectives may also require advice on maximising the effectiveness of their social impact.

Review of existing and proposed research in the field

5 The Group has taken note of the findings of research conducted in England and Wales on behalf of the Small Business Service (SBS), by Middlesex University Business School. A summary is at Annex 2. This research underlined the point that there were many forms of support offered by a variety of organisations but little co-ordination, and that there were barriers that worked to prevent social enterprises from accessing conventional business support. However, the Group considers that this research does not go far enough to describe the business support needs of social enterprises, nor the extent to which those needs are being met. The Group has therefore taken the view that there is a need for firm evidence on this issue, focussing clearly on Wales. Without this evidence, it is difficult for the Group to make clear recommendations on the framework within which business support needs may best be addressed.

6 The Group is also aware that the Social Economy Network (SEN) has also proposed research into the social economy in Wales. The intention of the SEN research, is to map the social economy in Wales, to estimate the value of its contribution to the economy generally, to set out examples of good practice in this area and to devise a marketing strategy to raise the sector's profile. A statement of the objectives of this research is set out in Annex 3.

Recommendations

7 The Group is satisfied that the proposed SEN research will not address the need for evidence on business support needs that it has identified and therefore **recommends that the Assembly Government commissions appropriate research** in this field. Following this research, the Group **recommends that further policy development should take place, perhaps involving the creation of a differently constructed Task & Finish Group.**

8 A specification for the research has been drawn up by a working party within the Group and agreed by the whole Group. The research is intended to provide:

- an assessment of both types of identified business support needs of social economy enterprises;
- identification of those needs which are common to all small and medium sized businesses;
- identification of those needs which are unique to social economy businesses;

- an assessment of the extent of current business support that meets the identified needs together with identification of gaps;
- identification of the barriers to accessing support;
- recommendations for providing a strategic framework for comprehensive business support necessary to enable the sector to flourish. The framework is to contain recommendations reflecting existing social economy activity as well as "mainstream" business support developments, including the possible creation of an all Wales CDFI, Finance Wales and the WDA reform of business support activity in Wales.

9 The full specification is at Annex 4. In drawing up the specification, care has been taken to ensure that it does not overlap with the SEN research project.

Social Economy Task & Finish Group March 2002

Annex 1

Community Investment Authority / Community Development Financial Institution

Background

The Liberal Democrat / Labour partnership agreement includes a pledge that the administration will create a Community Investment Authority.

Many of the original reasons for the creation of such an authority have been fulfilled, though the specific need to provide greater co-ordination and support to the Social Economy/ Community Enterprise sector, remains an issue which the administration is keen to explore.

The re-assessment of the need for a CIA coincides with the need for Wales to develop a vehicle through which social enterprises can benefit from the proposed Community Investment Tax Credit, probably through the formation of a Community Development Financial Institution.

Terms of reference

The First Minister has agreed to the formation of a task and finish group which could look at these issues. It will be necessary for the task and finish group to:

- Examine options for establishing a Community Development Financial Institution (including legal structure) in order to exploit Community Investment Tax Credits; and

- Explore the potential relationship between the proposed CDFI and with Finance Wales' Community Loan Fund;
- Consider existing mechanisms for supporting the growth and development of social enterprise and make recommendations for improving these
- To consider the most appropriate organisational arrangements for delivering support to the social economy and maintaining relationship between the proposed CDFI and the National Assembly

The Task and Finish Group will be expected to report to the First Minister with specific recommendations by February.

Membership

Ian Hargreaves	Member of Social Investment Taskforce
Simon Gibson	Venture Capitalist, Member of WDA board
Ian Taylor	Industrial Common Ownership Fund
Simon Jones	Chief Executive of Wales Co-op Centre
Sue Price	Groundwork Trust
Meurig Royles	North Wales Economic Forum
Colin Mitten	Finance Wales
Mike Davies	Finance Wales
Norma Barry	Communities Directorate, National Assembly
Allan Moss	Economic Development Department, National Assembly
Nick Bennett	Special Adviser

Annex 2

RESEARCH CONDUCTED FOR THE SMALL BUSINESS SERVICE BY MIDDLESEX UNIVERSITY BUSINESS SCHOOL

EXECUTIVE SUMMARY

Aims

This is a policy orientated scoping study with the following specific aims:

- To describe and review the different types of social enterprise
- To identify available evidence on the various contributions made by social enterprises
- To provide an overview of the main sponsors of social enterprises
- To review efforts by enterprise agencies, Business Links and others to assist social enterprises
- To examine the extent to which social enterprises are distinct from the general business population, including looking at the main issues currently facing them
- To make recommendations concerning future research on social enterprises, especially where the SBS can play a supporting role.

Methodology

The research methodology comprised the following elements:

- A review of existing literature and other source material.
- Case studies of 20 social enterprises, using a combination of face-to-face and interview methods, selected to reflect the variety of different types of social enterprise
- Contact with all Business Links by letter and telephone to identify the extent of local business support provision for social enterprises.
- Interviews with a number of key informants, such as advisers and representatives of agencies dealing with social enterprises

Characteristics and Types of Social Enterprise

- Although there is no universally accepted definition of social enterprise, their key distinguishing features are their social aims and social ownership, combined with trading viability
- The SBS definition of social enterprise as "competitive businesses, owned and trading for a social purpose" include community businesses and worker co-operatives (amongst others), whilst excluding LETs schemes and all forms of financial services, except credit unions. However, the diversity and heterogeneity that exists within the social enterprise and 'not-for-profits' sector is part of the challenge for the SBS.
- The difference between the motives of social and private sector entrepreneurs is an important starting point from which many of the behavioural differences stem, that has

implications for support needs and how they can be effectively addressed.

- There is evidence of clustering of social enterprises, often based on links with particular support agencies as well as with each other that sometimes include common roots.
- The locality focus that is typical of social enterprises is the thread that connects them to 'disadvantaged neighbourhoods'.

The Contribution of Social Enterprise

- The contributions of social enterprises to local economic development include providing goods and services which the market or public sector is unwilling or unable to provide, developing skills, creating employment (focusing particularly on the needs of socially excluded people), creating and managing workspace, providing low cost personal loans and enhancing civic involvement through the number of volunteers involved. The wider social contribution can also include encouraging environmentally friendly practices and offering work and educational experience to young people.
- Whilst the precise nature of the contribution varies between different types of social enterprise, a key underlying theme is the social capital they generate and their contribution to developing an infrastructure for social entrepreneurship
- The low level of formal social auditing by enterprises themselves, revealed in the case studies is a concern, if social enterprises are to publicly demonstrate their worth and attract appropriate resources.

Sponsors of Social Enterprises

- The activities of social enterprises are financed by a combination of earned income from the sale of goods and services (market resources), government subsidies and private donations (non-market resources) and voluntary work (non-monetary resources).
- Although the details vary between types of social enterprise, specific sources of finance include member's equity, bank loans, tax credits, as well as a range of targeted public sector funds, such as Social Investment Funds, various grant bodies, Community Development Venture Funds, SRB and Structural Funds.
- In the absence of a strategic framework, the multiplicity of external funding sources creates an impression of support being ad hoc and lacking in focus.
- Although not a sponsor itself, the SBS can potentially add value to existing sponsorship of social enterprises by helping to increase the competitiveness of certain types of social

enterprise, in partnership with others.

Social Enterprise Case Studies

- The 20 case study social enterprises included worker co-operatives, other types of co-operative, community businesses, community development trusts, credit unions and social firms, drawn from 4 English regions and Wales.
- Key characteristics included a niche focus, based either on the type of product/service offered or on the type of customer served (i.e. involved in the 3rd sector themselves) and a resilience based on a willingness by worker-members to make short term sacrifices to absorb losses.
- More than half the case study enterprises secured soft loans and/or some form of grant in their early years, typically from specialist support institutions. Although several had obtained start-up loans from commercial banks, more typically a combination of status and collateral issues had restricted access to finance from this source.
- A variety of types of network link were identified in case study enterprises that were particularly focused on 'third sector' intermediary organisations. Indeed, most social enterprises are involved in supporting other social enterprises through their involvement in some form of networking activities.
- Some of the support needs of case study enterprises are shared with small private sector firms e.g. marketing, IT, business planning, help in raising finance but they also face issues that reflect their distinctive characteristics. The latter include decision-making issues that focus on balancing consultative decision-making with effective management, workforce-related issues (particularly in a co-operative context) and finance-related issues, particularly those concerned with alternative sources of finance.
- Few of the case study enterprises had experience of accessing support from mainstream agencies, such as Business Link. More commonly, external support had been accessed through some combination of informal sources and specialist agencies, especially during start-up in the early stages. At the same time, specialist organisations (e.g. ICOM, local CSOs) were more commonly used as sources of legal, constitutional or procedural expertise than for business support or development issues.
- The low take up of mainstream business support was not because of a lack of awareness but rather a perceived lack of fit between the support needs of case study firms and what is offered by mainstream agencies. Reported examples include a lack of appreciation of the social enterprise ethos, a failure to understand the role of volunteers, a lack of recognition of the need to balance trading and grant supported activities, low

priority given to social enterprises by Business Links compared with private sector enterprises.

Business Links and Social Enterprises

A survey of Business Links that resulted in 53 responses covering 61 of the 'old' (i.e. pre-April 2001) Business Link areas revealed that:

- Only 25% of surveyed Business Links claimed to have a specific policy towards social enterprise, or were in the process of developing one. A similar proportion claimed to have some form of information about social enterprises in their catchment area, although only 9% had a social enterprise database.
- Less than half the Business Links surveyed considered that social enterprises have distinctive support needs. Those that did referred to legal issues and distinctive financial needs. Others referred to a lack of ability to pay for support services.
- The minority of Business Links that had experience of providing support to social enterprises referred to working with community development organisations housing associations and the new Knowledge Centre of Business Link London.
- Four out of five surveyed Business Links referred to other organisations in their area that are concerned with delivering support to social enterprises

The Existing Support Structures for Social Enterprise

- Support for social enterprises has hitherto been provided by a combination of specialist national agencies (e.g. Community Business Network) and regional and local bodies, including some regional development agencies and local authorities
- Whilst many informants had doubts about the suitability of Business Link as providers of business support to social enterprises, it was also recognised that the existing specialist support for social enterprises is fragmented and variable in quality, which is one of the reasons why the SBS has social enterprises as part of its remit.
- There was a consensus among key informants that were interviewed concerning the need to secure professional customized support from support agencies, involving individuals who are both experienced in providing support for social enterprise and familiar with the needs of the sector as a whole and all or some of the sub-types that comprise it.
- Not surprisingly perhaps, some of the reported barriers to the take-up of support

services by social enterprises from Business Link are similar to those experienced by small private firms.

- The minority of case study enterprises that had used the services of a Business Link were critical of what had been received, because of the perceived quality of the advice that had been offered and/or their assessment of its impact or value to their enterprise
- One of the key themes emerging from the research is the need for a focus on local and/or regionally specific frameworks of support for the development of the social economy and social enterprises.

Issues Facing Social Enterprises and their Support Needs

- Some of the issues and support needs faced by social enterprises are shared with private sector firms of similar size and sector characteristics, such as in marketing, financial management and the use of ICT, whilst others are affected by the distinctive characteristics of this type of enterprise.
- Social enterprises also have support needs that are distinctive from small privately owned firms, associated with their ownership and decision making structures.
- Social enterprises face all the regulatory issues that affect other small firms (e.g. working time, minimum wage legislation), as well as additional ones that are associated with their status, such as legal issues associated with specific forms of incorporation.
- **At the level of the sector as a whole, there is a need to increase public awareness of the existence of social enterprises and the services and benefits which they can provide to clients, to achieve better understanding by public bodies and banks of what social enterprises are about, to improve networking between support organisations, to expand the number of specially trained advisers and to improve access to finance, both for start-up and for subsequent development. There is also a need for more purpose built premises and workspace to house social enterprises, which are often forced into secondary locations in order to find affordable premises.**

Implications for Policy

- There is a need for a strategic approach to supporting social enterprise, which recognises differences between types of social enterprise, the need for partnership in delivery, the role of the local dimension. In this context, the role of the SBS is to facilitate and seek to enhance the existing support structures rather than seeking to replace them.

- The low level of knowledge and experience of social enterprises that exists within the SBS currently makes it essential that the SBS (at different levels) works with organisations that already have experience in this area
- Franchises or contracts let out for business support by the SBS to Business Links require agreed performance targets for the delivery of services to social enterprises, that are sensitive to the needs of social enterprises and the problems of achieving these in disadvantaged areas. The targets and indicators of progress towards them need to be monitored and evaluated.
- There is a need for systematic evaluation of existing support initiatives and approaches, with a view to disseminating and promoting good practice.
- Priority should be given to allocating resources to enable mapping exercises to be undertaken at the local level from, which Business Link and its partners can identify an initial target group with which to work.
- The main role of the SBS initially is to enable those social enterprises that desire it to access the professional business management advice and skills of the Business Link network, accessed either directly or through social enterprise networks that are locally or regionally based
- All Business Links should have a policy with respect to social enterprise, regardless of their location. The priority for Business Links in this regard is to recognise that social enterprises are now part of their target group and to consider firstly how best their business support needs may be effectively addressed and secondly the mechanisms for addressing these.
- There is a need for further research to investigate the social and economic impact of social enterprises on local economies, compared with other types of enterprise. There is a particular need to investigate the implications of the work being carried by other government departments charged with a responsibility to social enterprise development in disadvantaged neighbourhoods for the role of the SBS and Business Links in this field.

Annex 3

SOCIAL ECONOMY NETWORK (SEN) – PROPOSED RESEARCH

The following details have been extracted from the SEN's proposal to WEFO for Structural Funds support for research on the social economy.

3.0 REQUIREMENTS OF THE BRIEF

The Consultant will be required to undertake the following elements of work in order to meet with the clients' requirements:

1. Undertake a thorough mapping exercise of the social economy sector.

Specifically this should be approached as follows:-

- a. Through each partner organisation initially, pull together a comprehensive database of social economy organisations in Wales. This should include name, address, main activity, turnover, asset value, numbers of employees and numbers of members/volunteers.
- b. Once drafted, gaps should be filled through further external mapping from other organisations that may have access to such information eg Local Authorities, Welsh Development Agency, Wales Council for Voluntary Action, Elwa, Universities and Colleges of Higher and Further Education etc.
- c. Complete the initial databases by April-May 2002 and establish maintenance systems.

The database will be expected to include: co-ops, credit unions, community businesses, development trusts, trading voluntary organisations, Leader Groups and any other social entrepreneurs/enterprise in line with SEN's definition of the social economy given in Partner Overview Document.

2. Undertake an assessment of current social economy joint working arrangements and investigate potential "Social Economy Network" development activities:

- g. Recommend joint-working arrangements, which would allow members to be pro-active in implementing new and innovative ways of working.
- h. identify examples of best practice elsewhere and inform the partners of any gaps in provision (especially within existing government programmes such as EAP).

3. Disseminate the information received and develop:

- i. A marketing plan for SEN partners to approve
- j. Written case studies of a cross section of social economy businesses in Wales and beyond.
- k. From the emerging database develop information into a report on matters such as size of sector in terms of employees, members, turnover and asset value.

4. Contribute to the preparation of a social economy conference for Wales in June 2002.
5. Contribute to the development of a social economy web site with the relevant links to partner organisation own web sites.

4.0 OBJECTIVES

The objectives of this project are:

- To highlight the contribution the social economy makes to economic, social, environmental and cultural development in Wales. This will be used to inform the WDA, the National Assembly and the WLGA.
- To develop the capacity of the social economy and in so doing, enable it to take advantage of increasing opportunities and continue to contribute to national GDP growth.
- To analyse the links with other government programmes such as New Deal, intermediate Labour Markets and links with other priorities, local and regional objective 1 programmes.
- To ensure findings can be applied to the Priority 3 Objective 1 areas and the List 1 and List 2 wards and that marketing and dissemination is targeted specifically in these areas.

Annex 4

SPECIFICATION FOR RESEARCH PROJECT ON BUSINESS SUPPORT NEEDS OF SOCIAL ECONOMY ENTERPRISES

1. Background

The Welsh Assembly Government wishes to commission research to establish the business support needs of social economy enterprises; the extent of provision; the gaps; and barriers to accessing support.

For the purpose of this research social economy enterprises are defined as having an:

- Enterprise orientation – they are directly involved in producing goods or providing services to a market and seek to be viable trading concerns, making an operating surplus.

They should have both or one of the following:

- Social Aims – explicit social aims such as job creation, training or the provision of local services; ethical values including a commitment to local capacity building and are accountable to their members and the wider community for their social, environmental and economic impact; and/or
- Social Ownership – autonomy with governance and ownership structures based on participation by stakeholder groups (employees, users or clients, and local community groups etc) or by trustees - profits are distributed as profit sharing to stakeholders or used for the benefit of the community.

The Assembly believes that the support needs of social economy enterprises fall into two broad categories; those similar to the needs of any SME, and those which are unique and arise because of the specific nature of social economy enterprises.

Social economy enterprises include a wide spectrum of different organisations such as:

Co-operatives: These are businesses in which ownership is distributed amongst the members. This includes consumer co-operatives, where the owners are the consumers or purchasers of the products, workers co-operatives (which can also be called employee-owned businesses) where the business is owned and controlled by the people who work in them, or secondary co-operatives, where individual businesses collectively form a business to promote their mutual interests (for example, farmers marketing co-operatives).

Community Businesses: These are businesses which exist to meet a particular social or community need, for example, a community-run shop or pub in an area where the private sector will no longer invest. Membership is usually open to anyone living within the community which the business serves.

Credit Unions: These are co-operatives which provide financial services to members, who may both save in and borrow from them. Although there are more than 800 Credit Unions in the UK, the Credit Union movement in the UK is relatively under-developed compared to countries such as Ireland and indeed the United States, where they are a widely-recognised and generally-available alternative to banks.

Social Businesses: These are businesses which are generally trading arms of established charities or NGOs, for example Oxfam Trading or Traidcraft. They may be managed in a fairly conventional way, but their profits are applied to charitable or social goals.

Social Firms and Intermediate Labour Market Companies: These are businesses whose principal goal is to provide employment opportunities for disadvantaged individuals and

groups. Social Firms are businesses which are created to employ people with a disability, while intermediate labour market companies provide temporary employment opportunities for those who have found it impossible to find conventional employment, as a way of increasing their skills and attractiveness to employers in the open labour market.

Development Trusts: These are community-based organisations which seek to support physical, social and economic regeneration of the deprived communities in which they operate on the basis of financial independence, deriving, for example from the ownership of assets such as community centres, workspace etc.

2. Requirements

The Assembly Government requires:

- an assessment of both types of identified business support needs of social economy enterprises;
- identification of those needs which are common to all small and medium sized businesses;
- identification of those needs which are unique to social economy businesses;
- an assessment of the extent of current business support that meets the identified needs together with identification of gaps;
- identification of the barriers to accessing support;
- recommendations for providing a strategic framework for comprehensive business support necessary to enable the sector to flourish. The framework must contain recommendations reflecting existing social economy activity as well as "mainstream" business support developments, including the possible creation of an all Wales CDFI, Finance Wales and the WDA reform of business support activity in Wales.

The findings will be expected to be presented in report format in hard copy and on disc in Word 97 format (or compatible with it). Hard copies will need to be provided in both English and Welsh (3 of English and 1 in Welsh).

3. Methodology

The contractor will be expected to survey a representative sample of a wide range of businesses within the social economy in order to assess their needs and the barriers to accessing support to assist in their development.

The contractor will also be expected to conduct a survey of the relevant organisations providing support in Wales in order to establish the types of support they provide and the types of organisations to which they provide it. It should be possible to identify from the part of the report drawing on this survey which organisations do what.

The contractor will need to have regard to the work being carried out by the Welsh Development Agency in response to the Assembly's Review of Business Support and Development Services in Wales and the recommendations arising from it (eg., clarifying access to business support, better co-ordination of publicly funded business support services, elimination of duplication etc), as well as existing research undertaken on behalf of the Small Business Service in England and Wales and plans to create an all Wales CDFI "Community Investment Wales" in the near future.

4. Contract Award Criteria

1. Value for Money
2. Relevant Experience
3. Ability to meet agreed timetable
4. Ability to provide report in English and Welsh

Tenderers will be required to undertake a presentation and interview as part of the exercise.

5. National Assembly for Wales' Welsh Language Scheme Requirements

It is the Assembly Government's opinion that the National Assembly for Wales's Welsh Language Scheme will apply in relation to the contract. The successful contractor will therefore need to ensure that the goods/services to be provided through this contract are compliant with the scheme. A copy of the scheme is enclosed for your information.

6. Timetable of Events

Responses to invitation to tender To be received by ?

Interview process To be completed by ?

(Key staff to be assigned to the project should be available for interview process)

Contract Award By ?

Contract Commencement ?

Receipt of full report ? [three/four months after start]

Welsh copy to be received ?

7. Monitoring

Clients Contact Point

The Contract managers will be Mr Allan Moss and Mr Terry Harper (Economic Policy Division 3). They will be the point of contact for the contractor during the course of the contract. They may elect to meet a named representative of the contractor as and when necessary to discuss any issues which may have arisen during the provision of the service.

Contractor's Personnel

Tenderers should provide the names of personnel to be assigned to the contract, their status in the organisation and details of their previous experience of dealing with contracts of a similar nature. Curriculum Vitae should be provided. Tenderers should also give details of a nominated contact point.

In the event of non-compliance with the Specification, the following procedure will be followed:

- notification of complaint and requirement to comply
- notification of unacceptable practices
- recourse to the conditions of contract.

8. Payment

Payment will be made on acceptance of 3 copies of a satisfactory report in English and 1 copy of the report in and within 30 days of receipt of a correctly submitted invoice.

Tenderers must provide details of their bid on the attached price schedule.

9. Changes to the Specification

This specification document sets out the Assembly Government's current service requirement. It is possible that during the life of the contract some of the elements of specification may change.

Changes to the Specification will be implemented by issuing written amendments to all those affected by the changes.

10. Conditions of Contract for Consultancy Services

The Conditions of Contract for Services hereafter specified should apply in relation to the contract. The Contractor must have regard to these Conditions.

11. Security Questionnaire

If the successful contractor requires for its personnel, frequent and uncontrolled access to the premises of the National Assembly for Wales, or where such personnel have access to restricted information, or proximity to public figures, then all such personnel must satisfy the security requirements of the Client by completing a security questionnaire. No contractor personnel will be issued security passes until they have obtained the required security clearance. Until then, they will be issued with a temporary pass and will have to be escorted by a member of the staff each and every time they have access to the premises.