



## **Irish Local Development Network**

**Supporting the Social Enterprise Sector in Ireland**

**Submission to Minister Ann Phelan  
Minister for Rural Economic Development**

**April 2015**

## **Background**

The former Minister of State for Research and Innovation, Seán Sherlock TD, was tasked by the Taoiseach with leading efforts across Government to develop the social enterprise (SE) sector, following the publication of a Forfás report showing that the sector has the capacity to double employment with the creation of an additional 25,000 jobs by 2020.

An Inter-Departmental Group was established in 2013 to determine how the recommendations in the Forfás report could best be delivered and the development of the sector supported. The Department of Environment, Community and Local Government was providing support to the group.

Since Minister Sherlock was transferred to the Department of Foreign Affairs there is concern that if the Social Enterprise Sector is not specifically attached to a Ministerial brief, then the potential of this sector, in terms of job creation and service delivery, will be jeopardised.

The Irish Local Development Network is of the opinion that the Social Economy Sector is an ideal fit for the Minister for Rural Development's brief, particularly when the same Minister has responsibility for the Rural Development Programme 2014-2020 and the Social Inclusion and Community Activation Programme. Both of these Programmes will have the ability to provide basic supports to this sector, but not the core supports that are required to unlock the potential of the Social Economy Sector. However there is an obvious synergy between all of these Programmes and sectors with their added benefits of both an urban and rural focus in responding to community needs.

Equally as important is the potential of the Social Enterprise Sector to achieve many of the recommendations and objectives of the Commission for Economic Development of Rural Areas (CEDRA) report. Many intrinsic services have been withdrawn from rural communities but can be replaced by initiatives in the Social Enterprise Sector, if the correct supports were in place.

Local Development Companies have a presence in every city, town and village in Ireland. We practice the theory of community-led local development and therefore we are in touch with the many and varied challenges facing our communities on a daily basis. These communities have numerous innovative ideas, which if only encouraged and facilitated, could reap huge dividends for Government in terms of service delivery and more importantly, creation of employment. In many cases Social Enterprises facilitate employment of many individuals whose competencies and skills are not suited to commercial enterprises.

### **Irish Local Development Network (ILDN)**

The Irish Local Development Network (ILDN) is the representative body of Local Development Companies (LDCs) in Ireland. Our mission is to promote and support the work of our members in the areas of social inclusion, local, community and rural development.

Our membership currently stands at 50 companies with members delivering the Social Inclusion and Community Activation Programme (SICAP), the Tús Programme, the LEADER Rural Development Programme and the Rural Social Scheme.

While these programmes are the core programmes delivered by our members, there are a range of other initiatives at national and European level that companies leverage funding from to support and enhance the development of their communities through enterprise, training, activation, educational and community supports.

### **Local Development Companies**

Irish Local Development Companies (LDCs) have been evolving since their inception in 1991 and have developed their skills and capacities to deliver the most relevant, focused and innovative Local Development Strategies across Ireland. LDCs exist in all parts of rural Ireland as well as in urban areas. The Irish LEADER Approach to development is recognised by many as a template for how 'LEADER' should be delivered. It embraces each of the core principles of the LEADER Approach providing a platform of local rural and urban development that is based on the energy, vision and capacity of communities to achieve their vision, meet their needs and create employment.

Local Development Companies have embraced their purpose by bringing together the most appropriate professional skilled teams of animators and administrators to meet local needs, adding value to investments through networking and collaboration and a 'culture' of creativity.

It is our intention through this report to highlight the needs of the social enterprise sector and the opportunities that exist for their growth across the country. Local Development Companies are ideally placed to continue to support the sector and to be given an enhanced role with regard to supporting the sector going forward. We are proposing that Local Development Companies with their vast knowledge and experience of 'bottom-up' development and a proven track record of delivery be given the resources in order to capitalise on the opportunities that exist for social enterprise, social entrepreneurs and social innovators throughout Ireland. This would include direct responsibility for supporting the sector using resources from the ESF, ERDF, EAFRD, The European Commission's new Social Business Initiative and any other relevant sources of funding, including the Dormant Accounts Fund.

### **Social Enterprise in Ireland: Policy and Sectoral Development**

While Social Enterprise is well developed in most EU states and internationally, Ireland by comparison to other European countries, has been slow to recognise the potential for job creation in regards to SE;

*'In comparison to a similar-sized country such as Scotland, Ireland finds itself still lagging behind. Scotland's social enterprise employs 100,000 people where as in Ireland the figure is just over 2,000 people'*(Forfás Report, July 2013).

The **EU working definition** states that:

*'A social enterprise is an operator in the social economy whose main objective is to have a social impact rather than make a profit for their owners or shareholders. It operates by providing goods and services for the market in an entrepreneurial and innovative fashion and uses its profits primarily to achieve social objectives. It is managed in an open and responsible manner and, in particular, involves employees, consumers and stakeholders affected by its commercial activities'*

(Further definitions are available in the appendix at the end of this document)

For those engaged in SE, it is recognised that the Irish sector is still in its infancy with a relative lack of policy supports dedicated to developing social enterprise in Ireland. While this can be seen as a negative, there is at present an opportunity for significant growth in SE and the benefits that this can bring to communities. Indeed, political will in the area can be seen in the most recent Programme for Government, which recognises the importance of an environment for a 'vibrant' SE economy.

To support the further development of Irish SEs, the Irish Social Enterprise and Entrepreneurship Task Force was set up in 2009<sup>i</sup>. The Task Force has recently submitted recommendations to the Department of Trade and Enterprise to contribute to the recent Forfás report on the potential of SEs, outlined below.

The Forfás report, 'Social Enterprise in Ireland: Sectoral Opportunities and Policy Issues' published in July 2013, followed consultation with SEs, social providers and their stakeholders. It included clear recommendations for Government in relation to promoting Irish SE under the following six headings;

- (i) Policy Development for the Social Enterprise Sector
- (ii) Capacity-Building in the Sector
- (iii) Procurement Opportunities
- (iv) Funding and Finance
- (v) Developing Leaders and Harnessing Community Support
- (vi) Governance

The Forfás publication is a significant milestone within the development of the Irish Social Enterprise sector, being the first report on social enterprise from Forfás to Government.

### **The Role of Local Development Companies in providing Enterprise and Employment Supports**

In terms of addressing the seven promotional objectives of policy development, capacity-building, procurement, funding leverage, leadership development and governance best practice, Local Development Companies are ideally positioned to serve as a strategic force in meeting these aims. This is based on a proven track record of at least two decades experience in exactly this type of work.

LDCs have a broad range of in-house skills available to them through experienced staff, Directors and other volunteers closely linked to the companies. It must be stressed that a number of Board Directors of LDCs are drawn from the SE sector and bring direct expertise at Board level of the companies. LDC's use a range of funds to provide enterprise and employment related supports to entrepreneurs, communities, disadvantaged target groups and those furthest from the labour market.

Funds come from a range of sources including the Rural Development Programme 2007-2013, the Local Development Social Inclusion Programme, Interreg, Equality for Women, Department of Social Protection, etc.

Through the LEADER element of the Rural Development Programme, start-up and business expansion support is provided to people wanting to start or expand a business in a rural area whether they are private individuals, existing businesses or communities.

LCDP funding provides supports to disadvantaged communities and those furthest from the labour market as set out in Goal 3 Objective; "Increase in People's Work Readiness and Employment Prospects", of the Programme.

Many LDCs deliver training and other activation measures directly on behalf of the Dept of Social Protection.

The range of enterprise supports provided by all LDCs includes:

- Specific skills training
- Business mentoring
- Pre enterprise training programmes to develop the skills and confidence of participants to develop a path to self-employment
- Enterprise support services in relation to business idea development, business plans, accessing funding, and applying for the BTWEA/STEA;
- Supporting the establishment of community and social enterprises
- Business networking
- Grant assistance for business start-up and expansion

### **The Role of LDC's in providing support to the community and voluntary sector**

LDCs support the community and voluntary sector through a bottom-up approach across a range of economic, social and environmental areas.

The range of supports provided by all LDCs includes:

- Community animation
- Community capacity building

- Specific skills training
- Community mentoring
- Community enterprise / social enterprise support services incl. training
- Community networking
- Community and voluntary work placements for the long term unemployed and under employed farmers and fishermen
- Grant assistance for a wide range of community projects and initiatives

### **The Role for Local Development Companies (LDC's) in supporting the Social Enterprise Sector going forward**

While Ireland lags behind other countries in the promotion of social enterprise and facilitating its development through policy mechanisms, there is a growing commitment to the sector. Local Development Companies recognise that there is a role for the sector in providing solutions to important community issues such as the provision of services, addressing long-term unemployment and rejuvenating local economies. While policy needs to be set at a national level, there are important actions which can be promoted at the regional / local level by LDCs.

Local Development Companies have for many years been providing a range of supports to the social enterprise sector and a range of different social enterprise types including;

- those with commercial opportunities that are established to create a social return
- those creating employment opportunities for marginalised groups
- economic and community development organisations
- those that deliver services

Social enterprises are rooted in local and community development, going right back to the early development of the co-operative movement. The nature of social enterprise is that goods and services tend to be provided locally and so jobs are created in local communities. They can provide jobs across a range of areas including care services, environmental services, energy, retail, tourism, heritage, the arts, sports and leisure etc., often with the objective of providing employment to those most marginalised and most distant from the labour market, both socially and geographically.

Local Development Companies are ideally placed to continue to support the sector and to be given an enhanced role with regard to supporting the sector under the six headings outlined in the Forfás Report. Many LDCs are currently involved in capacity building, the provision of training and / or facilitating networks for the social enterprise sector in their areas eg. Offaly, Ballyhoura, South and East Cork, Tipperary and Longford. Some have supported the establishment of social enterprises eg. Duhallow, Waterford, urban based LDCs around Dublin. Others are currently establishing social enterprises such as the social farming initiative in Leitrim.

The development of Social Enterprise could provide an exciting opportunity to attempt to address the youth unemployment issue. Given the links already in place between Local Development

Companies and the Department of Social Protection, there is an opportunity to develop innovative programmes of mutual benefit to both the social enterprise sector and the young unemployed.

Ireland, like numerous countries has a network devoted to the promotion of the social enterprise sector i.e. the Irish Social Enterprise Network. The current network is newly established (2013) and is there to promote social enterprise and host networking events. Local Development Companies could work in partnership with The Irish Social Enterprise Network to improve support for the social enterprise sector through regional / local networking.

### **Challenges to Social Enterprise at the Organisation Level**

Social Enterprises straddle the two worlds of social services/charity and business. This necessitates skills and organisational competency across two often distinct spheres, with competing values and ways of operating. This situation poses significant challenges for individual organisations.

While there have not been a large number of dedicated social enterprise supports within Ireland to date, there are a number of pre-existing networks and resources that can also be leveraged to provide supports for this growing sector.

It is important to note that existing business-focused support agencies do not provide the same level of supports to social enterprises as they do to commercial enterprises. The reasons for this could include a lack of acknowledgement of the importance of social enterprises as well as a lack of understanding of social enterprises and the social enterprise sector / social enterprise community.

The challenge will be for the support structures going forward to have an awareness of and training on how to support social entrepreneurs in setting up their social business. This needs to be done with the same expertise that would be given to individuals wanting to set up private businesses.

Some Irish commentators, such as Daly, Doyle and Laylor (2012) make the point that to provide optimum supports for SEs, purposely developed structures are needed:

*‘Social enterprise workers ideally would have experience in community development, enterprise development, and a commitment to social enterprise.’*

Local Development Companies have the required experience and a commitment to support this growing sector.

In addition to the research undertaken by Forfás, more recent and more localised research undertaken by LDCs would indicate that the most common challenges include;

- Legal Structures
- Networking opportunities at a local or regional level
- Promotion / public relations
- Need for training eg. in business planning, marketing, management
- Bureaucracy / business management capacity
- Proving social return and social impact

- Human resources supports / accessing skilled labour
- Access to Finance including grant aid, loans and philanthropic donations
- Access to public contracts

## **Issues and Opportunities for the Social Enterprise Sector**

### **Funding and Finance**

The lack of appropriate finance, both grant and loan, for social enterprises at various stages of development is an issue. This often makes it difficult for them to move beyond the concept stage and grow, or diversify into other commercial activities. Consideration should be given to the following;

- The provision of support over a period of time, with the intensity of support reducing incrementally before a transition to independence
- Introduce a targeted call for Innovation Vouchers for research and development, feasibility studies etc specifically for the Social Enterprise sector in partnership with Local Development Companies
- The provision of appropriate start-up finance for social enterprise, not just for capital investment eg. equipment, enterprise space
- Providing appropriate start-up costs for organisations eg. community and voluntary groups and Local Development Companies wishing to provide employment opportunities to address the youth unemployment issue through local social enterprises
- Social Finance – Increased access to loans through social finance organisations eg. Clan Credo and Credit Unions
- Private equity investment, Social Impact Bonds and other potential funding mechanisms
- Channelling funds for social enterprise from relevant national and European Programmes and Initiatives directly through Local Development Companies
- Facilitating the placement of people on work placement initiatives into social enterprises for (minimum two year placements), particularly those from disadvantaged backgrounds whether the enterprise is fully commercial or coming from the community sector

### **Procurement Opportunities**

The public sector in Ireland offers significant business opportunities for SME's that could supply products and services that are required by public bodies. The same can be said for Social Enterprises.

As part of the Public Service Reform Plan, the Government is committed to reforming the public procurement process to improve efficiency and deliver greater value for money. In order to support the development of the Social Enterprise sector, the Office of Government Procurement should give consideration to the following;

- The use of more social considerations in public procurement

- Encouraging public authorities to consider the full life-cycle of products in their purchasing decisions
- Criteria linked to the production process of the goods or services to be purchased
- The social and professional integration of disabled and disadvantaged workers as part of the contract
- Encouraging the purchase of innovative products and services, where appropriate, as a means of achieving cost savings in public procurement
- The inclusion of social enterprises on 'preferred supplier' panels for small scale contracts
- The encouragement of collaborative tenders between SME's and Social Enterprises in order to improve the capacity to tender for and win public sector contracts
- The adoption of the new EU Procurement Directives in support of SME's and Social Enterprise in the broadest way possible

### **Capacity Building in the Sector**

Capacity building within the social enterprise sector is essential in order for the sector to become more established, to improve business models, management and leadership skills and to capitalise on commercial opportunities. Capacity building for communities is also necessary in order to identify and build on local opportunities. Support should be provided over a period of time, with the intensity of support reducing incrementally before a transition to independence.

Capacity building can be undertaken through;

- Specific training and capacity building programmes to assist social enterprises to develop market place solutions to identified issues and to effectively run their business eg. business related training including management, marketing, HR, PR, governance, training to improve tendering skills and to prove social impact
- Through the JobBridge Programme or otherwise, match unemployed under 25 business graduates with community groups requiring start up supports, feasibility studies and business plans
- Mentoring programmes for aspiring, new and established social enterprises by individuals who are skilled and/or trained in business models and those of social service provision
- Business planning and longer term strategic planning so that enterprises are well positioned to access finance (eg. social finance and other loan facilities), grant aid, philanthropic donations and any other form of investment that might be available to them
- Encouraging community and voluntary groups who are new to the concept of social enterprise to explore opportunities to become involved in the provision of local services and innovative products in their areas, while learning from those already in the sector across Europe
- Networking on a regional / more local level for social enterprise, social entrepreneurs and social innovators in order to provide a forum for like-minded people / organisations to come

together to promote the concept of social enterprise and share information, best practice and demonstration projects and to promote trade between social enterprises

- The Dept of Social Protection already provides support for unemployed people starting up a business eg. through direct contracts with LDC's in many cases to provide training and mentor support. This could be further explored with DSP to determine if there is scope for such supports to stimulate the Social Enterprise sector using the model already in place with Local Development Companies in some areas

## **Developing Leaders and Harnessing Community Support**

Like any successful business or organisation, strong leadership is required in a social enterprise. While the skills of people can be developed through capacity building and training programmes, identifying those potential leaders within a community who will bring others along with them is often key to starting something like a social enterprise. The involvement of appropriate stakeholders and volunteers either at a Board level or in other roles is important for the success of community based social enterprises.

## **Governance**

Currently, social enterprises are generally established as companies limited by guarantee. Other legal structures need to be considered that are of benefit to a particular sector type e.g. Co-operatives. With the growing demand for higher standards in governance in the community and voluntary sector, many LDCs have been directly involved in the derivation of the Governance Code for the sector and many have gone through the process of introducing it in their own circumstances. As a result LDCs have in many circumstances provided training to community and voluntary sector groups in governance and addressing governance standards.

Types of legal structures used for social enterprises that are established in other countries but are not currently possible to set up under Irish company legislation should be also considered eg. Community Interest Companies in the UK.

## **Appendix - Social Enterprise Definitions**

There has been much discussion and debate over the definition of Social Enterprise, both nationally and internationally. While there is no universally accepted definition of what constitutes a social enterprise, a definition by the **UK Department of Trade and Industry** is often cited:

*'A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximize profit for shareholders and owners.'*

The **EU working definition** also endorses these themes, stating that:

*'A social enterprise is an operator in the social economy whose main objective is to have a social impact rather than make a profit for their owners or shareholders. It operates by providing goods and services for the market in an entrepreneurial and innovative fashion and uses its profits primarily to achieve social objectives. It is managed in an open and responsible manner and, in particular, involves employees, consumers and stakeholders affected by its commercial activities.'*

The similarities across definitions can also be observed in this **American definition** of social enterprise:

*'A social enterprise is any business venture created for a social purpose — mitigating/reducing a social problem or a market failure, and to generate social value while operating with the financial discipline, innovation and determination of a private sector business.'*

Common to all definitions is the fact that social enterprises devote their activities and reinvest their surpluses to achieve a wider social or community objective, either in their member's, or a wider interest.

However, a problem with utilising these definitions is that there is significant ambiguity and lack of clarity around core themes, such as how profit needs to be re-invested, how much income needs to be generated from industry or business and the possible governance structures of SE.

To respond to the challenges of clearly defining what is and what is not a social enterprise, the Scottish Social Enterprise experience (Senscot) has developed a coherent definition by setting out a list of clear SE criteria. These criteria were developed by the social enterprise community in Scotland and have been adopted by many organisations<sup>ii</sup>.

These criteria were developed to ensure that the working definitions in existence did not become diluted to the extent that they no longer differentiated social enterprise from other public, charity or business services. According to Senscot, one of the principle aspects of an SE is that 'if social projects are organised as sustainable businesses – they can achieve financial independence – from both the state and philanthropy'. The notion of independence is core to the definition of SE.

### **The Five Senscot Criterion<sup>iii</sup>**

**Criterion 1 – Social Enterprises have social and/or environmental objectives.** As one of its defining characteristics, a social enterprise must be able to demonstrate its social mission. This will be evidenced in its constitutional documents but the production of other (externally verified) evidence is encouraged - to provide transparency of purpose and accountability to stakeholders. Tools and techniques to measure social and environmental impact are becoming more effective and user friendly.

**Criterion 2 - Social Enterprises are trading businesses aspiring to financial independence.** This second defining characteristic is demonstrated by an enterprise earning 50% or more of its income from trading. This will be evidenced by the accounts of the business over a reasonable period. A high

level of income from the public sector is acceptable in the form of contracts - but not grants. *Criterion 2 is intended to mark the boundary between social enterprise and much of the voluntary sector. (Many Voluntary orgs trade over 50% without calling themselves social enterprises).*

**Criterion 3 – Social Enterprises have an ‘asset lock’ on both trading surplus and residual assets.** Whether or not it’s a charity, a social enterprise re-invests all its distributable profit for the purpose of its social mission. Where the business has shareholding investment (very few in Scotland) no more than 35% of profit may be distributed in dividends. In addition, the constitutional documents of a social enterprise must contain a clause to ensure that, on dissolution of the business, all residual assets go to social/environmental purposes. *Criterion 3 is intended to mark the boundary between social enterprise and the private sector.*

**Criterion 4 – A Social Enterprise cannot be the subsidiary of a public sector body.** Whilst a social enterprise can be the trading subsidiary of a charity, it must be constitutionally independent from the governance of any public body. Additional evidence of this would be required from Public Sector externalisations. *Criterion 4 is intended to mark the boundary between social enterprise and the public sector.*

**Criterion 5 – Social Enterprises are driven by values – both in their mission and business practices.** Social enterprises operate in competitive - often fierce – markets but there is an expectation that their dealings will be ethical and that they will offer their people satisfactory wages, terms and conditions. Enterprises of a reasonable size are expected to have clear human relations and environmental policies. Transparency would be achieved through the voluntary adoption in the sector of a maximum ratio between highest and lowest paid – of say 1:5 – investing a culture of equality.

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<sup>i</sup> Irish Social Enterprise and Entrepreneurship Task Force: <http://www.soцент.ie>

<sup>ii</sup> The Five Senscot Criterion: <http://www.senscot.net/docs/scottishcriteria0610.pdf>