Recommendation Report

THE COMMITTEE ON SOCIAL ENTERPRISES
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Preface

Social enterprises are gaining increasing recognition for their innovative approach in linking business and solving societal challenges. Companies that have social and societal purposes as their primary driver may become an important source for new solutions, growth and job creation in the future.

At the same time the ability and desire of such companies to test new approaches, where sound business and a good cause do not exclude each other, will become a strong catalyst for social change in other parts of the private sector as well as in the public sector.

If Denmark is to realise the great potential that social enterprises have, it is our belief that a broadly anchored and well-coordinated national effort is required.

In this report, the Committee on Social Enterprises presents a number of recommendations for the Danish Government and other relevant stakeholders in taking the first important steps in building a strong and versatile social economic sector. This will require a dedicated effort, as Denmark is still in the early stages of that process. The Committee therefore proposes that the effort is monitored closely and that policies are adjusted continuously to meet changing demands.

The Committee’s starting point has been on social, employment and business policies. The Committee has focused on reviewing the existing commercial barriers and opportunities for strengthening social enterprises in Denmark. A strong private sector development effort targeting social enterprises should not lead to a general weakening of the collective pool of private sector development activities targeting all Danish enterprises. Thus, the Committee strongly encourage that the efforts targeting sociable enterprises are addressed by applying a cross-party approach with a strong focus on the commercial context in general

Finally, the Committee would like to extend its gratitude to the secretariat for its efforts in supporting the Committee’s work.

We sincerely hope that the Danish Government will welcome the Committee’s recommendations.

The Committee on Social Enterprises
Summary
Summary

Vision
The Danish society is faced with a number of challenges including stagnating growth, a large number of people finding themselves on the border of the labour market, significant environmental challenges as well as growing pressures on the health sector.

International and Danish evidence show that social enterprises contribute to solving a number of societal challenges. This may be achieved directly through their activities but may also be done in supporting social change in the private and public sector, thereby setting new and higher standards for growth and welfare.

Social enterprises have a particular potential for improving the qualifications and supporting the inclusion of vulnerable individuals in the labour market thereby allowing more individuals to gain a foothold in the common labour market and to provide them with a more dignifying life

Overall, the Committee shares a vision that, social enterprises will solve more important societal challenges. Therefore, it is necessary to build a large and more diverse social economic sector in Denmark.

Social enterprises in Denmark
As part of the framework of the Committee’s task, a definition of social enterprises has been formulated: “Social enterprises are privately held and through their business and profits, have the purpose of promoting specific social objectives”.

The Committee has also carried out a mapping of the Danish social economic sector. The mapping shows that the sector is limited in size; however, the sector is increasing as new social enterprises emerge. The majority of Danish social enterprises can be labelled as micro-enterprises with less than 10 full-time employees. Geographically, social enterprises are dispersed throughout the country, however the largest concentration is found in the capital region.

Recommendations
The Committee believes that a long and dedicated effort is needed to fulfil the vision and there is a need to make it easier to create incentives to establish, run and evolve social enterprises. Therefore, it is recommended that the Danish Government draft a national strategy, which is built on the Committee’s recommendations and which has the goal of promoting social enterprises in Denmark.

The Committee introduces five general recommendations, which will allow Denmark to achieve more and stronger social enterprises.

New legislation and administrative procedures: A concise legal framework and a minimum of administrative burdens are crucial in the ability of social enterprises to maintain a strong focus on their business, not having to allocate unnecessary resources for various administrative purposes. Therefore, the Committee recommends the drafting of a specific registration scheme that defines, legitimizes and
regulates the sector as well as contributes to building a common identity for social enterprises in Denmark.

Furthermore, the Committee propose to launch a number of initiatives to strengthen the interaction between the public sector and the social enterprise sector as a means of coordinating administrative practices in relation to social enterprises.

**Increased awareness:** Stronger awareness is vital in supporting the public’s trust in social enterprises and in securing some level of public recognition. It is important to strengthen the relationship between potential customers, investors and partners. Therefore, the Committee proposes that the general public is made aware of social enterprises and that more knowledge on social enterprises is collected.

**Strengthening entrepreneurship and competence building:** The presence of adequate business and social science skills is essential to establish, run and evolve sustainable social enterprises. Therefore, the Committee recommends that focus be placed on how to inspire the development of new social enterprises and business models as well as on how to increase competence levels within existing social enterprises. Furthermore, social enterprises may play a critical role in strengthening labour market skills among vulnerable groups.

**Improved financing opportunities:** Like all other enterprises, social enterprises are dependent on capital and financing when establishing and expanding their business. Therefore, the Committee recommends establishing a social investment market where new and existing investors make venture capital available for social enterprises. Among other things, it is proposed to establish a social economic financing fund, and alternative financing schemes should also be tested.

**Increased focus on social considerations in partnerships and public procurement:** A stronger level of cooperation with stakeholders in the private and public sectors is vital in providing social enterprises with better market opportunities and a stronger customer base. Therefore, the Committee recommends launching efforts to support social considerations in partnerships and internal trade among social enterprises, public institutions and private customers.

The Committee on Social Enterprises was set up as part of the 2013 Finance Bill. This report highlights the results of the Committee’s effort and introduces a number of recommendations on how the Danish Government and other stakeholders can contribute to the promotion of social enterprises in Denmark.
The Committee’s Vision
The Committee’s Vision

The vision behind the report’s recommendations is that in the future several significant societal challenges can be solved by social enterprises in an efficient and careful manner for the benefit of citizens and society as a whole.

The Danish society is facing a number of challenges including stagnating growth, a large number of people finding themselves on the border of the labour market, significant environmental challenges as well as growing pressures on the health sector.

International and Danish experience show that social enterprises may contribute to solving a number of societal challenges. This may be achieved directly through their activities but may also be accomplished by inspiring to social change in the private and public sector, thereby setting new and higher standards for growth and welfare.

Social enterprises have a particular potential for improving the qualifications and supporting the inclusion of vulnerable individuals in the labour market, thereby allowing additional vulnerable groups to gain a foothold in the labour market and to provide them with a more dignifying life.

Therefore, it should be easier and more desirable to establish, run and develop social enterprises in a market condition context.

The realisation of the vision requires development of a large and diverse sector of social enterprises. A sector where socially innovative business ideas are brought to life by enterprises that are sustainable in terms of finances, individuals and the environment. And a sector that ranges far and remains a constant source of inspiration and social change. This applies in particular to labour market inclusion and to providing vulnerable groups with a dignifying life, but also in relation to the solving of other social and environmental challenges as well as to the prevention of illness and crime.

Although the social enterprise sector in Denmark is limited in size, existing Danish social enterprises have shown that it is possible to conduct a business and at the same time contribute to solving societal challenges. The Committee wishes that more social enterprises will follow this path. In the future Denmark should be well recognised for the following:

- Legislation contributes to defining, legitimizing and regulating the sector, creating a clear identity for social enterprises. The public sector cooperates flexibly and efficiently with the social enterprise sector in bringing to life the impact of the enterprises’ efforts on society as a whole.

- The general level of awareness of the social enterprise sector is high; the majority of the Danish population know about social enterprises and recognize their efforts. At the same time, the valid measurement of the social impact of social enterprises will create an improved platform for documenting the unique strengths of social enterprises to customers, investors, partners and other stakeholders.
• The sector's competence level is high and social entrepreneurship and business activities among entrepreneurs and enterprises are supported. The sector possesses the business skills and social science skills needed to establish, operate and further evolve viable social enterprises. At the same time, a broad range of flexible and competence-yielding training programs contribute to accelerating the inclusion of vulnerable groups in the labour market.

• There is substantial interest among investors to make venture capital and long-term capital available and significant investments are made in the early stages of development in social enterprises. At the same time there is a variety of financial investors available to provide social enterprises with various financing schemes.

• Social consideration is a highly recognised and applied parameter in public tendering and is a core element in many partnerships involving social enterprises, private companies and the public sector. In that respect social enterprises contribute to creating new solutions, supporting growth and job creation while at the same time acting as a catalyst for social change in both the private and public domains.

It is the Committee's assessment that in most of the areas Denmark still has a lot of ground to make up. Therefore, the Committee proposes that the Government drafts a national strategy to promote the development of social enterprises in Denmark and to contribute to carrying out the Committee's vision.

The Committee has drafted a number of recommendations that will make it easier and more attractive to establish, run and further evolve social enterprises in Denmark. Some of the recommendations may be implemented today, while others have a long-term perspective. The Committee proposes that the Government's strategy is founded on these recommendations.

The Committee proposes that a permanent Council on Social Enterprises – similar in form to the Danish Council for Corporate Responsibility - is set up to monitor the drafting and implementation of the strategy. The Council will closely monitor developments in the social enterprise sector and provide recommendations to the Danish Government on a continuous basis. It is further recommended that the Council contribute to the ongoing evaluation of legislative initiatives and recommendations that the Committee has put forward for implementation. The social enterprise sector is dynamic by nature; hence it is also highly relevant to evaluate the actual definition of social enterprises and the term "social enterprise" to ensure that the definition is valid and up to date.
Social Enterprises in Denmark
Social Enterprises in Denmark

There are varying definitions and perceptions related to the term social enterprises. In this section the Committee introduces its definition of social enterprises and highlights characteristics of the Danish social economy sector.

Definition of social enterprises

Social enterprises are a part of the broader social economy area. The area encompasses all organizations, associations, institutions and enterprises with a societal character and which focuses on improving conditions for a specific target group or cause.

The social economy sector is frequently placed in the cross-section between the public sector, the private sector and civil society (the shaded area in Figure 1). The social economic sector is characterised by individuals and activities that intersect and draw knowledge from all three sectors in their contributions to solving social challenges.

Figure 1: The social economy field

A distinction is made between the broad social economy field and social enterprises, which solely constitutes a subset of the total social economic field. The social economy sector is often the birthplace for social enterprises, i.e. in the event that initiatives are implemented to extend or supplement a traditional social organization with a commercial element.

The Committee offers the following definition of social enterprises:

“Social enterprises are privately held and through their business and profits, have the purpose of promoting specific social objectives”
In continuation of this definition social enterprises must meet the following five criteria:

- **Social purpose** – the enterprise’s primary purpose is societal by nature, i.e. the primary goal is socially beneficial by nature and will address a social, occupational, health-related, environmental or cultural purpose and will also promote active citizenship.

- **Significant commercial activity** – the enterprise has a significant commercial activity through the sales of services or products, which constitutes a significant part of the enterprise’s revenues.

- **Independent from the public sector** – the company has a unique Central Business Register number and is operated independently from public influence with regards to operation and management.

- **Allocation of profits** – the enterprises allocates its entire profits to firstly supporting social purposes or reinvesting profits to the enterprise itself or other social enterprises; secondly to paying out limited dividends to its investors.

- **Responsible and inclusive corporate governance** – the enterprises is transparent in how it runs its business and management is dedicated to providing added value while maintaining a high level of ethical standards.

**The diversity of social enterprises**

Based on the aforementioned definition and criteria there exists significant diversities among social enterprises. The diversity is a result of the origin of the social enterprise in the cross-section between the three traditional sectors; the public sector, the private sector and civil society. Figure 2 below highlights the level of diversity vis-à-vis differences in share of enterprises with significant commercial activity, the composition of the resource base and the social handling of profits. The figure also highlights the links to related organisations and enterprises.

**Figure 2: Model for diversity of social enterprises**
The Danish social enterprise sector is evolving rapidly. The illustration above should therefore not be regarded as a static image of the sector. It does, however, show how social enterprise can move from one category to another. The different concepts illustrated in the diversity model are further described in the text box below.

Highlighting the concepts of the diversity model for social enterprises

- **Purpose:** Purpose relates to the extent to which the enterprise’s primary goal is social or economic by nature. A social goal may have a social, employment-related, health-related, environmental or cultural aim.
- **Activities:** Activities help to identify to what extent the enterprises’ core business is based on social and/or commercial activities. Social enterprises running a business with the aim of promoting a social goal will offer a combination of social and commercial activities.
- **Commercial activities:** Commercial activities levels highlight the extent to which the enterprise is founded on the sale of products and services.
- **Resource base:** The resource base identifies the enterprise’s pool of resources including voluntary labour or charitable donations; or income from the enterprise’s own commercial activities.
- **Profits:** Profits relate to how social enterprises allocate potential profits. Social enterprises primarily reinvest profits from own or other social purposes or may opt to allocate parts of the proceeds as dividends on invested capital.

Excluded criteria in defining social enterprises

As part of the efforts to define social enterprises the Committee has excluded a number of criteria. The excluded criteria relate to elements that are included in various Danish and international definitions and are listed in the text box below.

Excluded criteria related to the Committee’s definition of social enterprises.

- Social economy in its entire context. The Committee has decided that social enterprises are a subset of the total social economic sector. Consequently, a number of traditional social institutions that may not fall into the social enterprise sector as they only carry out social activities do not have a sufficient level of commercial activity or have significant ties to the public sector.
- That the enterprise is operated as a specific corporate entity. The Committee has decided that enterprises should be allowed to chose among several different company statutes and not be confined to a specific company statute.
- That the enterprise employs vulnerable individuals. The Committee has decided that enterprises that work for a target group or a specific cause and in that respect is not employing marginalised individuals might be regarded as a social enterprise.
- That the enterprise is anchored in the local community. The Committee has opted for including enterprises that have no or limited relations with the local community.
- That the enterprise is innovative. The Committee has decided that companies, which are not innovative by nature may in fact be characterised as social enterprises.
• That the enterprise was recently established. The Committee suggest that enterprises may be regarded as social enterprises even tough they are not run by entrepreneurs.
• That the enterprise exclusively employs individuals working under a specific set of conditions, or voluntary labour.

Working for or with a target group
In Denmark and internationally a distinction is typically made between social enterprises that work for a target group/cause or with a target group. I.e. a distinction is made between working for improving conditions for a specific target group or cause and working with a target group in supporting their job opportunities in the ordinary labour market. It should be underlined that the boundaries between the two groups sometimes intersect.

When a social enterprise works for a target group or cause the enterprise is dedicated to improving conditions and quality of life for a specific target group or to promote a cause that is deemed beneficial to society as a whole. This may be achieved through the enterprise’s activities, products, services or social profit allocation. For example, the enterprise may carry out information campaigns, manufacture appliances, organize support events for vulnerable individuals or donate company profits to promote a specific cause.

In the event that a social enterprise works with a target group the enterprise will exercise an employment-related purpose. The enterprise aims to include socially vulnerable groups through actual employment or by improving the individual’s qualifications. This approach is termed “Work Integration Social Enterprise” (WISE) and relates to social enterprises that contribute to supporting an inclusive labour market through competence building, mobilisation and employment.

Social purposes
In continuation of the overall distinction between social enterprises that work for or with a target group, a further distinction can be made by observing the social purpose of the enterprise. Social enterprises in Denmark may fall into five different purpose-oriented categories:

Working for a target group or cause
• Social purpose: This may include support for drug addicts, socially vulnerable children, integration, crime prevention and international development.
• Health purpose: This may include care and support for individuals with physical or mental illnesses, patient organisations and public health education.
• Environmental purpose: This may include focus on information about ecology, the climate and recycling.
• Cultural purpose: This may include fostering the arts and culture in general.

Working with a target group
• Employment: This may include competence building, academic initiatives, job creation, vocational training and employment for socially vulnerable groups.

The five categories all have a societal purpose and they may potentially contribute to improving general conditions and quality of life for specific target groups. Differ-
ences may occur in whether the effort has an extensive social focus or if it focuses specifically on competence building and employment.

Figure 3 below highlights the Committee’s analysis of the allocation of Danish social enterprises to the five purpose categories.

**Figure 3: Purpose of social enterprises, 2013**

![Diagram showing the allocation of Danish social enterprises to the five purpose categories.]

Figure 3 shows that four out of ten social enterprises work with a target group and thus have an employment focus, while six out of ten enterprises work for a target group or cause and are dispersed across the four categories (social, health, environment and culture).

It should be noted that the two largest groups of companies are those that have a social or employment-related purpose, each accounting for 39 percent of the total number of social enterprises in Denmark.

**Characteristics of social enterprises**

In the spring of 2013 the Committee on Social Enterprises mapped social enterprises in Denmark. The mapping constitutes the first comprehensive outline of social enterprises in Denmark.

When applying the definition drafted by the Committee the survey identified close to 300 social enterprises in Denmark. The list is by no means exhaustive; the survey should be regarded as a snapshot of the number of existing social enterprises in Denmark.

While the sector remains limited in size, the Committee’s analyses show that the sector is growing significantly in numbers as new social enterprises emerge.

The study of the sector’s development in terms the entry of new enterprises over time (Figure 4) shows that 46 percent of existing social enterprises were established within the past 6 years. The corresponding share for all Danish companies is 34 percent. Recent figures from 2012 show that employment in social enterprises amount to 3,483 work years (full time employees).
The majority (79 percent) of Danish social enterprises can be labelled as micro-enterprises with less than 10 full-time employees (Figure 5). The corresponding share for all Danish enterprises is 93 percent. The figure also shows that 14 percent of the social enterprises are small (10 to 49 employees), while 7 percent of the enterprises have more than 50 full-time employees and thus should be labelled as medium-sized or large enterprises. Data only includes paid labour and does not include voluntary work.
Figure 5: Size of social enterprises compared to all enterprises in Denmark, 2012

**Social enterprises**

- 0-1 FULL-TIME EMPLOYEES: 51%
- 2-4 FULL-TIME EMPLOYEES: 19%
- 5-9 FULL-TIME EMPLOYEES: 9%
- 10-49 FULL-TIME EMPLOYEES: 14%
- MORE THAN 50 FULL-TIME EMPLOYEES: 7%

**All enterprises in Denmark**

- 0-1 FULL-TIME EMPLOYEES: 75%
- 2-4 FULL-TIME EMPLOYEES: 12%
- 5-9 FULL-TIME EMPLOYEES: 6%
- 10-49 FULL-TIME EMPLOYEES: 6%
- MORE THAN 50 FULL-TIME EMPLOYEES: 1%

Geographically, social enterprises are dispersed throughout the country, with the largest concentration found in the Capital Region (Figure 6).
Figure 6: Geographic distribution of social enterprises compared to all enterprises in Denmark, 2012

Social enterprises

Diversity among social enterprises
There is some level of diversity in terms of how social enterprises chose to build their business and couple it to their social efforts.

Figure 7 shows the distribution of social enterprises in terms of how they are distributed according to the model for diversity among social enterprises (cf. Figure 2, p. 18). “Non-profit organizations with commercial activities” and “Enterprise with social purpose” are roughly equal in size, while “Supported enterprise with social purpose” is significantly smaller. Since 2007, 78 percent of the newly established enterprises were either “Supported enterprise with social purpose” or “Enterprise with social purpose”.

CAPITAL REGION OF DENMARK 35%
CENTRAL DENMARK REGION 22%
NORTH DENMARK REGION 12%
REGION ZEALAND 12%
REGION OF SOUTHERN DENMARK 19%

CAPITAL REGION OF DENMARK 31%
CENTRAL DENMARK REGION 23%
NORTH DENMARK REGION 11%
REGION ZEALAND 14%
REGION OF SOUTHERN DENMARK 21%

All enterprises in Denmark
Figure 7: Diversity among social enterprises, 2013

It should be noted that the figure represents a snapshot of the current state of the social enterprise sector in Denmark. It is conceivable and may even be typical for social enterprises to move from one category to another through their development and life cycle.

Global trends
Developments within the social enterprise sector constitute significant global trend in today’s world. Large international institutions and individual countries alike have identified the potential of social enterprises and have introduced various measures to promote the sector’s continued development both internationally and at a national level. International experience in the area is substantial and covers both extensive strategies as well as small-scale initiatives.

A number of countries have introduced specific company legislation targeting social enterprises that allows for a common identity and demarcation of the sector. Italy, for instance, has a strong tradition for building so-called cooperatives, a special brand of social enterprises that focuses on solving a number of critical welfare tasks. In the UK there has been for some time a significant focus on building a social investment market and strengthening the skills of social enterprises.

Another significant global trend is the growing importance of “impact investment”, in which private equity funds, associations etc. make investments to yield a societal effect. Worldwide there are app. 200 impact investment funds, which have made 2,200 impact investments valued at 4.4 billion US. This represents a doubling of investments compared to 2010. Several international studies suggest that in ten years the global market potential for impact investments will be in the range of 400 billion to 1 trillion USD.

The social enterprise sector is also growing in importance across the European Union as a way to support intelligent, sustainable and inclusive growth to meet the goals of the Europe 2012 Strategy. In recent years, the European Commission has
launched a number of initiatives to strengthen the sector's framework conditions building on the "Social Entrepreneurship Initiative (October 2011).
Recommendations
Recommendations

The ability to fulfil the vision that social enterprises should solve more critical societal challenges is dependent on various initiatives. Legislation and effective public administration are necessary to support social enterprises, and the general level of awareness should be high. Furthermore, the skills of social entrepreneurs and social enterprises should be strengthened as should finance opportunities. Finally, the Committee recommends that social considerations are highlighted in the areas of partnerships and public procurement.

In all the Committee puts forward five general recommendations that are to be implemented in both the short and the long term. The recommendations are outlined below and are further described in the following sections.

Recommendation 1: New legislation and administrative procedures
- Legislation on registration scheme
- Growth center for social enterprises
- Coordinated public administrative practice
- Better business regulation
- Assessing the level of upper bounds on firms’ subsidised employment
- Employment conditions for socially vulnerable groups
- Public payments
- Public sector spin-offs

Recommendation 2: Increased awareness
- Information campaigns
- Local anchoring
- Measuring social impact

Recommendation 3: Strengthening entrepreneurship and competence building
- Social entrepreneur education
- Developing and attracting social entrepreneurial business concepts
- A better start-up for social entrepreneurs
- Supporting core business activity in social enterprises
- Adjusting existing private sector development initiatives
- Flexible training courses for socially vulnerable groups

Recommendation 4: Improved financing opportunities
- Developing a social investment market
- Social economic financing fund
- Alternative financing schemes

Recommendation 5: Increased focus on social considerations in partnerships and public procurement
- Strategic partnerships with private businesses
- Public/private innovation partnerships
- Social considerations in public procurement
- Public pricing models
**Recommendation 1: New legislation and administrative procedures**

Appropriate legislation and effective public administrative practice is vital for social enterprises in maintaining a strong focus on their business, not having to spend unnecessary resources for administrative purposes. Therefore, legislation should contribute to defining, legitimising and regulating the sector as well as contributing to creating a clear identity for social enterprises. At the same time, the public sector should flexibly and effectively cooperate with the social enterprise sector to realise the social effects of the enterprises’ efforts.

To fulfil the vision the committee recommends that new legislation and a number of initiatives be introduced to make existing systems and administrative practices in the public sector more flexible. In practical terms, the Committee recommends the establishment of a specific registration scheme for social enterprises and the creation of a growth center for social enterprises within the confines of the central administration and, furthermore, that a coordinated public administrative practice is developed. Further, the Committee recommends that general administrative procedures are made easier; that the upper bounds on firms’ subsidised employment as well as employment conditions for marginalised groups are investigated in further detail that procedures regarding public payments are improved and, finally, that public sector spin-offs are further supported.

**Legislation on registration scheme**

- Legislation to set up a specific registration system for social enterprises in Denmark is to be introduced.

The Committee’s recommendation for a specific and administrative simple registration scheme is built on the assessment that the absence of regulation in some instances may cause problems for social enterprises in terms of legitimising their business and obtaining some sort of common identity. This challenge is particularly apparent when it comes to marketing and communication with customers, authorities, partners and other stakeholders that may not be able to distinguish social enterprises from other enterprises.

Figure 8 below highlights the typical organization of social enterprises in a corporate law context. No single corporate entity exists to define and regulate social enterprises in Denmark; in fact social enterprises are organised in a variety of corporate entities.
The benefit of establishing a registration scheme for social enterprises is that it will encompass the entire existing sector without enterprises having to change their incorporation. At the same time, the administrative burdens associated with registration are typically less burdensome than if existing social enterprises are required to change their incorporation in order to be subject to the regulation. Finally, a registration scheme will provide increased flexibility in terms of the possibility to change the enterprises incorporation during its life cycle. The Committee has drawn inspiration from a number of countries including Belgium, Finland, France, Italy and the UK, which have implemented different corporate statutes and registration schemes for social enterprises.

**In the short term, the Committee recommends** to introduce a specific registration scheme for social enterprises that will contribute to defining, legitimising and regulating the sector. The registration scheme should ideally be administrative simple and should be established in line with existing corporate registration systems. A clearly defined sector can subsequently be supported through other legislative initiatives. In continuation hereof the Committee recommends that the legislation undergo an evaluation after three years.

The Committee does not recommend the introduction of a specific way of incorporating social enterprises. The Committee has surveyed existing ways of incorporation used by social enterprises today, which will often lead to the enterprises being subject to supervision.

On the other hand, the Committee recognizes the need for further analysis of the pros and cons that exist vis-à-vis current demand and in light of the sector’s growth potential in introducing a supervisory system, which targets social enterprises that are not otherwise subject to supervision. For that purpose the Committee has discussed the scenario that may arise in the event that a foundation, which has been subject to public/municipal supervision and thus have been excluded from supervision from foundation authorities, finds itself in a situation where the existing super-

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**Figure 8: Social enterprises by corporate entity, 2013**

- **Voluntary Association**: 14.5%
- **Association**: 32.9%
- **Foundation**: 6.9%
- **Commercial Foundation**: 5.5%
- **Self-governing Institution, Association, Foundation etc.:** 9.3%
- **Self-governing Institution requiring public funding**: 6.2%
- **Co-operative with limited liability**: 0.7%
- **Savings bank and Co-operative Bank**: 1.7%
- **Private limited company**: 10%
- **Public limited company**: 1.7%
- **Co-operative**: 0.3%
- **Partnership**: 2.4%
- **Sole proprietorship**: 7.3%
- **Other international company**: 0.3%
vision is discontinued and is not replaced with full-scale supervision in accordance with existing foundation statutes

The Ministry of Social Affairs, Children and Integration will carry out the study with participation of other relevant authorities including the Ministry of Business and Growth and the Ministry of Justice. The study should be completed and should be introduced to the members of the Committee prior to the submission of the proposed legislation for a registration scheme for social enterprises, so that a specific supervision scheme can be made part of the proposal and be linked to the registration scheme.

In the long term, the Committee recommends that assessments be carried out with regards to the introduction of a specific labelling scheme, which is linked to the registration scheme. A social economic label will strengthen the identity among social enterprises, increase awareness and support the sale of products produced by social enterprises. The Committee believes that it is of the outmost importance that the sector is mature and that the market is primed for the launch of a new labelling scheme. Therefore, the development of a labelling scheme should await the introduction of registration scheme to see how this is used and perceived.

Collectively, these measures will contribute to defining, legitimizing and regulating all registered Danish social enterprises, providing this group of companies with a common identity.

Growth center for social enterprises

• A dedicated entity for social economy in the central administration is to be established.

The Committee’s recommendation is founded on the assessment that today there is no single point of reference for social enterprises, public institutions, private businesses and other stakeholders to obtain information and guidance on public regulation related to the social economic area.

Social enterprises focus on added value in both a social and financial context. This means that they are subject to various regulatory schemes, and social enterprises may not always fit into existing public frameworks. Social enterprises are not only met with the same demands for documentation, control and administration as other enterprises within their respective business sectors. But social enterprises are also facing a number of administrative requirements that pertain to their specific social purpose. This may result in uncoordinated regulation, or that enterprises find themselves in “no man’s land”, caught between various resort areas. It may also be difficult for public, private and other stakeholders to gain access to guidance and knowledge on how to interact with the Danish sector of social enterprises.

The Committee has learned that other countries have had success in establishing a single point of contact to deal with requests related to social economy. Australia and the UK have established public entities that act as points of contact for knowledge on the social economy, and supports public interaction with social enterprises.
In the short, term the Committee recommends to set up a social enterprise entity, which is to provide legislative guidance in the social economic area. The entity should be anchored in the central administration and should collaborate closely with the new Council on Social Enterprises. It is also important that the entity is tied to existing private sector development initiatives.

In general terms the entity should be the single point of contact for social enterprises to obtain information on assistance and guidance in relation to legislation, rules etc. Also, the entity should contribute to strengthening the interaction between social enterprises, public authorities, other private business and relevant stakeholders. In concrete terms, social enterprises should be giving access to guidance on the registration scheme and assistance related to how to liaise with relevant public authorities. At the same time, public authorities should receive guidance related to opportunities and collaborative frameworks involving social enterprises. Finally, private enterprises as well as other stakeholders should have access to information related to partnering with social enterprises and should have access to guidance on relevant public regulation.

The entity should gather information on a continuous basis that may be dispersed to other relevant stakeholders. The entity should be able to refer interested parties to relevant private business development schemes, financing sources, partnerships etc. and relevant stakeholders for example in the private advisory market. Finally, it is proposed that the entity, over time, will become a single point of reference for administering public initiatives targeting social enterprises.

Collectively, these measures will contribute to a more flexible access to and contact with the public sector and will strengthen interaction between the social enterprise sector and society as a whole.

Coordinated public administrative practice

- A coordinated public administrative practice targeting social enterprises is to be developed.

The Committee’s recommendation is based on in-depth interviews with several stakeholders from the social enterprise sector and various public authorities. The interviews highlighted the collaborative challenges faced by social enterprises and public authorities. Among other things a large number of social enterprises have limited knowledge of the public authorities’ organizational framework and work flows. Furthermore, there are no instructions available to public sector employees as to how they can collaborate with social enterprises and involve them in solving various societal challenges.

The lack of knowledge on both sides may prevent the adequate exploration and utilisation of synergies involving, for example, local government and social enterprises.

In the short term, the Committee proposes to introduce a targeted effort to develop a coordinated administrative practice among public authorities in relation to social enterprises. It is proposed that a set of instructions on social enterprises targeting public authorities at the state, regional and municipal level are drafted and that the
implementation process related to the coordination of administrative practises at the local government level is supported. At the same time, efforts should be made to strengthen the knowledge of public administrative practices among social enterprises.

Collectively, the proposed efforts will heighten the general level of knowledge throughout the public sector, support collaboration with the social enterprise sector and secure uniform administrative practices related to social enterprises. It will contribute to a more effective and flexible level of collaboration between the public authorities and the social enterprise sector.

Better business regulation

• Efforts should be made to ease the administrative burdens for social enterprises.

The Committee is aware that most Danish companies, including social enterprises, experience administrative burdens from public regulation. There may be a demand for more transparent and better communication on public regulation and administrative procedures that are aimed at specific target groups.

It may therefore be relevant to make use of new and different tools to reach and support a specific target group in making their administrative life easier. In continuation hereof the Committee offers the assessment that the social enterprise sector may be a suitable target group for an initiative that over time will ease the administrative burdens for all Danish enterprises.

In the short term, the Committee recommends to launch a pilot project to investigate measures that will ease the administrative life for social enterprises. In practical terms this will encompass testing new and not yet tested communication channels and techniques to reach the target group. Furthermore, efforts should be made to further investigate various administrative burdens including VAT payments or payment of income taxes.

It is the intention that the efforts in the longer term may be rolled out to a broader field of Danish enterprises and thus contribute to fewer administrative burdens for Danish enterprises in general.

Assessing the level of upper bounds on firms’ subsidised employment

• In cooperation with labour market participants efforts should be made to mitigate upper bounds on firms’ subsidised employment.

The upper bounds on firms’ subsidised employment requirement is a general requirement that applies to all enterprise-related propositions for unemployed individuals; i.e. company training and wage subsidies. The requirement imposes a limit to the number of individuals employed in company training schemes or through wage subsidy schemes per regularly employed. The requirement thus relates to the number of employees and not the actual number of working hours. The distinction may undermine the incentive for hiring vulnerable individuals, as they will often work fewer hours.
The Committee’s recommendation has been prompted by interviews and dialogue with social enterprises working with a target group. Social enterprises employing vulnerable unemployed individuals are faced with the dilemma that the upper bounds on firms’ subsidised employment limit their opportunities in employing additional people under specific condition thereby hampering their ability to grow their business. Ultimately, this may impede the ability of the enterprise to meet its social purpose; to support the inclusion of vulnerable groups in the general labour market through various wage subsidy schemes and practical training.

In the short term, the Committee recommends that a study be launched to investigate how to mitigate upper bounds on firms’ subsidised employment for social enterprises vis-à-vis the dilemma of making regular employees surplus. As a starting point the study should identify the challenges that upper bounds on firms’ subsidised employment pose to social enterprises. Furthermore, the study should highlight, among other things, if the exceptions to upper bounds on firms’ subsidised employment currently in place for individuals in early retirement who are employed in the public sector should be expanded to include social enterprises. Finally, the study shall determine whether it will strengthen incentives to employ socially vulnerable groups, i.e. if upper bounds on firms’ subsidised employment are defined with regards to the number of working hours rather than the number of employees.

It is the Committee’s assessment that future growth in social enterprises working with a target group will lead to the inclusion of additional vulnerable individuals in the established labour market.

Employment conditions for socially vulnerable groups

- A task force is set up to investigate the conditions for employing socially vulnerable groups.

The Committee’s recommendation is based on an assessment of the need for better-defined conditions for hiring socially vulnerable individuals that find themselves far from the common labour market. This is particularly evident among social enterprises working with vulnerable groups, which may include homeless people and early retirees that are not employed under a wage subsidy scheme.

In the short term, the Committee recommends that the new Council on Social Enterprises set up a working group in collaboration with labour market stakeholders and the Council for Socially Vulnerable People. The working group will investigate the need for establishing employment models for socially vulnerable individuals, who cannot be hired under normal conditions. Related to this the working group should investigate regulation in the employment and social areas related to the hiring and social protection. In practical terms the working group will investigate questions related to working hours, salaries, crediting social benefits, insurance, vacation and illness, fringe benefits and actual job content.

It is our assessment that better defined employment conditions for socially vulnerable groups will benefit the development of a more inclusive Danish labour market.
Public payments

- It is ensured that public authorities do not strain cash flows of social enterprises because of late or overdue payments.

The Committee’s recommendation regarding public payments is based on a series of interviews conducted with social enterprises. The interviews highlight the fact that a large portion of the social enterprises is depending on income from public authorities; however, cash flows are hampered by late and sometimes overdue payments. This applies in particular to enterprises, which provide services related to guidance and clarification services and/or are dependent on payments for individuals in flexible jobs, which were hired prior to January 1, 2013.

March 1, 2013, marked the implementation of the European “late payments-directive” which was duel implemented in the Danish legislation on interest payments related to late payments. The Directive sets a 30-day limit on payment deadlines for public authorities and imposes rules as late fees. Also, the regulation pertaining to flexible jobs have been adjusted for individuals hired after January 1, 2013, to avoid a deterioration of enterprise cash flows. However, the Committee believes that there is a continued need for addressing timely payments, and that social enterprises are aware of issues related to adequate invoicing. This will prevent the significant deterioration of the social enterprises’ often-vulnerable cash flows.

In the short term, the Committee recommends that active measures be implemented to ensure the timely payments of public authorities to prevent a deterioration of the cash flow of social enterprises. More specifically, efforts should be made to ensure that settlements are made within 30 days. In order to facilitate this it is suggested that instructions are drafted targeting the relevant public authorities with regards to the implementation of new rules in the area.

Furthermore, efforts should be made to avoid that potential disagreements involving municipalities do not cause any delays in settling payments, and possibly undermining cash flows. This could be achieved by implementing schemes similar to the ones used in the insurance industry, where the insured party receives payment regardless of any contentious issues among the affected insurance companies.

It is the Committee’s assessment that the abovementioned measures will contribute to less likelihood of unnecessary strains on the social enterprise cash flows.

Public sector spin-offs

- Legal guidelines on how social enterprises legally can be spun-off from the public sector are to be produced.

The Committee’s recommendation is based on a study of social enterprise spin-offs. The study points to a lack of transparency in terms of public regulation of spin-offs and that this poses a significant barrier in applying the municipal proxy as the legal basis for public spin-offs. Several stakeholders point out that the public sector according to their own interpretation of existing regulation is not permitted to provide start-up capital for spin-offs. The Committee also draws on inspiration from Sweden, where the majority of social enterprises working with a target group are indeed spin-offs from various public projects.
As the framework of the municipal proxy has been shaped through various practises and legal axioms it remains difficult for individual municipalities and regions to determine the legality of a given transaction where no applicable decisions from the municipal supervision are available. This makes it difficult to determine what is in fact feasible and may lead to differences in regional interpretation and practices.

In the short term, the Committee proposes to carry out a legal clarification of the procedures related to public spin-offs. This should also address the possibility of providing start-up capital for those enterprises. Furthermore, the Committee proposes the drafting of guidelines for municipalities and regions as to how social enterprises can be legally spun-off. Finally, efforts should be made to support tangible spin-off initiatives in municipalities and across regions.

These measures will bring clarity to public spin-offs and contribute to the public sector becoming the birthplace for additional social enterprises that will contribute to the development of a versatile sector.
Recommendation 2: Increased awareness

The general level of awareness with regards to social enterprises is vital in building trust towards the sector and in supporting general interest in working with potential customers, partners and investors. This requires a high level of awareness and also that a majority of the Danish population are aware of the work being done by social enterprises, and that social enterprises are recognised for their contributions. Valid benchmarking of the social impact of social enterprises will allow for documenting specific strengths to customers, investors, partners and other relevant stakeholders.

To achieve this, the Committee recommends that efforts are made to raise public awareness related to social enterprises and that knowledge pertaining to the sector is pooled and disseminated. This may be achieved through various information campaigns, a local anchoring of knowledge of social enterprises as well as measuring and documenting the overall impact of social enterprises on society as a whole.

Information campaigns

- **Launching information campaigns on social enterprises.**

It is the Committee’s assessment that the general level of awareness with regards to social enterprises is limited. In recent years there has been hardly any interest in social enterprises and media exposure has been scarce at best. Also, there is a general misconception that the price of products and services marketed by social enterprises should by their very nature be lower compared to the market price.

It is the Committees’ assessment that the low level of awareness is attributed to the low number of social enterprises and a general lack of knowledge with regards to social enterprises. This is a barrier to the continued development of the sector as the lack of knowledge and trust will refrain potential customers from buying the products and will furthermore deter investors from making venture capital available to those enterprises.

Information campaigns and information sharing may have a significant impact on the promotion of the social enterprise sector as illustrated through various international experiences. Finland, the UK and Sweden have carried out targeted information campaigns to disseminate and strengthen knowledge on social enterprise. The Swedish efforts have led to a significant increase in general awareness. Sweden and Canada have established dedicated social enterprise information portals. Since its launch the Swedish website Sofisam has received increased attention and from 2010 to 2012 the number of unique visitors increased from 30.000 to 150.000.

*In the short term, the Committee proposes to carry out targeted information campaigns about social enterprises in Denmark. This will help draw attention to the sector and increase general awareness among customers, investors, private businesses and other stakeholders that may be interested in the unique added value offered by social enterprises. Furthermore, efforts should be made to launch a dedicated information portal addressing social enterprises and delivering information on the sector.*

This may be achieved by launching an information portal on and for social enterprises. This will ease access to information for social entrepreneurs, investors, partners and other relevant stakeholders.
Collectively these measures will contribute to increased awareness and will support the establishment, prosperity and development of new social enterprises, which will benefit citizens and society alike.

**Local anchoring**

- **Strategic efforts are established to ensure that awareness about social enterprises is rooted at the local level.**

The Committee believes that the degree of awareness and collaboration with social enterprises is limited at the local level. This makes it difficult to reap the benefits of social synergies by involving social enterprise in solving social challenges at the local, regional or national level.

Local municipalities’ interest in social enterprises may benefit from anchoring knowledge in existing areas including employment, the social area and the business area. In that respect the local employment council, local job centres, the so-called MED Committee and the Business Development Centers may be relevant focus areas.

The local employment councils are particular relevant to social enterprises working with a target group. The councils monitor the outcome and effects of the employment efforts carried out by the local job centres. Correspondingly, job centres are vital in conveying direct contact between the unemployed individual and, for example, the social enterprise. The MED Committee are relevant when it comes to anchoring knowledge on social enterprises among public sector employees, because the MED among other things is responsible for employee and competence building among public sector employees. The MED Committee have been established under a framework agreement between Local Government Denmark and KTO, where the management team and elected representatives from all employee groups discuss general working conditions. The Committees have been set up to create a platform for improving and developing employer/employee relations.

Finally, it will be relevant to raise awareness and knowledge levels with regards to social enterprises among local business services and across the five Business Development Centers that have been set up as part of the private sector development system to guide local enterprises.

*In the short term, the Committee recommends* that active measures be implemented to secure a local rooting of information on social enterprises and collaboration opportunities with public authorities at the local level. Municipalities looking to make a joint commitment to the social enterprise sector should receive sufficient support in their efforts. It is recommended that the local employment councils team up with local businesses to develop guidelines on how to collaborate with social enterprises. At the same time efforts should be targeted towards local job centres to provide them with tools and knowledge on how to collaborate with social enterprises in terms of supporting labour market inclusion. Finally, the level of awareness with regards to social enterprises and the competence levels among public sector employees should be further supported through the MED Committees and the private sector development system.
Collectively, these initiatives will raise awareness among public authorities at the local level and thus contribute to more flexible and effective collaboration.

**Measuring social impact**

- Easy-to-use tools for measuring social impact are developed.
- Efforts to strengthen benchmarking of social impact in research and as a practical discipline are initiated.
- Efforts are made to develop a joint Nordic and EU method for measuring social impact.

Social enterprises have via dialogue with the Committee highlighted an increased demand in their ability to document any social impact of their activities. The societal effect of a given effort is rarely quantifiable and may be difficult to measure or value. There is no single clearly defined and widely accepted method available for measuring the social impact, and the methods currently available are often extensive and resource demanding. In addition to this the absence of methods and practices for the continuous mapping and measuring of the social effect make it difficult to carry out any meaningful benchmarking.

International studies highlight similar trends and efforts are currently underway at both the country and international levels to support the development of viable ways to measure the social impact of social enterprises. In the UK, the government has actively supported the development of various tools to measure and document the social impact of social enterprises. In the EU a subcommittee under the auspices of the GECES is working to draft a common European methodology for measuring social impact. The subcommittee will publish its final report in November 2013. The Committee proposes that further efforts are carried out in continuation of the European efforts.

*In the short term, the Committee recommends* to develop simple tools for measuring the social impact of social enterprises with the intent of supporting the ability of social enterprises to document the impact of their activities. The Committee believes that this initiative will strengthen the enterprises’ market and financing opportunities and help raise awareness of the sector. The Committee further recommends that there be established a continuous monitoring of the social enterprise sector including efforts to measure societal impact in core research and as a practical discipline through, for instance, the establishment of social economy positions at the macro-level.

*In the long term, the Committee recommends* establishing a common set of methodologies at the Nordic and EU level.

Collectively, the recommendations will raise awareness and trust vis-à-vis social enterprises among customers, partners, investors and other interested parties, which is vital to the continued emergence, prospering and development of social enterprises.
Recommendation 3: Strengthening entrepreneurship and competence building

The presence of business and social science skills are vital to the continued emergence and success of social enterprises in Denmark. Therefore, the competence level of the social enterprise sector should be high. The strengthening of social entrepreneurship and commercial activities will create the groundwork for more people launching, operating and developing strong social enterprises. Furthermore, social enterprises may play a particularly important role in raising levels among vulnerable groups. To that end, there should be a broad range of flexible and competence building training programs available to support the further inclusion of socially vulnerable groups in the labour market.

To achieve this, the Committee recommends that focus be directed to inspiring to the further development of new social enterprises and business models and that competence building is supported in existing social enterprises. The Committee recommends a strengthening of social entrepreneurship education, that efforts are made to develop and attract social economic business ideas, that social entrepreneurs are given a good start, that competencies related to business activities are further supported and that the existing private sector development system is adjusted accordingly. Finally, the Committee recommends the introduction of flexible and competence-yielding education program for vulnerable groups.

Social entrepreneur education

- A targeted effort is carried out to promote education on social entrepreneurship.

The Committee’s recommendation is built on the assessment that despite a growing level of interest in social innovation and social entrepreneurship among young people the general level of awareness among potential social entrepreneurs in the Danish educational system is low. It is therefore important to strengthen knowledge and the skills needed to establish social enterprises among potential entrepreneurs and students.

Today, entrepreneurial education is carried out via national efforts anchored in Young Enterprise Denmark and across multiple educational institutions including university colleges and universities. As a result entrepreneurship education has been promoted at several levels of the Danish educational system. Social entrepreneurship, however, has only received limited attention.

The recommendation mirrors the growing international focus on social entrepreneur education. The Committee’s analyses shows that more and more education institutions offer academic programs and various activities related to social entrepreneurship. Roskilde University offers a broad academic program in social entrepreneurship as do INSEAD, Liege University, Trento University and Oxford University. A number of the world’s leading universities and business schools offer academic programs in the field of social entrepreneurship. They include Stanford University, Cambridge University and Harvard Business School.
In the short term, the Committee recommends to launch, in cooperation with relevant stakeholders, a dedicated effort to promote social entrepreneurship education. This could be achieved in working together with Young Enterprise Denmark and various educational institutions including university colleges and universities. Social entrepreneurship education should be strengthened across Danish educational facilities, and the motivation for social entrepreneurship should be encouraged among students. The Committee believes that there is untapped potential in the areas of commerce and social sciences.

The Committee further recommends that social enterprises working with a target group are provided with additional social science knowledge and support. Therefore, initiatives should be implemented to strengthen the skills in social services of employees in the social enterprise sector including access to social coaches, employee training, and setting up a task force or similar initiatives.

These measures will contribute to increased awareness among potential social entrepreneurs and will strengthen and disseminate the skills needed for launching new and innovative social enterprises.

**Developing and attracting social entrepreneurial business concepts**
- A pilot scheme for developing innovative business models for social inclusion is developed.
- Initiatives to promote the development of new social economy business ideas are taken.
- Efforts to attract social entrepreneurs and business models are initiated.

The Committee’s recommendation is based on the growing interest for combining business operation with the development of new solutions that address societal challenges. One important element in strengthening the emergence of new social enterprises in Denmark could be to raise awareness of the social economic business concept and to promote mutual interest and idea development among potential social economic entrepreneurs.

The Committee also proposes that efforts be implemented to support the development of new social economic business models and social enterprises that are founded in the private sector or civil society. The Committee sees great potential in actively supporting the ability of private enterprises to draft business models that address social issues and inclusion. This may relate to changes that address the hiring of socially vulnerable groups or the complete alteration or spin-off of the enterprise into a social economic enterprise.

Finally, it is the Committees’ assessment that international development in the sector is founded on a large number of social entrepreneurs and innovative business models that have the potential to make positive contributions to the further development of the Danish social enterprise sector. International experience may inspire Danish enterprises to come up with innovative business ideas. This mandates that efforts be made to bring these experiences to Denmark.

In the short term, the Committee recommends to set up a pilot scheme where social enterprises and regular enterprises may apply for support in developing business
models, which target social inclusion. The scheme will focus on companies that offer innovative ideas as to how they can alter or expand their business to accommodate for further including socially vulnerable groups in the common labour market. Enterprises that receive support will be obligated to analyse the effects of their inclusion efforts.

Furthermore, the Committee recommends that initiatives be launched to support business ideas of potential social economy entrepreneurs in the early-stages of development. This may include various idea-development events or panels, where budding entrepreneurs may present and test ideas to a group of experienced professionals and potential customers.

In the long term, the Committee recommends that targeted initiatives be implemented to attract social entrepreneurs and business models.

Overall, these measures will contribute to the emergence of new social enterprises and inspire innovative solutions to significant societal challenges.

A better start-up for social entrepreneurs

- The drafting of company-focused program and relevant information to support the establishment of more social enterprises is initiated.
- Establishing experienced networks for newly established social enterprises to draw on.

The Committee’s recommendation is based on analyses showing that social economic entrepreneurs often have limited experience and knowledge related to running a business. They are highly dedicated and have significant experience on social issues but lack the business skills needed. This may hamper their ability to build a social enterprise, where a social effort is coupled to a viable business. Therefore, efforts should be made to secure that social economy entrepreneurs have access to assistance and guidance related to business idea development and business start-up.

The Committee has drawn inspiration from abroad where it finds several examples of efforts that support social enterprises during the start-up phases. The Catalan government has launched a dedicated program for social entrepreneurs including an internet-based guidance tool, competence-yielding workshops, networking activities and various loan opportunities. Canada has published several guides on planning and starting social enterprises.

In the short term, the Committee proposes to build an enterprise-program for social economy entrepreneurs that have developed particularly innovative business ideas. The program will receive funding from the public sector and various private organizations and enterprises. The program will expose entrepreneurs to various competence-building activities, guidance and networks to develop viable business ideas that may potentially yield significant growth. Further, information materials that provide social economic entrepreneurs and enterprises with easy access to information on the establishment and development of social enterprises should be made available. The information should address the particular challenges and opportunities associated with the social economic characteristics of the enterprise.
Finally, the Committee recommends that newly established enterprises participate in experience networks involving other social enterprises. The networks will provide enterprises with valuable knowledge on failures and successes. The networks can be formed as enterprises register as social enterprises and will contribute to the business competencies and survival rates of social enterprises.

Collectively, these measures will contribute to creating an attractive environment for supporting a growing social enterprise sector.

**Supporting core business activity in social enterprises**

- Establishing a voucher scheme to provide advisory services for social enterprises.
- Building mentoring networks targeting social enterprises.
- Drafting a guide on how to grow the social enterprise.

The Committee’s recommendation is based on experiences from regional private sector development efforts that have yielded excellent results in terms of offering individuals wishing to start their own business with access to paid guidance services within the confines of the existing advisory market. This has yielded a positive effect on turnover and survival rates. A similar national scheme may be relevant for social enterprises in Denmark.

The Committee also believes that access to sparring through mentor networks may prove particularly valuable to social economic entrepreneurs. Social economic entrepreneurs rarely have a commercial background and may therefore not have access to skills and knowledge sharing, as do other entrepreneurs.

Italy has had success in supporting networks through social cooperatives, which is a special branch of social enterprises. They are organized in consortiums with a high level of knowledge sharing and support networking related to competence building, business models, start-up capital etc. both internally and externally. This provides for the transfer of qualifications from the cooperatives to the newly established enterprise.

Finally, the Committee points to a general lack of knowledge with regards to the growth and societal efforts of social enterprises. Growing a social enterprise does not only relate to expanding and strengthening a business; but is also tied to expanding social efforts and social impact. This may be achieved by others operating similar businesses.

*In the short term, the Committee* proposes that more guidance is provided on business operation and growth in social enterprises. A voucher scheme could be set up where enterprises receive funding to buy relevant services from the existing business advisory market.

Furthermore, the Committee recommends setting up mentor networks to strengthen the opportunities of social enterprises to draw inspiration from the knowledge and qualifications of other business professionals. The networks may be anchored locally and be comprised by both retired and younger business people from large,
local and successful enterprises across Denmark. Through the networks the social enterprise will receive sparring related to core elements of their business including administrative, managerial and competitive issues. Finally, the networks will allow social enterprise to recruit experienced board members, while mentor participation will become part of the respective enterprises’ CSR efforts.

Finally, we propose to draft a guide that describes methods for growing the social enterprise. The guide should among other things be based on studies on international experience in organizational growth, including for example introducing a franchise model.

Collectively, these measures will contribute to strengthening the financial sustainability and viability of social enterprises and in continuation hereof to secure the largest possible effect of the enterprises’ societal efforts.

**Adjusting existing private sector development initiatives**

- **Adjusting private sector development guidance related to social enterprises.**

The Committee’s recommendation is built on the assessment that the current level of guidance in the private sector development system does not match the needs of social enterprises. This applies in particular to guidance on social enterprise business plans related to economically viable product and the management and organizational challenges related to conducting a business with a social purpose.

Today, social enterprises can receive guidance on business operation from the local business service center. Business Development Centers offer specialised business services to companies that offer a significant growth potential. For the social enterprise to fully benefit from these initiatives it is necessary to strengthen guidance efforts, in particular across local business service centres.

The UK has met similar challenges by carefully drafting extensive information packages on the start-up and development of social enterprises including particular conditions related the enterprises’ social purpose, financing, legal structure, partnerships and management.

*In the short term, the Committee recommends* to adjust the guidance efforts related to social entrepreneurs in the private sector development system. This may be achieved by making specific guidance material and tools available. At the same time, efforts should be made to strengthen awareness of existing offers and opportunities among social enterprises and entrepreneurs.

Collectively, these measures will support competence building in the social economy sector and help ensure the start-up, growth and development of more social enterprises.

**Flexible training courses for socially vulnerable groups**

- **Social enterprises are included in the ongoing reform of the educational system including efforts to promote flexible and inclusive training programs.**
- **Collaboration between social enterprises and the newly established internship centres is strengthened.**
• Further support of teaching methods and concepts targeting vulnerable individuals.
• Securing a broader and more flexible supply of recognised and competence-yielding training programs targeting individuals with special needs in youth and vocational education.

The committee’s recommendation is founded on the fact that many social enterprises dedicate much effort in supporting the inclusion of vulnerable groups in the Danish labour market. It is a clear goal that the target group, via relevant education, employment and qualification programs, is provided with the competencies and qualifications needed to take on regular employment. If individual with special needs are to become part of the common labour market they should be provided with flexible, inclusive and competence-yielding training programs, which support and documents the competencies that are relevant in the common labour market. The Committee finds that further efforts should be made to accommodate this.

In the short term, the Committee recommends that social enterprises and flexible and inclusive training program for vulnerable groups are made part of the ongoing education reform, including in particular efforts to establish a “flex-education” program, the ongoing reform of vocational education and efforts carried out to adjust and further develop the so-called “Særligt Tilrettelagte Ungdomssuddannelse” (STU) through an increased focus on relevant teaching and labour market orientation.

The Committee further recommends that collaboration between social enterprises and “internshipcentres” is strengthened to secure the creation of additional “internshipcentres” and better educational opportunities for young people with special needs. Finally, the Committee proposes that research and development efforts be initiated to facilitate the drafting of new and improved teaching methods and concepts, in where socially vulnerable individuals are given competencies that are relevant and recognised in the labour market.

In the long term building on the existing efforts mentioned above the Committee proposes that a larger and more flexible supply of recognised and competence-yielding training program are established, targeting individuals with special needs; this will hopefully allow those individuals to gain the skills needed in the common labour market.

Collectively, these measures will contribute to boosting employment among marginalised groups thereby strengthening inclusion in the Danish labour market.
Recommendation 4: Improved financing opportunities

Access to venture capital and competence development are vital to the development of the Danish social enterprise sector. Like most other enterprises, social enterprises depend on access to capital and financing in the early stages of development and during the expansion stage. Therefore, there should be significant interest among investors to make venture capital and long-term capital available to social enterprises to allow for comprehensive investments in the early stages of development. At the same time there should be several different financial parties available that can offer various financing opportunities for social enterprises.

In order to meet this, the Committee suggest that a number of existing as well as new capital schemes are made available to social enterprises. This will include the development of a social investment market and a social economic financing fund; and finally that alternative financing schemes are monitored closely.

Developing a social investment market

- Support interest for social enterprises in the financial sector.
- Adjusting existing public financing schemes to fit social enterprises.
- Setting up a joint Nordic working group with the goal of building a Nordic investment market targeting social enterprises.

The Committee finds that only limited investments are available for social enterprises in Denmark. Consequently, existing stakeholders in the financial sector only has limited knowledge of how social enterprises operate and how their business ideas relate to their social purpose.

Often social enterprises will not fit into existing business policy initiatives or subsidy schemes due to the combination of business operation and social purpose. Awarding criteria in most business policy schemes focus on growth potential and turnover. This is a challenge for social enterprises as there will be the misconception that these companies do not yield profits.

The Committee has drawn inspiration from abroad, where the development of social investment markets is gaining in magnitude. Impact investments, i.e. investment made by equity funds, associations etc. to realise a societal effect, are gaining in importance. Several international studies point to market potential of between 400 billion and 1 trillion USD ten years from now. The EU introduced a labelling scheme in 2013 targeting social entrepreneurship foundations with the purposes of breaking down barriers so foundations with a social aim can raise funds and invest across borders. The G8 has set up a global task force to draft internationally recognised standards for social investments.

In the short term, the Committee recommends that measures be taken to raise interest for social enterprises among banks, private foundations and non-profit organisations, as this is thought to strengthen the level of investment.

In addition to this it is vital that existing public financial tools are adjusted to make them more accessible for social enterprises. In that respect it would be particularly relevant to strengthen access to capital via Vækstfonden. This could be accomplished by heightening the general level of awareness at Vækstfonden with regards
to social entrepreneurs as well as the specific characteristics of running a social enterprise.

In the long term, the Committee proposes to set up a joint Nordic working group with representatives from state-level authorities, the financial sector – including the Nordic Investment Bank – private foundations etc., which will support the development of a Nordic investment market for social enterprises.

Collectively, these measures will help the development of the Danish social investment market, which may support the development of a versatile social economic sector.

**Social economic financing fund**

- A social economic financing fund is to be established.

It is the Committee’s assessment that the core focus, which social enterprises place on financial and social added value will limit profit levels, which may in turn be a significant barrier with regards to the sector’s access to financing.

In social enterprises there are limitations to profit allocation. The owner of the enterprise cannot realise a substantial profit but will - in a best-case scenario - not lose money when establishing a social enterprise. With that in mind it is the Committee’s assessment the that requirements for personal liability through guarantees will negatively impact owners of social enterprises as they assume the entire risk associated with the enterprise without being given the possibility to make a substantial profit from their efforts. In practical terms the lack of a broad range of financing opportunities that can and will finance social enterprises remains a challenge.

Therefore, it is necessary to come up with financing opportunities that may provide adequate risk and long-term capital to social enterprises. A social economic financing fund will be able to contribute to ensuring that financing and equity investments will be available to support the start-up, growth and development of social enterprises.

Abroad several public/private initiatives aimed at facilitating the access to risk capital for social enterprises have been identified. In the UK, the government launched “Big Society Capital” (BSC) in 2012, a social investment institution that invests in social investment financial intermediaries so they can invest and develop social enterprises. In the United States a public social fund has been set up to facilitate the flow of capital to social enterprises through various financial intermediaries.

In the short term, the Committee recommends to set up a social economic financing fund much like the one that was established in the UK. The fund should be based on “matchfunding”, public risk capital match private funds from banks, foundations and pension funds. The fund will contribute to establishing and further developing stakeholders that provide long-term risk capital to social enterprises. The fund should reserve resources to the building and scaling of social enterprises and should focus on both early-stage development in small enterprises and larger, well-established enterprises.
The establishment of a social economic financing fund will contribute to solving short-term capital requirements and will in the longer term support the development of a social investment market in Denmark by attracting more social investors.

**Alternative financing schemes**

- The continuous evaluation of alternative financing schemes suitable for social enterprises.

The Committee’s recommendation is based on various international studies that highlight the growing success of alternative financing schemes for social enterprises. These include “Crowdfunding”, “Social Impact Bonds” and the EU's micro loan program. Furthermore, alternative financing schemes related to future public savings and specific tax incentives for social investors should also be considered.

“Crowdfunding” is a way for projects or enterprises to gain funding via social media and websites. International studies identified 452 crowdfunding-platforms worldwide in 2011 and total crowdfunding amounted to 1.5 billion USD. Crowdfunding offers some intriguing opportunities for social enterprises obtaining financing to fund various initiatives.

Another alternative financing scheme is “Social Impact Bonds”, which are issued by the public sector and which allows social enterprises to solve societal tasks, while receiving payments up front. The investors assume the risks associated with Social Impact Bonds, while the public sector guarantees reimbursements in the event that the assignment is solved in a satisfactory manner. Social Impact Bonds are interesting as the public payment is directly linked to the societal impact of a given effort. This is quite different compared to how things are done in Denmark today, where the disbursement of funds is tied to actual costs and not the effect of a given effort. Social Impact Bonds trends should be monitored closely to contemplate the possible introduction of similar initiatives in Denmark.

Finally, since 2010 the EU has provided micro-loans through, the European micro financing facility “Progress”. Progress does not provide the actual funds but provide guarantees for micro-loan providers.

It is the Committee’s assessment that Denmark should further investigate the possibility of calculating future savings and using these savings for financing purposes. The core element is to improve future social conditions by making social investments today. To achieve this requires the development of models and tools that will allow public stakeholders to calculate future savings, such as a reduction in social subsidies or health-related costs, as an element in financing enterprises that focus on inclusion, employment, prevention and similar areas.

Finally, the Committee highlights the introduction of tax incentives for social investors, which was recently introduced in the UK. The tax incentives apply to private individuals investing in “venture capital trusts”, which are listed mutual funds investing in unlisted companies. Similar tax incentives are considered to individuals investing in social enterprises. The initiative is to be rolled out over the course of the next few years; thus the impact of the initiative is unknown at this stage. However, the
initiative is to be monitored closely with the intent of applying any positive experiences in a Danish context.

*In the long term, the Committee recommends* that efforts should be made to investigate alternative financing schemes and opportunities for Danish social enterprises. In practical terms it is proposed to closely monitor trends in relation to “Crowdfunding”, “Social Impact Bonds” and the EU’s micro-loan program.

Furthermore, efforts should be made to contemplate a system that makes it possible for public stakeholders to calculate future savings and using these savings to fund development projects in collaboration with social enterprises. Finally, efforts should be made to investigate how introducing specific tax schemes for social investors may support social investments in Denmark.

Collectively these initiatives will contribute to closely monitoring alternative financing schemes so that initiatives deemed viable in a Danish context will benefit social enterprise and contribute to supporting a versatile sector.
**Recommendation 5: Increased focus on social considerations in partnerships and public procurement**

Stronger collaboration between the private and public sectors is vital to social enterprises’ continued development, better market potential and increased customer base. Therefore social considerations should be a recognised and applied parameter in public tenders and core element in partnerships involving social enterprises, other private enterprises and the public sector. Social enterprises therefore help to create new solutions, growth and employment. At the same time they act as a catalyst for social change in both a private and public context, setting new and higher standards in solving of societal challenges.

To fulfil this vision the committee recommends that a targeted effort be made to promote partnerships and trade among social enterprises and public entities as well as private customers. In practical terms we propose the establishment of strategic partnerships involving private enterprises; innovation partnerships with various public entities; the strategic use of social consideration in public procurement; and the public pricing schemes are improved.

**Strategic partnerships with private businesses**

- Establishing a partnership program involving social enterprises and large, common enterprises.

The Committee's recommendation is based on experiences from the private business promotion system, where partnerships between small and large enterprises have contributed greatly the respective development. The partnerships do not materialise by chance, and the Committee has identified a number of barriers in building partnerships that involve social enterprises. The social enterprise sector is limited by size and the value associated with partnering with a social enterprise is limited.

Social enterprises will rarely have the resources or insights needed to establish and operate a partnership, as there are no tested or commonly recognised models available to use as a point of departure. A partnership program, with provided managerial aid and facilitation of contacts among potential partners, will continue to the creation of mutual value adding partnerships involving the social enterprise sector and other relevant business sectors.

Similar issues have been identified abroad. In the Netherlands a number of large enterprises have joined forces to donate pro bono assistance to support competence building in social enterprises. In the UK, Deloitte has launched the “Deloitte Social Innovation Pioneers Programme”, aimed at identifying, maturing and supporting competence building among social enterprise through, among other measures partnerships with enterprises in Deloitte's customers portfolio. A useful side effect of this effort is that it will contribute to Deloitte's CSR and competence profile.

*In the short term, the Committee proposes* to build a national partnership program aimed at facilitating mutually beneficial partnerships among large enterprises and social enterprises, The partnerships are characterised by being long-term endeavours by nature and may include several dimensions including knowledge and re-
source sharing, joint branding and business development. They will typically be CSR-based partnerships where enterprises are provided with pro bono guidance in terms of developing their burins, while other large enterprises may use the partnerships to boost their customer base, support inclusion etc. The Committee proposes that the Council on Corporate Social Responsibility be involved in the efforts of attracting large enterprises.

It is the Committee’s assessment that more partnerships and better collaboration involving social enterprises and other large enterprises will contribute to a strengthening of the sector’s business development and market opportunities. In addition to creating a stronger sense of appreciation for the social sector among other businesses the partnership will work as a catalyst for social change and serve as inspiration for social change throughout the entire private sector.

**Public/private innovation partnerships**

- Building frameworks for innovative partnerships involving social enterprises and the public sector.

The Committee’s recommendation is base on interviews and various dialogues with the social enterprise sector. Social enterprises are often faced with barriers in terms of establishing partnership involving public authorities that go beyond a normal buying relation. Social enterprises are often based on different approaches to solving societal challenges, which may contradict public systems or structures.

*In the short term, the Committee recommends* in collaboration with relevant public stakeholders to develop and test applicable models for partnerships involving social enterprises and public. The models may for example highlight how to achieve optimal synergies across organizations within a public authority and synergies involving authorities at the state or local government levels.

It is the Committee’s assessment that the establishment of mutually beneficial social economy partnerships with the public sector in which synergies are investigated and resolved may be a catalyst for adjustments with regards to new standards for public welfare propositions.

**Social considerations in public procurement**

- Active measures are made to raise transparency in tying social consideration to public procurement, and further that the societal impact is made an integral part of public procurement.
- The new EU Tender Directive allows for social considerations including efforts to support social enterprises and public sector spin-offs. The Directive should be considered further within the auspices of the Danish Government’s Committee on Danish Tender Legislation.

The recommendation has been drafted on the basis of interviews with social enterprises and public procurers that point to the lack of tradition and practice in applying social considerations in public tendering. In that respect there is little evidence available in terms of the economic benefits of applying social considerations in public procurement.
The Committee’s recommendation is based on studies that show that app. 30 percent of the Danish social enterprises are founded on business models that involve the sale of products and services to the public sector. This applies to all types of commerce involving the public sector.

With regards to social considerations we find that different approaches should be made. The marketing of graphic services or catering services in competition with ordinary enterprises may be very different from and selling various types of program and services where the enterprise will compete with the public sector’s own offerings.

In general, the absence of rules and opportunities for including social considerations in public procurement remains a challenge. This also pertains to the use of social clauses in framework agreement or small-scale tenders. There is some uncertainty as to how social considerations are embedded in public procurement without conflicting with the EU’s tender rules or the Danish Tender Act, as this will depend on the nature of the procurement in question. In the absence of general guidelines, public procurement entities, including National Procurement Ltd. will be reluctant in pursuing existing opportunities. Therefore, the Committee welcomes the new EU Directive as it provides the legislative framework for including social considerations in public procurement.

In continuation hereof, the Committee offers the assessment that public procurers often focus on the product’s actual price rather than offering an economic perspective that take into account the broader societal benefits of the procurement. There are some challenges to overcome in calculating these effects. It may only be an expected effect, the precise value may be difficult to calculate and the cost savings associated with a societal impact will fall under another department or authorities’ budget. The absence of a recognised and tested practice for including the wider societal effects in public procurements is therefore a barrier.

Finally, the Committee's recommendation is founded on increased interest in the area. The new EU tender Directive supports the inclusion of adding social consideration to national tenders and in certain circumstances to draft tenders that are exclu-
sively targeting social enterprises. Several countries have implemented state-level initiatives in the area. The Netherlands have launched an initiative to strengthen social returns in public procurement by encouraging private suppliers of products and services to employ socially vulnerable individuals. In 2012 the UK passed “The Social Value Act”, which encourages public procurers to address social considerations in the procurement policies. A training program has been set up to support the further development of public procurer skills in socially conscious procurement.

In the short term, the Committee proposes to support transparency with regards to including social considerations in public procurement and to highlight the societal impact of social considerations. This may be achieved by educating public procurers in the advantages of social considerations in procurement and by providing relevant guidance for public procurers. Procurers in local government should be encouraged to split up relevant tenders into small-scale tenders. Furthermore, public procurers should be encouraged to take into account the social effects of public procurement by drafting easily accessible cases and calculations.

Finally, the Committee recommends that the EU’s directive take into account social considerations including how to favour social enterprises. Public spin-offs should also be considered by the Government’s committee on Danish tender legislation with the intent of providing contract awarders with as much flexibility as possible without having to face competitive distortion from ordinary enterprises.

In the long term, the Committee recommends that social considerations be used strategically in relation to public procurement. One element in that process would be to tie in social considerations in selected National Procurement Ltd. tenders.

Collectively these measures will contribute to securing that over time it will be possible to address social considerations in public procurement and furthermore allow more social enterprises to market their products and collaborate with public authorities in solving societal challenges and tasks.

Public pricing models

- Public authorities will secure transparency when pricing own costs.

The Committee’s recommendations related to public pricing reflect the assessment that social enterprises are often faced with difficulties in matching the public sector’s own tenders as pricing is not adequately transparent. The public sector often fails to take into consideration activity-based costs including HR, maintenance costs, audit costs and depreciation.

In the short term, the Committee recommends to carry out analyses of how to secure transparency in public pricing. The analyses should be carried out in collaboration with other relevant public stakeholders and should focus on projects that are subject to tendering. This will contribute to transparent public budgets with regards to public activates and offers.

The initiative will strengthen transparency in public pricing and will contribute to increased competition by allowing social enterprises and other types of enterprises
to engage in competition with regards to public tenders, allowing them to market their own services and products to the public sector.
General remark
The mandate governing the Committee on Social Enterprises highlights that “the coining of new public initiatives should be made in accordance with the ministries’ existing financial framework including funds that have been allocated through the Government’s Finance Bill.” Members of the Committee representing the Ministry for Business and Growth, The Ministry of Social Affairs, Children and Integration and the Ministry of Employment should therefore take reservations to those recommendations where the actual coining of initiatives cannot be covered by the Government’s Finance Bill.
The Committee on Social Enterprises
The Committee on Social Enterprises

Chairman, Mads Øvlisen, former CEO, Novo Nordisk (retired as chairman of the Committee August 21, 2013)

Anne-Marie Meldgaard, Chairman of the Board, Venture Danmark

Claus Skytt, Head of Department, Merkur Andelskasse

Lars Hulgaard, Professor, Roskilde University (RUC)

Lars Jannick Johansen, CEO, The Social Capital Fund

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Mikkel Holm bäck, CEO, Glad Fonden

Susanne Westhausen, CEO, Kooperationen

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Christian Sølyst, Social Policy Consultant, the Danish Confederation of Trade Unions (LO)

Lone Johannsen, Chief Consultant, Local Government Denmark (KL)

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Pernille Harden, Head of Department, Ministry of Employment

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Lisbet Dyerberg, Deputy Permanent Secretary, Ministry for Business and Growth

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The Committee on Social Enterprises was set up as part of the 2013 Finance Bill. The report summarises the Committee’s efforts and introduces a number of recommendations as to how the Government and other stakeholders can contribute to the promotion of social enterprises in Denmark.