

UNDERSTANDING SOCIAL ENTERPRISES AND OTHER SOCIAL BENEFIT SUPPLIERS

[This document has been written and provided by Social Traders in partnership with Landell Consultants.](#)

1. CONTEXT

There are a number of ways in which councils can achieve positive social outcomes via procurement processes, including the incorporation of public benefit clauses in tender documentation and contracts and the procurement of goods and other services based on ethical supply chains.

Another key mechanism by which to achieve social benefits is by contracting directly with businesses whose primary purpose is positive social and community outcomes. These social enterprises are oriented towards public, or community benefit rather than private financial gain.

2. WHAT IS A SOCIAL ENTERPRISE?

Social enterprises are organisations that:

- are led by an economic, social, cultural, or environmental mission consistent with a public or community benefit
- derive a substantial portion of their income from trade
- reinvest the majority of their profit/surplus in the fulfilment of their mission.

Social enterprises provide goods and services just like their commercial counterparts, but they exist to generate social value. By purchasing from a social enterprise, contracting organisations are purchasing social value that most conventional commercial businesses do not provide. Social procurement aligns strongly with social enterprises, as social enterprises are well-positioned to deliver social procurement outcomes where there is an alignment between the social value sought by a council and the social mission of the social enterprise.

The purpose of a social enterprise typically falls into one or more of three broad categories:

1. Employment	Businesses that provide employment, training and support for marginalised groups
2. Service Innovation	Businesses that create and/or maintain services in direct response to social or economic needs in the community
3. Income Generation	Businesses that generate profits to support other community or charitable not-for-profit activities

Social enterprises often win contracts in competitive tender processes without any reference to the organisations' social contributions. In many cases, the social benefit provided through these social enterprises often contribute to the achievement of an organisation's strategic objectives, even though this is often not recognised in the tender process. There are times when it is prudent to commission a social enterprise (for example, in the event of a market failure).

An estimated 20,000 social enterprises operate in Australia. These enterprises comprise a diverse range of businesses, spanning every Australian Bureau of Statistics' industry category, including hospitality, retailing, education and training, health and community services, transportation and storage, mining, construction, communication services, finance and electricity, gas and water supply. Examples of well-known social enterprises include *The Big Issue*, Hepburn Wind and Bendigo Community Banks.

There are a number of less well-known social enterprises that deliver training and employment outcomes for the communities in which they work. These social enterprises tend to distinguish themselves based on their beneficiaries; for example, Australian Disability Enterprises benefit people with disabilities, while others target newly-arrived immigrants or the long-term unemployed, youth, women, the Indigenous community or a specific geographical area (for example, rural shires).

Many councils already purchase from social enterprises without even knowing that they are social enterprises. Examples of organisations which are often not known to be social enterprises include the YMCA, community child care centres, and many waste transfer stations in Victoria.

EXAMPLES

1. A council may support the generation of businesses in a rural community after the major banks have left by pledging its businesses (or proportion thereof) to a community bank. The bank will contribute to the viability of the community by retaining wealth through local ownership, local profit redistribution and the local retention of jobs – such an initiative has a powerful multiplier effect.
2. If a council is seeking to create jobs for the long-term unemployed in a targeted area, there are many social enterprises that are sustainable and high quality businesses that specialise in employing people who have difficulty in accessing jobs in the mainstream labour market. By purchasing from social enterprises, or by requiring that sub-contractors purchase from them, there is potential for a high local social benefit.
3. If a community is seeking to engage the Indigenous population through employment, it may be prudent to purchase from local Indigenous businesses or Indigenous social enterprises that have the cultural understanding to deliver these outcomes.

3. SELECTING THE RIGHT PROVIDER FOR YOUR PROCUREMENT

Social enterprises are not always the best option for social procurement. The following table indicates when a particular provider type might be most appropriate for your social procurement initiative.

	Mainstream business	Social Enterprise	Indigenous Business	Local Small to Medium Enterprises (SMEs)
Application of social procurement across all contracts and engagements	✓	✓	✓	✓
Generate high employment and training opportunities for targeted groups		✓		
Building Indigenous economic participation in the supplier market			✓	
The regeneration of a disadvantaged rural community		✓		✓

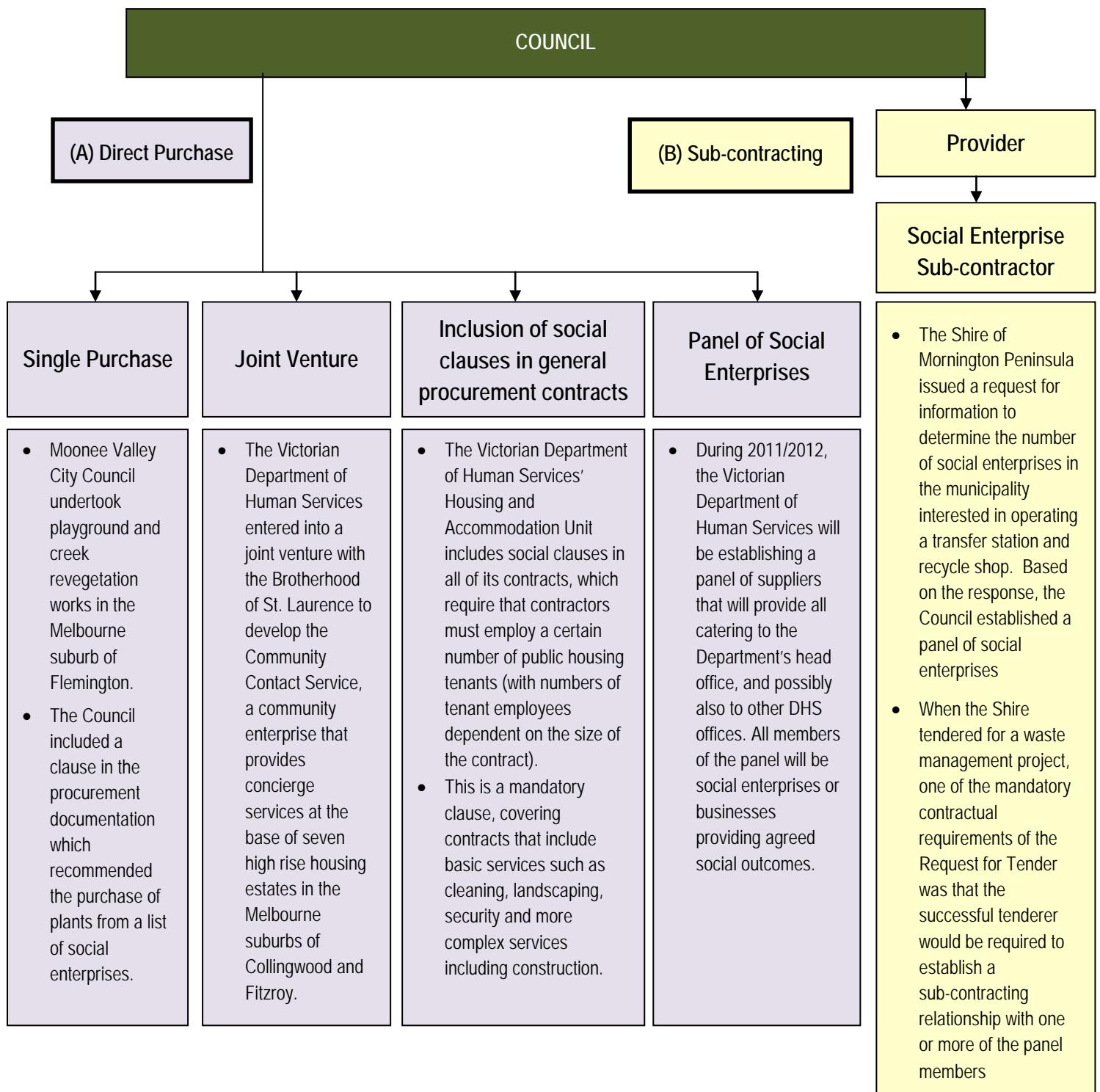
4. HOW CAN LOCAL GOVERNMENT PROCURE FROM SOCIAL ENTERPRISES?

There are two key ways in which social enterprises can be engaged through social procurement:

(A) by purchasing directly from a social enterprise

(B) by contracting a provider which sub-contracts out the social procurement component of the contract to a social enterprise.

Note: With respect to (B), a council cannot specifically nominate a third party with whom the supplier must sub-contract, as this is contrary to Commonwealth and State competition law. The council may assist the provider in identifying a range of social enterprises.



CASE STUDY BENDIGO COMMUNITY BANKS

Between June 1993 there was a 29% reduction in bank branch numbers as approximately 2,060 bank branches closed across Victoria ostensibly to reduce bank operating costs. Many communities were left without local branch facilities and found it difficult to meet their business and personal banking needs.

The Bendigo Bank pioneered the concept of the 'community bank' in regional areas. Community bank branches do not directly retail financial services, but are franchisees of the services of another financial institution. A community bank branch is a locally owned and operated company – with functions as a franchise.

When the local company begins to make a regular operating surplus, after the payment of branch running costs and Bendigo Bank's share of the revenue is received, the remaining funds are available to be reinvested back into the community through dividends to shareholders and grants to community groups and projects.

Community branches:

- deliver employment opportunities for local people
- retain local capital in the community
- act as a local investment option for shareholders

provide a source of revenue for important community projects as determined by the local community.

5. MEASURING THE VALUE OF A SOCIAL ENTERPRISE

The value generated by social enterprises will typically be measured in terms of the achievement of their social, cultural or environmental mission, as well as their financial sustainability. There are rigorous models for measuring the impact of social enterprise, such as Social Return on Investment. (This is discussed further in the cost benefit and monitoring papers in the toolkit.)

6. HOW TO FIND A SOCIAL ENTERPRISE

There are over 20,000 social enterprises in Australia that operate in almost every industry however, it is not always immediately evident that a business is a social enterprise.

Social Traders, itself a Victorian not-for-profit organisation, has developed a directory of social enterprises that provides a platform for the collection of data on social enterprises including industry, location and social benefit. The Social Enterprise Finder, an online register of social enterprises, is in the early stages of development stages as at August 2011, but will grow over the forthcoming

12 months to provide a valuable resource to councils and other procurers. To access this resource, go to www.socialenterprise finder.com.au

There are a number of social enterprises currently contracted by local government. A number of social enterprises have benefited from social procurement processes, but many of these social enterprises have won work via a competitive tendering process that has not involved social procurement requirements.

7. HOW TO SUPPORT SOCIAL ENTERPRISE DEVELOPMENT

If you can identify goods and services that you regularly purchase you might like to work with a local charity to explore the potential to support or otherwise contribute to a social enterprise to create your own social benefit provider.

Advice and assistance for this is available from Social Traders www.socialtraders.com.au

8. RESOURCES AND INFORMATION

- *Social Procurement in Australia* - http://www.csi.edu.au/project/Social_Procurement_in_Australia.aspx
- *Finding Australia's Social Enterprise Sector (FASES) - Final Report* <http://www.socialtraders.com.au/finding-australias-social-enterprise-sector-fases-final-report>
- *Social Traders:* www.socialenterprise finder.com.au