Briefing

January 2017

European Parliament

Fostering social innovation in the European Union

SUMMARY

Strengthening the social dimensions of European Union policies, in general, and of the economic and monetary union, in particular is an increasingly important discourse across the Member States, particularly since the 2008 financial crisis. Social innovation, which is gaining increasing importance in the public, private and third (i.e. voluntary, non-profit) sectors, can greatly contribute to addressing the growing challenges, such as migration, poverty and global warming. The European Union particularly promotes social innovation through employment and social policies as well as policies on the single market.

The main initiatives explicitly target the governance and funding mechanism of social innovation, including its regulatory environment, powering public-sector innovation, the social economy, as well as providing policy guidance and fostering new policy practices. Due to the complexity of the concept and ecosystem of social innovation and its very diverse contexts in the Member States, European Union policies have varied impact: regulations can have controversial effects in terms of visibility of initiatives, and many organisations still cannot access sufficient funding. To make these initiatives more effective it is important to know more about the impact of social innovation, including its social and environmental value and the importance of these for the economy.

In this briefing:

EPRS | European Parliamentary Research Service

Author: Nora Milotay with Giovanni Liva

Members' Research Service

PE 595.885

EN

Glossary

Social innovation. There is still no overarching consensus on the interpretation of the term. Within the EU it is interpreted as a ubiquitous concept that entails new ideas (products, services and models) that simultaneously meet social needs and create new social relationships or forms of collaboration.

Social enterprise. There is no consensus within the EU on its definition, but its entrepreneurial, social and participatory governance dimensions are emphasised.

Social economy. In an EU context it unites a large and rich variety of organisational forms shaped by diverse national and welfare contexts but with shared values, characteristics and goals, and combines sustainable economic activities with positive social impact, while matching goods and services to needs.

Social business. Covers an enterprise whose primary objective is to achieve social impact rather than generating profit for owners and shareholders; which operates in the market through the production of goods and services in an entrepreneurial and innovative way; which uses surpluses mainly to achieve these social goals and which is managed by social entrepreneurs in an accountable and transparent way, in particular by involving workers, customers and stakeholders affected by its business activity.

Issue

Social innovation is a frequently used term in European Union (EU) policies. Although the idea of social Europe is not new, the discourse on it has gained increasing momentum since the 2008 crisis, as balancing the economic and social aspects of EU policies has become urgent. In 2015 the Five Presidents' Report, 'Completing Europe's Economic and Monetary Union', called for a 'social triple A' within the economic and monetary union (EMU). Lately terrorism, radicalisation, the rise of right-wing political parties and most recently the United Kingdom referendum on membership of the European Union ('Brexit') and its aftermath have brought discussions on inequalities in general, and the social dimension of the EU, in particular, to the fore. In this context, social innovation has an important role to play, since it is a powerful means to stimulate new ideas, processes and projects that address complex, socially relevant issues and ensure broad participation, including of civil society. European policies explicitly and implicitly address social innovation.

Current rationale of social innovation policies in the European Union

Strengthening the social dimension of EU policies and particularly that of EMU can mean, on the one hand, creating more economic equality, mainly through financial and labour market incentives; and becoming more democratic, attempting to reach out to all citizens and generating more solidarity among individuals as well as Member States, on the other. The overwhelming discourse across the EU concerning social Europe is that more of the same is not possible anymore, a paradigm shift and structural change is vital in order to face the many global challenges that put at risk the status quo.

Some sectors explicitly address social innovation, such as social and employment policies, but also economic policies targeting the social economy and social entrepreneurship through policies aimed at industry, the internal market, entrepreneurship, and small and medium-sized enterprises (SMEs). Social innovation can contribute to structural reforms, it can trigger and generate bottom-up approaches to solutions and social change. Particularly where public services do not manage to deliver, social enterprises often try to compensate for the shortcomings of the welfare state. In some countries (such as the

United Kingdom), social enterprises have been supported as a way to privatise welfare services; in others (e.g. Italy and Greece) they have been financed by public policies for the delivery of social services that are poorly covered by the public welfare services; while in those countries distinguished by well-developed public welfare structures (e.g. Germany and Nordic countries) social enterprises have emerged only in niche areas.

Some trends which particularly trigger social innovation

Changing demography. While the EU's population increased by 3.1 million between 2014 and 2015, such an increase could be fully attributed to net migration. The median age in the EU-28 increased by 4.1 years (on average, by 0.3 years per annum) between 2001 and 2015, rising from 38.3 years to 42.4 years. In January 2015 older persons (aged 65 or over) had an 18.9 % share (an increase of 0.4 % compared with the previous year and an increase of 2.3 % compared with 10 years earlier). These figures could be even larger considering that immigrants into EU Member States in 2014 were on average, much younger than the overall population already resident in their country of destination (42 vs 28 years old in 2014).

Despite the slight reduction in poverty figures after the 2012 post-crisis peak, a little over 118 million people – 23.7 % of the EU population – were still at risk of poverty or social exclusion in 2015. Young people aged 18 to 24 are the most likely to be at risk of poverty or social exclusion. Almost a third was at risk in 2014 (30.8 % of men and 33.0 % of women). People younger than 18 years old were the group with the second highest risk, at 27.8 %.

In 2015, 151 people died and over 360 were injured as a result of terrorist attacks in the EU. Six EU Member States faced 211 failed, foiled or completed terrorist attacks. 1 077 individuals were arrested in the EU for terrorism-related offences – 424 in France alone. The numbers have increased substantially in the last two years. In 2013 the number of attacks (failed, foiled or completed) was 152, while arrests numbered 535.

Environmental challenges are increasing. For example, global average concentrations of various greenhouse gases (GHG emissions) in the atmosphere continue to increase, while in the EU-28 they decreased in recent years – both in energy industries and other stationary installations. In 2014, GHG emissions were already 23 % less than the 1990 levels.

The share of renewable energy in the gross final energy consumption in the EU-28 countries reached 15 % in 2013, representing 75 % of the EU's 20 % renewable energy target for 2020.

EU policies on social innovation

Social innovation is present in a wide range of policy initiatives from the European Commission, such as the European platform against poverty and social exclusion, the Innovation Union, the Social Business Initiative, the Social Investment Package, the Digital Agenda, the new industrial policy, ('For a European Industrial Renaissance'), the Innovation Partnership for Active and Healthy Ageing, Cohesion Policy, and the Social Innovation Europe initiative.

As the 2014 report on social innovation from the Commission's Bureau of European Policy Advisers (BEPA) gave a comprehensive overview of all the relevant policies and programmes across the EU, this briefing mainly focuses on the EU actions that have contributed to the creation of an enabling environment, of a framework for social innovation at European level in which all these policies and programmes operate. This includes initiatives to design and improve governance and coordination between social innovation actors, including creating an optimised regulatory environment; debating with policy-makers; powering public-sector innovation and policy guidance; and fostering new policy practices. The initiatives target public, private and third-sector organisations, including social enterprises.

Governance, the enabling environment for social innovation

Social Business Initiative

The Social Business Initiative (SBI) was adopted by the European Commission in 2011. It was part of 12 projects in the Single Market Act I that were put forward to re-launch Europe's growth and social progress. The SBI aimed to create a favourable environment for the development of social business in Europe and of the social economy at large. The EU social economy in its broad sense, including enterprises with specific legal statutes as cooperatives, mutual associations and foundations, and social enterprises with ordinary public or private limited company statutes, represents more than 10 % of all EU businesses, over 11 million workers and 6 % of the EU's employees. The SBI proposed ways to improve social businesses' access to funding, including EU funding through Structural Funds, and the future establishment of a financial instrument to provide social investment funds and financial intermediaries with equity, debt, and risk-sharing instruments. It set up a Regulation for European Social Entrepreneurship Funds (EuSEF), Microcredit Facilities and created the European Programme for Employment and Social Innovation (EaSI).[1] It also envisaged activities to measure social business activity, improve the visibility and recognition of social businesses, and create a simplified regulatory environment. The simplification of the European Cooperative Regulation, the proposed regulation for European foundations (withdrawn in 2015) and a 2012 Commission study on mutual societies were supposed to help to create legal frameworks in which these social economy entities can be more easily recognised and therefore more involved in promoting social innovation on the ground. Finally, the rules for awarding public aid were also simplified in the framework of the SBI.

Since its launch, the main aim was to implement SBI actions across all Member States. However, the regulatory frameworks of social businesses are still very diverse across the Member States. A 2016 European Parliament study on the social economy identified three groups of Member States, corresponding to the different levels of regulation: with developed legal frameworks, such as Belgium Italy, Portugal, Spain, Sweden, France; the second with some regulations but with no further efforts, such as the United Kingdom, Denmark, Greece, Finland, Poland, Malta and Luxemburg; and those with no or limited recognition of the social economy, such as Hungary, Austria, Estonia, Germany, Latvia, Lithuania, Czech Republic, Slovenia and the Netherlands. The study indicated that the existence of a regulatory environment enables the social economy to have more impact, but also showed that it can also be an important player in those contexts where it is less regulated, e.g. German alternative economy. A 2016 European Commission study on social enterprises and their eco-systems claimed that regulation of social enterprise can have controversial effects as it can strengthen the visibility of certain social enterprises and at the same time overshadow those that are not formally recognised. In the same vein, the September 2015 European Parliament resolution on social entrepreneurship and social innovation called for the deepening and broadening of the scope of the SBI. It emphasised the importance of recognising the diversity of social enterprises, and that social innovation should in particular contribute to improving the quality of services rather than just lowering their cost. It also stressed that the social economy and social enterprises should not replace the welfare state and public services.

A mapping study on social enterprises and their eco-systems in Europe published by the Commission in 2014 had already pointed to shortcomings. These included the lack of legal recognition of social enterprises, inadequate use of social clauses,[2] current public procurement practices (large contract sizes, disproportionate pre-qualification requirements, etc.), and payment delays. All of these reportedly make it difficult for social enterprises to compete effectively in public procurement markets (discussed below). In addition, conventional investors do not understand the hybrid nature of these enterprises so access to finance is difficult for them. The 2016 study (updating the 2014 one) pointed to the same problems. The follow up Commission initiatives targeted some of these problem areas.

In this context an important regulatory measure that can encourage further developing the ecosystem for social innovation is the June 2016 European Commission communication on the collaborative economy. It provides guidance on how existing EU law should be applied to this dynamic and fast-evolving sector, clarifying key issues faced by market operators and public authorities alike. It addresses issues of what kind of market access requirements can be imposed, who is liable if a problem arises, how does EU consumer law protect users, what kind of employment relationship exists, and which tax rules apply. The new start-up and scale-up initiative announced by the Commission at the end of 2016, which aims at improving start-ups' ability to scale up, also emphasises their role in social innovation and the importance of further supporting better access to funding for social start-ups.

Public-sector innovation

Although social innovation is mainly a bottom-up process, a well-functioning public sector plays an essential role in creating an enabling framework for social innovation. Nevertheless, the public sector needs to innovate itself for that to happen. Public sector innovation is closely linked to social innovation, particularly to the new ways of policy development and implementation. A 2012 Commission study saw public-sector innovation as a means to address growing budgetary pressures, through more efficient administration or service delivery, and respond to new societal demands, through different and more effective service design. However, politically determined governmental reforms (e.g. deregulation) and public-sector innovation more narrowly understood (e.g. quality certifications for the provision of social services, e-prescriptions) do not fit into this definition. While looking at the situation of 25 Member States, the study distinguished between Member States that have a long-standing commitment to public-sector innovation and those that were followers. There were several main elements seen in the vanguard: big projects trying to improve the cost performance of the whole system, streamlining inter-agency work, bottom-up input from junior staff, consultation or use of social media and crowdsourcing techniques.

The 2013 'European Public Sector Innovation Scoreboard (EPSIS) – A pilot exercise' was the first EU wide attempt to better understand and assess innovation in the public sector. This pilot study belongs to the family of European Innovation Scoreboards published annually. In the same year, the report of an expert group on the new architecture of public-sector innovation pointed to four major deficiencies: insufficient enabling framework conditions; lack of strategic innovation leadership; limited knowledge of methods; and insufficient generation and usage of data. It also came up with a new model that focused on guiding principles, such as co-design and co-creation of innovative solutions, adopting collaborative service-delivery methods across sectors and borders, embracing creative technology disruption and adopting an attitude of experimentation and entrepreneurship. The 2016 eGovernment action plan aims to address several of these issues. As it will not have a separate budget, it will mainly focus on facilitating the co-creation of solutions across Member States and different players, including citizens. The related Joinup collaborative platform should facilitate this endeavour.

Public procurement

According to the European Commission, public procurement refers to the process by which public authorities, such as government departments or local authorities, purchase work, goods or services from companies. Examples include the building of a state school, purchasing furniture for a public prosecutor's office and contracting cleaning services for a public university. In the EU an average of €2 trillion is spent on public procurement each year, which is about 14 % of EU GDP.

The European Commission's 2016 study on social enterprises and their eco-systems explained that public procurement mechanisms trigger competition based on cost-minimisation criteria. Thus, competitive tenders have discouraged innovation and have pushed social enterprises into adopting practices that typically characterise either public welfare providers or traditional mainstream enterprises. Moreover, by inducing budget cuts, competitive tendering has weakened the ability of social enterprises to detect unmet needs, with detrimental effects for the most vulnerable beneficiaries.[3] Against this background, the 2014 EU public procurement rules that were to be transposed in the Member States by 2016 are a significant step forward. They gave more opportunities to launch more socially oriented initiatives, more possibilities for SMEs, and simpler and more flexible rules. They also introduced a new procedure for the purchasing of innovative products and services (innovation partnerships). These new rules have offered new opportunities to social enterprises and have encouraged the evaluation of bids, in particular those concerning social and health services, on the basis of the best price/quality ratio. Furthermore, the EU public procurement rules have provided more opportunities for reserved contracts that restrict the tendering process for certain goods and services and the use of social clauses, whose adoption is however still decided at national level.

The September 2015 European Parliament resolution called on the Member States to implement these procurement principles in all tendering and selection procedures. Nevertheless, by May 2016, 21 Member States had failed to transpose the regulation, and overall the practice of including social criteria in public contracts is not yet very extensive. To make full use of the possibilities of this new EU public procurement legislation, Member States need to introduce it into their national legislation while adjusting it to the specificities of their particular welfare systems. EU-level efforts need to be complemented and exploited at national and local levels by further measures to address the barriers to social enterprise development. In this context the EU's work in collaboration with the OECD in several member countries to analyse the conditions and pre-conditions needed to set up social economy and social enterprise organisations has highlighted several key areas for national and local policy action in a systemic way, including using social clauses in public procurement procedures:

- develop positive attitudes through entrepreneurship education, or through embedding it in the local economic strategy;
- enabling regulatory, legal and fiscal frameworks to allow for social enterprises to also meet their social missions, such as through fiscal reliefs;
- help the emergence of a solid financial market place for social enterprises including start-ups, through loan guarantees or innovative institutional arrangements between governments and financial institutions;
- offer business development and support structures, like innovation parks and incubators, thus focusing in particular on those outside support structures;

- support further research in the area focusing on topics, such as monitoring and measuring social impact.

Social investment

Social innovation has also been strongly supported by EU employment and social policies. The 2013 Social Investment Package (SIP) explicitly called for making more efficient use of social budgets for better social protection; strengthening everybody's capacities to participate in society; supporting individuals throughout their lives by focusing more on prevention than cure; developing integrated services for better social outcomes; and particularly helping vulnerable children. Moreover, making more efficient use of financial resources, including innovative approaches such as social investment bonds, microfinance and support to social enterprises, strengthening social investment throughout the European Semester and mainstreaming governance and reporting, were at the heart of the package. It emphasised that social policy innovation needs to be up-scaled, embedded into policy-making, and connected to priorities such as the implementation of country specific recommendations (CSRs). Social enterprises, together with the third sector, can complement public-sector efforts, and be pioneers in developing new services and markets for citizens and public administrations, but they need better skills and support. In this context the package called for taking full advantage of the European Structural and Investments Funds (ESIF), particularly the European Social Fund (ESF), the European Regional Development Fund (ERDF), the European Agricultural Fund for Rural Development (EAFRD), the Fund for European Aid to the Most Deprived (FEAD), the European Globalisation Adjustment Fund (EGF) and the Programme for Employment and Social Innovation EaSi (formerly called Programme for Social Change and Innovation (PSCI)). Financial support from the Cohesion Fund (CF), which has as its objective the strengthening of economic, social and territorial cohesion throughout the European Union, was to continue to be an important tool during the programming period 2014-2020 for meeting the Europe 2020 objectives, together with the necessary reforms and modernisation identified in this communication. Finally, attention was also drawn to the research and innovation programme, Horizon 2020, to COSME, the EU's programme for SMEs, and to the Health Programme, which also contains specific provisions to financially support social policy innovation. Lastly, the package recalled that EU funding resources can be complemented by resources from, for instance, the World Bank and the European Investment Bank (EIB) group.

The Commission presented, in relation to the package, operational guidance on how Member States can best use the ESIF funds to achieve the agreed thematic objectives. This guidebook was to contribute to the realisation of policy reform and sustainable and efficient public services, and the promotion of social innovation, through concrete examples from urban regeneration, migration and healthy ageing. A 2016 publication on social finance approached financing from the angle of private-sector organisations, partnerships and individuals, and guided its readers through the decision-making process so as to find tailor-made financing solutions that respond to local needs. Finally, the 2015 guide prepared by the Social Platform wished to give guidance on how to strengthen, with the new public procurement regulations, the integration of services that help persons with disabilities and disadvantaged persons, and also on how to put service users first by designing effective procedures for awarding contracts for social and health services.

Funding

A key factor affecting the development of social innovation is access to finance. In order to facilitate the expansion of this field around Europe there is a need for better funding of social innovation, which also means the development and implementation of innovative financial models capable of adapting to the new funding landscape. In recent years, a wide range of new funding mechanisms from both the public and private sectors have emerged, with the specific aim of expanding innovative solutions. On the one hand, the public sector has increased funding for innovative solutions to respond to pressing social problems at a time of shrinking budgets. In this context, public authorities are committed to being innovative in delivering public services, to improve their effectiveness and to attract new forms of financing. On the other hand, private investors and the banking sector are increasingly interested in the field of social impact investment, which is the provision of finance to organisations with the explicit expectation of a measurable social, as well as financial, return. These private investors vary in their nature, some of them focusing more on financial returns, and others on the social impact of their investments.

In this context, the EU has a crucial role to play to improve access to finance for those innovative solutions that meet social needs and address societal challenges. In recent years, several EU funding programmes have increasingly given priority to social innovation in different ways, ranging from the Structural Funds managed in partnership with Member States to smaller and more specific funds that support social entrepreneurship. In doing so, the EU is establishing a comprehensive financial ecosystem capable of supporting social innovation implemented by the public, private and third sectors, including by social enterprises.

Social innovation has received attention for the current financing period of the ESIF (2014-2020), in particular within the context of ESF. In fact, the ESF Regulation requires social innovation to be promoted and supported by all Member States, with particular focus on the evaluation of such innovative solutions in order to prove their efficiency in tackling social problems. Also, Horizon 2020 provides strong support for innovative solutions to societal challenges, links research results to policy-making, and draws on existing and new networks and platforms in the field of social innovation.

In addition, as part of the Investment Plan for Europe launched in 2015, the European Commission created the European Fund for Strategic Investments (EFSI). Even though it is considered one of its priorities, so far the EFSI has no instruments that are specifically aimed at the field of social innovation. Hence, recently, the Commission has been considering the expansion of this project, by implementing new financial instruments specifically addressing social innovation. One example of this would be the 'Payment by Results' mechanism, an innovative instrument for financing the delivery of social services (see box below). However, a report by the European Court of Auditors published in November 2016 expresses concerns that the expansion of EFSI is happening too soon, since there has been no time for the economic, social and environmental impact of EFSI to be measured and to enable conclusions on whether EFSI is achieving its objectives.

'Payment by Result'

'Payment by Result' (PBR) instruments are capturing attention as an innovative way to finance solutions to social issues. They manifest themselves in results-based contracts: the service provider proposes a service that is expected to produce a favourable social outcome, and the public authority pays only if the outcomes are reached. Whilst a PBR may not always be suitable due to the diverse nature of social services, it has significant advantages in stimulating social innovation by focusing on *outcomes* (results) instead of *outputs* (delivery of service). The focus on results is also considered to help with the alignment of the objectives between different partners in social interventions, including the service providers.

Arguably, the best known form of PBR is Social Impact Bonds (SIBs), first launched in the UK a few years ago. SIBs are a form of outcome-based contracts in which public-sector representatives commit to pay for a significant improvement in measurable social outcomes. Through a SIB, private investment is used to pay for interventions, which are delivered by service providers. Financial returns to investors are made by the public sector on the basis of improved social outcomes. If outcomes do not improve, then investors do not recover their investment. Since they are a long-term and illiquid types of investment, SIB investments are made mainly by a restricted circle of investors that already operate in the sector and are prepared to accept a lower financial return to generate social benefit (e.g. foundations, philanthropists and other institutional investors). From the point of view of the public sector, SIB has the significant advantage of transferring the risk of a successful intervention with a social purpose to private investors, as well as increasing the pool of capital available for social interventions. To date this practice is still in an experimental phase as there is a great lack of data concerning the social-impact investment market, including measuring its social impact as discussed below.

In recent years, the Commission, through the EIB and the European Investment Fund (EIF), has also created specific funds (presented below) with the aim of enlarging the resource pool available for social enterprises. From June 2015, EIF manages the EaSI Guarantee Financial Instrument, which is part of the EaSI and specifically dedicated to microfinance and social entrepreneurship finance. Through this financial instrument, EIF does not provide finance directly to micro-entrepreneurs or social enterprises but offers guarantees to selected financial intermediaries. Thanks to the risk-sharing mechanism between the financial intermediaries and the Commission, the EaSI Guarantee enables selected microcredit providers and social-enterprise investors to expand the range of enterprises they can finance. In December 2016, the EIF and the Commission announced a new capacity-building initiative, the EaSI Capacity Building Investment Window which will increase the capacity of selected providers to offer credit to micro-borrowers and social enterprises. In October 2016, the Commission launched an open public consultation for the mid-term evaluation of the EaSI, through which it seeks feedback on the programme, particularly from stakeholders and beneficiaries, by early 2017.

Operating from July 2015, the Social Impact accelerator (SIA) is the first pan-European public-private partnership addressing the growing need for equity finance to support social enterprises. SIA operates as a fund-of-funds managed by the EIF and invests in financial institutions which target social enterprises around the EU. In order to measure the social impact of targeted social enterprises, EIF has developed a new framework for quantifying and reporting on impact metrics at all levels of the SIA investment chain. There has been no evaluation of this tool to date.

Besides these two funds that directly address the shortage of funding for social enterprises, other measures have been taken by the Commission to stimulate the growth of this emerging sector. For instance, as part of the SBI, the Commission set out a new European Social Entrepreneurship Fund (EuSEF) label, so that private investors can easily identify funds that focus on investing in social businesses across the EU. To qualify as a EuSEF, a fund has to prove that at least 70 % of the capital received from investors is invested in social businesses. It also gave more information on evaluation and monitoring, and above all, it allowed for the simplification of the diverse rules in the Member States. For example, a European passport was to ensure that social entrepreneurship funds could raise funds across Europe. However, this measure has not been particularly effective so far, and the Commission decided to make an early review due to the low take-up of the investment scheme.

Remaining challenges

Implementing a complex concept in practice

As described in the 2016 EPRS briefing on understanding social innovation, social innovation is a central element of the social change mechanism, and as such the process of social innovation has to be seen as a process of social change. The relationship between the two (i.e. social innovation and social change) is then determined by breadth and depth, i.e. how far social innovation is diffused in society, to what degree it has been institutionalised and to what degree existing social practices are challenged.

Consequently, there are different approaches to social innovation in different local and cultural contexts. These policies are also based on very different rationales, whether they stem from the need for the empowerment of a certain group of disadvantaged people, or whether they are focused on the creation of more aggregate individual utility. For the promotion of more and better social innovation in the EU, the European Parliament has repeatedly called for the importance of the exchange of knowledge and good practice among Member States, and also emphasised the creation of social innovation clusters for the same purpose. These practices can also lead to more clarity on the conceptual side of social innovation that, in turn, is very important for the design of European policies that can support national, regional and local policy-making. The European Social Innovation Platform, for example, can serve this purpose.

The EU's view on social innovation policies is still quite narrow in practice. It does not expand, at least not explicitly, to many potentially relevant sectors, such as environment, energy, and transport. In a September 2016 hearing on a future action plan, the European Parliament's Social Economy Intergroup emphasised that social economy goes far beyond the social services and the integration of vulnerable people into society, and that it entails all economic sectors from the aerospace industry, to agriculture, and retail and financial services. In the same hearing it was also emphasised that it should not be regarded as a 'niche' economy but as part of the mainstream economy. Although EU research already identifies social innovation as a ubiquitous concept, it takes time for it to filter through to policy-making and follow-up actions. Related to that, it is a challenge to create flexible regulatory environments and synergies between the different funding schemes so that they really promote social innovation on the ground. In its September 2015 resolution on social entrepreneurship and social innovation in combating unemployment, the European Parliament described the difficulties in relation to the funding of social enterprises and the social economy.

Measurements of social impact

Another challenge of policies on social innovation is related to the development of measurement instruments to measure the social impact of different investments. This is a relevant issue for the expansion of social innovation. First, to justify the allocation of public money, and also because through demonstrating the positive impact of social innovation, it can attract private investment. For instance, the issue of measuring social impact seems to arise as a prerequisite for PBR contracts, as they are multi-stakeholder agreements based on shared objectives and methodologies. Second, in order to implement more evidence-based policies, there is a need to verify the effectiveness of social innovation and therefore establish *ex-ante* and *ex-post* which policies work and which do not. Ultimately, in the context of the development of new indicators that go beyond GDP, the possibility to measure the impact of social innovation in terms of social and environmental value creation could also help to demonstrate the central role of social innovation within the European economies. In this context the 2016 European Parliament resolution on the Annual Growth Survey (AGS) put great emphasis on the social market economy, both its importance for growth and for balancing competitiveness with high social standards, which in turn can contribute to social justice.

However, measuring the impact of social innovation is arguably the most complex and controversial task in the development of this sector. The difficulty stems primarily from the fact that the success of social innovation relies on factors that are difficult to quantify, at least in the short to medium term. Depending on the issue to be addressed, parameters for impact measurement can be more or less difficult to identify, with the possible risk of a bias towards more easily measurable social innovation. For instance, identifying appropriate parameters for an innovative social programme aimed at reducing prisoner recidivism (e.g. the Peterborough Social Impact Bonds) is not particularly difficult; whereas measuring the long-term social impact of an innovative early childhood education project, such as the 'Reggio Emilia Approach', becomes extremely complex. Since meaningful and effective measurement should be simple, robust and objective, underestimating or misunderstanding the multifaceted interactions and conditions involved in social problems and social innovation can lead to simplistic conclusions. Therefore, the smaller and simpler to reach the objective of social innovation is, the easier the measurement of the outcome.

While this is still a very challenging area, there have been some improvements in this field at European level. In 2014 a guide to testing social policy innovation was prepared, accompanying the SIP to help policy-makers and social-service providers to design policies and relevant impact-evaluation objectives and methods. The guide also gave insight into how to interpret the data and how to feed the knowledge back into policy-making so as to fine-tune policies. The same year the GECES sub-group on impact measurement, set up by the European Commission in 2012, published a report proposing common approaches to measure social impact responding to the Single Market Act II, which states that 'the development of rigorous and systematic measurements ... is essential to demonstrate that money invested in social enterprises yields high savings and income'. Even though the paper and the request by the European Commission are specifically addressed to the social enterprise sector, and in particular to provide information to support the EuSEF, the EaSI and the SIA, the sub-group was set up to agree upon a European methodology which could be applied beyond measuring the outcomes and outputs achieved through these instruments.

Main references

Bureau of European Policy Advisers (BEPA), Social Innovation – A decade of changes, European Commission, 2014.

Directorate-General for Internal policies, Policy Department A: economic and scientific policy, study 'Social Economy', European Parliament, May 2016.

European Commission, study 'Social Enterprises and their eco-systems: developments in Europe', 2016.

European Commission, study 'A map of social enterprises and their eco-systems in Europe', 2014.

Milotay, N., Understanding social innovation, EPRS, European Parliament, October 2016.

Social innovation website, European Commission Directorate General for Employment, Social Affairs and Inclusion.

Social innovation website, European Commission, Directorate General for Internal Market, Industry, Entrepreneurship and SMEs.

Endnotes

[1] These will be all discussed below, under 'Funding'.

[2] Guaranteeing respect for labour law and collective agreements.

[3] Social enterprises and their ecosystems: Developments in Europe, European Commission, 2016, p.26.

Disclaimer and Copyright

eprs@ep.europa.eu
http://www.eprs.ep.parl.union.eu (intranet)
http://www.europarl.europa.eu/thinktank (internet)
http://epthinktank.eu (blog)