

October 2013

Impact Investing in the area of long-term unemployment

Entrepreneurial approaches within selected European countries

Stephanie Petrick



About the Social Venture Fund



The Social Venture Fund invests in social enterprises which offer innovative and entrepreneurial solutions to urgent social and environmental challenges. It provides support where it is not possible to secure traditional sources of capital. Therefore, the Fund closes a financing gap and acts as a catalyst for the comprehensive distribution of creative ideas and solutions for the better. The Social Venture Fund's goal is to preserve and recycle already distributed capital for future investment.

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Acknowledgements



The work for this report was supported by Omidyar Network

We are very grateful to all the experts who assisted us in our research and provided us with access to their first-hand perspectives across various national markets. They also offered us valuable insight on their investments in the field of long-term unemployment.

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EXECUTIVE SUMMARY

- ◆ Almost 3.2m people are long-term unemployed across France, Germany, Switzerland and the UK. This is a growing trend, particularly among society's most vulnerable groups (i.e. the young and low-skilled). Due to the serious social and economic problems associated with long-term unemployment, there **is a real need for intervention**.
- ◆ Governments in these four countries spend on average 0.6% of GDP on active labour market policies in order to tackle long-term unemployment, but **fiscal consolidation is seriously squeezing resources**.
- ◆ Capital constraints and the need for innovative, entrepreneurial approaches have **reinforced the role of social enterprises** in all four countries.
- ◆ Differing by value proposition and targeted beneficiaries, **four business models of social enterprises** have been identified: the 'work integrator', the 'hidden work integrator', the 'entrepreneurial coach' and the 'skill developer'.
- ◆ Social enterprises across all of these business models have proven their effectiveness in tackling long-term unemployment; they demonstrate their social impact through **measurable output indicators** (esp. if they are public contractors).
- ◆ **Resilient income profiles** are being achieved by most players in the four business models. Risks arising from the high reliance of work integrators on government subsidies, and the reliance of skill developers on government fees paid in arrears, have to be managed.
- ◆ In three countries (apart from Switzerland), we have identified and analysed **selected impact investments into almost 20 social enterprises** in the area of long-term unemployment, with the UK showing the highest number of investments.
- ◆ Given the size and relevance of the problem and the prevalence of investable social enterprises showing strong social impact and financial resilience, we believe that social enterprises tackling long-term unemployment will play an important role in impact investor's portfolios going forward. In **France, Germany and Switzerland**, we expect **investment opportunities with work integrators and, to a lesser extent, hidden work integrators**. In the **UK**, we believe interesting opportunities are more likely to emerge in **work integration and skill development for NEETs (including Social Impact Bonds) as well as in hidden work integrators in deprived communities**.

BACKGROUND

The objective of this study is to assess potential investment opportunities in the area of long-term unemployment for an impact investor such as the Social Venture Fund. Throughout this report, we define impact investing as any type of repayable investment with a focus on both social impact and financial return.¹

The study covers four selected countries – France, Germany, Switzerland and the UK – within the Social Venture Fund's investment scope, where we see interesting investments opportunities in the medium-term.

In order to assess the opportunities in this market, we have looked at the following five key aspects:

- ◆ **Problem and context:** What is the scale of the problem and what is the context of long-term unemployment in the focus countries?
- ◆ **Role of social enterprises:** What is the role of social enterprises in tackling long-term unemployment as a social problem?
- ◆ **Social impact of interventions:** Which interventions show efficiency in tackling long-term

unemployment? How is social impact measured in this field?

- ◆ **Financial resilience of income models:** Which social enterprises have developed self-supporting business models that generate income and profits?
- ◆ **Investment opportunity:** Are there investable targets? What are examples of impact investors who have already invested in the area?

The study draws on secondary research as well as on a series of interviews with impact investors in the sector. The research on unemployment is vast and this systematic review does not claim to be exhaustive. Since this study has been developed as a market screening for investment opportunities from the perspective of an impact investor, it follows a practical rather than a theoretical approach.

The Social Venture Fund has initiated this study with the intention of sharing knowledge and perspectives within the industry and with the aim of fostering pan-European cooperation among impact investors. As such, first-hand insights from fellow social investors who are active in the area of long-term unemployment form a crucial aspect of this study.

PROBLEM AND CONTEXT

SCALE OF THE PROBLEM

In 2011 the average harmonised unemployment rate across OECD² countries stood at 8.0%, up from 5.6% in 2007 (according to figures collated by the International Labour Office (ILO)³). Despite the fact that most of the OECD countries have seen a recovery since the financial and economic crisis of 2008, the share of long-term unemployment (i.e. those who have been out of work for one year or more⁴) has risen to 34%, or roughly 16m individuals. In fact, the recovery has not been strong enough to make up for the cyclical increase in unemployment. The OECD Employment Outlook 2012 forecasts that “...the unemployment rate is expected to remain persistently high for an extended period of time...”⁵ It appears likely that the cyclical rise in unemployment is increasing structural unemployment in some countries.

Structural unemployment is already perceived as a serious problem in **France, Germany, Switzerland** and the **UK**, the three former of which all show long-term unemployment rates well above the OECD average. The UK, however, has suffered from a sharp increase in long-term unemployment since 2009. The root causes of the problem vary widely between these four focus countries, but experts agree that the crisis has only aggravated the deep-seated structural problems in the local labour markets⁶.

France has not yet overcome the economic crisis, with unemployment rates still rising. In 2011 the unemployment rate reached 9.0% and the share of long-term unemployment was over 41%, or close to 1.1m individuals.

The **German** labour market recovered quickly from the 2008 economic crisis and unemployment continued its long-run structural decline to 5.6% in 2011. Long-term unemployment has also decreased. However it remains a serious problem, with almost 1.2m people (48% of the unemployed) out of work for more than a year.

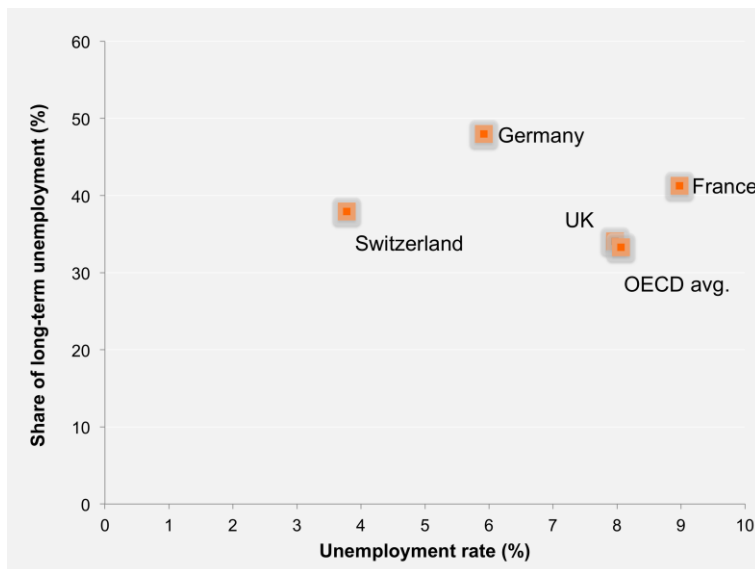


Figure 1: Harmonised unemployment rates and incidence of long-term unemployment (2011)

Source: OECD Employment Outlook 2012

Switzerland shows one of the lowest unemployment rates of all the OECD countries, at 3.8%. Long-term unemployment makes up a relatively large share of this figure, standing at roughly 39% or 71k individuals.

After a sharp decline caused by the crisis, the **UK** economy has stabilised since 2010. The unemployment rate is still high at 8.0% and the share of long-term unemployment has risen quite sharply since 2007, making up 33% of all unemployment, over 0.8m individuals (a little lower than the OECD average of 34%).

There are several ways to measure long-term unemployment and national statistics may differ significantly from the harmonised OECD/ILO numbers. Often, national statistics show a higher level of unemployment, as they operate with a wider definition of the term (e.g. accounting for people on part-time contracts or people who do not meet ILO criteria but are registered at national job centres).⁷ Critics argue, however, that all these official rates seriously understate the real extent of the social problem, as they fail to account for a large group of potentially employable people. Namely, it misses those who are 'not actively looking for a job', such as participants in work programmes or early retirement programmes, the long-term sick or disabled, and women looking after their families. A research report on this subject claims that there were 3.4m potentially employable people in the UK in April 2012, whereas official statistics recorded only 2.5m people as unemployed.⁸

VULNERABLE GROUPS

There are certain vulnerable groups that show a disproportionately high share of long-term unemployment. Key factors are typically:

- ◆ **Age:** Generally, people above the age of 55 (esp. in Germany and Switzerland) are more affected by long-term unemployment. People under the age of 25, however, have been most hit by the economic crisis. In fact, youth unemployment has turned into a major concern in France and in the UK. In France, the unemployment rate among people aged 15-24 years in 2011 was 22%, nearly three times as high as the rate for people aged 25-49 years.⁹ In the UK there is even fear of a 'lost generation' of young people disconnected from the labour market.¹⁰
- ◆ **Skill level:** Low educational attainment and low qualification levels significantly impact employability and, therefore, the risk of unemployment across all countries under review. In Germany, for example, the 2011 unemployment

rate among low-skilled workers was five-times higher than for those who were highly-skilled.¹¹

- ◆ **Disability:** A physical or mental disability significantly affects an individual's employment prospects in all of the focus countries. For instance, in the UK only 50% of disabled people of working age are in work, compared with 80% of non-disabled people.¹²
- ◆ **Nationality:** National reports in all country under review show a clear link between immigrant status and the risk of being long-term unemployed. For instance, non-Swiss nationals experienced an unemployment rate that was 2.5 times higher than that of Swiss nationals in 2011.¹³
- ◆ **Region:** People living in economically weak regions disproportionately suffer from long-term unemployment. In the UK, in May 2012, the regional differences in the share of long-term unemployment ranged from 27.9% (of all unemployed) in the West Midlands to 19.3% in the South West.¹⁴

Additionally, other smaller groups with an above average risk of long-term unemployment include ex-offenders, the homeless or those battling an addiction. Single-parenting as a risk factor for unemployment appears to be a concern in the UK.¹⁵ Often, the typical profile of a long-term unemployed person matches at least one of the categories above.

SOCIAL AND ECONOMIC CONSEQUENCES

Among the widely recognised negative effects of long-term unemployment is a substantial decrease in **well-being (in particular health)**. Prolonged alienation from the job market bears the risk of **poverty and social exclusion**, since most people that are long-term unemployed have fallen out of the unemployment benefit system and subsist on social welfare.

As well as these social effects, long-term unemployment brings serious economic consequences. Long periods of unemployment are associated with the deterioration of a person's **career and earning prospects**. The longer a person is out of work the more difficult it is to find work due to deskilling, falling motivation and a lack of understanding on behalf of potential employers. High levels of structural unemployment are damaging to an economy and reduce future **growth prospects**.

GOVERNMENT INTERVENTION

The reduction of long-term unemployment is a policy aim which is currently being closely reviewed by governments in all four countries due to the high social and economic costs attached to it. Effectively bringing people back into work yields a triple dividend: reduced social welfare payments, higher tax income, and increased social security contributions. European countries with strong welfare systems are increasingly seeking solutions to cut their social aid bills, as populations are aging and welfare systems come under increasing strain.

The focus of governments in tackling long-term unemployment has been twofold: the adoption of **active labour market policies** (ALMP) including training, job creation, employment subsidies and access to personalised employment services. Some countries couple these policies with **structural reforms** to address obstacles to re-employment. Reducing tax and benefits disincentives that discourage active jobseeking have been the most obvious measures. The OECD argues that a lot remains to be done on structural reforms.¹⁶

With regard to these government interventions, we observed two important trends throughout the four countries:

- ♦ **A shift from passive to active labour market policies:** Governments increasingly assume that everyone is employable and enforce work-availability and mutual obligation requirements; i.e. “...benefit recipients are expected to engage in active job search and improve their employability in exchange for receiving efficient employment services and benefit payment...”¹⁷ In this context, several governments have also enforced gate-keeping for expensive incapacity benefit. For example, the UK government has restructured access to incapacity benefits as of 2010.¹⁸
- ♦ **An individually-tailored service for jobseekers:** This approach has been put in place to increase the quality and efficiency of public employment service agencies. Examples of the improved treatment of jobseekers include profiling, individual action plans and enforced case management.¹⁹

Total spending on ALMP has increased relatively little in all OECD countries since the economic crisis in 2008, despite a dramatic hike in unemployment numbers leading to a sharply declining value of ALMP spending per unemployed person of -21%. There is a major concern that fiscal consolidation will further squeeze the resources available for ALMP.²⁰

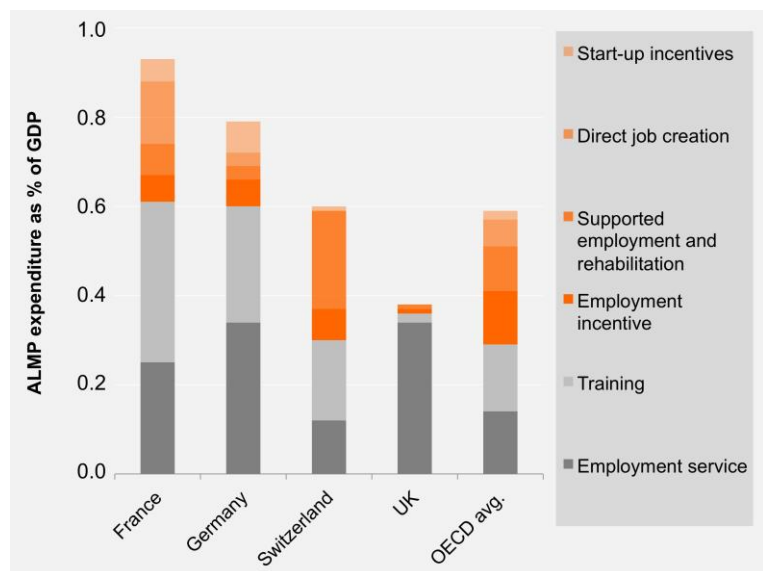


Figure 2: Public expenditure on active labour market programmes by country (2011)
Source: OECD Employment Outlook 2012

Analysis of ALMP expenditure for 2011 clearly shows different approaches to labour market policy:

Compared to other European countries, **France** shows a relatively high level of expenditure for ALMP. Decentralisation of its formerly highly centralised labour market service has led to a complex system of local, regional and national responsibilities. The privatisation of labour market services has been limited to temporary work agencies. There is a focus on improving the quality of the national employment service agency ANPE.²¹ ALMP focus on training and large work integration schemes with supported contracts targeting the hardest to employ. Due to high government spending, a whole work integration industry emerged in France called “*Secteur de l’insertion par l’activité économique*”²² which comprises different types of work integration providers.

Two large government programmes targeting long-term unemployment were launched in 2010 and 2011: the “*Rebond pour l’emploi*” for the jobseekers no longer covered by unemployment insurance and the “*Plan de mobilisation pour l’emploi*” for long-term unemployed persons who have not worked in 2010.

Germany also spends a substantial share of its GDP on ALMP. The focus is slightly different from France. The importance of employment incentive and supported employment has decreased over the last 10 years, whereas spending on training for disadvantaged groups continues to be strong both in terms of spending and number of participants.²³ Nevertheless, Germany offers numerous labour market policy features, such as job subsidies to private employers, support for business start-ups, public sector job creation, and “*mini-jobs*”.²⁴ Following the *Hartz reforms*²⁵ in 2003, Germany has reformed its labour market policies and improved the efficiency of public employment service. “Contracting out”, which sees private sector organisations competing on a tender process to supply employment services, has become very popular.²⁶ Work programmes designed for the long-term unemployed include: ‘*JobPerspektive*’, which is targeted at people with at least two employment barriers and provides wage subsidies to employers; ‘*BIWAQ*’,²⁷ which integrates the long-term unemployed and young people into work and vocational training at the community level; and ‘*Perspektive 50 Plus*’, aimed at older workers.²⁸

Switzerland’s ALMP are characterised by a relatively generous benefit system (when compared with other OECD countries) combined with strict job-search enforcement requirements and strong incentives to move into jobs, including in-work benefits.²⁹ ALMP expenditure is high compared to other OECD countries, especially in light of the relatively low number of jobseekers. Additionally, ALMP spending increases practically automatically with unemployment levels.³⁰ Implementation of labour market policies is

decentralised to regional and canton level. Since 1997, Swiss authorities have been working on improving the efficiency of the national employment service agency RAV³¹, utilizing an output-oriented benchmarking system where regions obtain government funding as a function of their success in transferring jobseekers into the job market. Private placement has a historically strong position in Switzerland. The main features of Swiss ALMP are: temporary employment programmes and in-work benefits which are paid as a subsidy for wages below the level of unemployment benefit.³²

The **UK’s** approach to tackling long-term unemployment follows a very different strategy from the other countries under review. It shows a relatively low level of ALMP spending and it mainly focuses on re-integrating jobseekers into the job market through a personalized and effective administration of the public Employment Service. Efficiency is driven via a Management by Objectives scheme between the Department for Work and Pensions (DWP) and the Employment Service, which ensures the support of jobseekers through local and regional Job Centres.³³ The most relevant reform of labour market law to do with long-term unemployment was put in place in 2011, when most of the previous Labour government’s ‘*New Deal*’ laws were replaced by the Work Programme.³⁴ Adult jobseekers that receive Jobseeker’s Allowance can take part in the work programme after 12 months, whereas young people not in education, employment or training (NEETs) are eligible after three months. The delivery of Work Programme services has been contracted out to private and non-profit service providers³⁵ who are paid based on performance and who may subcontract other providers. Besides the general schemes, there are two programmes aimed at specific groups. The Work Choice Programme supports disabled people with the most complex and long-term barriers to finding work. The DWP Innovation Fund addresses youth unemployment by funding social investment projects for vulnerable people aged 14-24 years old on a payment-by-result basis³⁶ (see box on page 17).

Additionally, France, Germany and the UK benefit from the European Commission’s **European Social Fund’s** (ESF) €10bn programme that has been launched to improve job prospects for disadvantaged groups throughout Europe. The ESF transfers funds to national governments, who choose how to spend the money within their country. According to the ESF “*tens of thousands of local, regional and national employment-related projects throughout Europe have been funded, from small projects run by neighbourhood charities to help local disabled people find suitable work, to nationwide projects that promote vocational training among the whole workforce.*”³⁷

ROLE OF SOCIAL ENTERPRISES

In the four countries surveyed, a wide range of different organisations operate in the space between the state and the market in the area of long-term unemployment: co-operatives, associations, foundations, charities, social enterprises and, in some cases, for-profit companies.

But what constitutes a social enterprise, and how is it different from other actors in the field? Throughout this report, we follow the EVPA’s definition, which states that a social enterprise is “an organisation that focuses on achieving social impact, applying market-based solutions to address public sector and market failure in innovative ways”.³⁸ According to this definition, social enterprises (in contrast to grant-only charities) also generate trading revenues that cover at least part of the costs as illustrated below.

There is ample evidence, that in all four countries social enterprises have recently become important actors in the field of long-term unemployment. Their relevance has mainly been driven by three factors:

- ◆ an increasing rate of long-term unemployment due to the economic crisis,
- ◆ severe capital constraints of governments due to fiscal consolidation, and
- ◆ the need for innovative approaches to tackle this complex and persistent problem, especially in the hardest to reach target groups.³⁹

There is no comprehensive research into what the influence of social enterprises in the field of unemployment is. However, a recent UK survey shows that 14% of the social enterprises surveyed operate in the field of ‘employment and skills’.⁴⁰ We discovered that the idea of social entrepreneurship and sophistication of social enterprises in the single country markets are at different stages of development. Whereas the UK has the strongest record of social entrepreneurship, the French, German and Swiss markets are emerging with lower numbers of players and a weaker market structure.

In order to better understand and analyse the various types of social enterprises that work in the field of long-term unemployment, we looked at two important criteria: value proposition and targeted beneficiaries.

The objectives of social enterprises in the field of long-term unemployment can vary, but they most often focus on one of two value propositions:

- ◆ **Ensuring employability:** this includes providing training of social and professional skills, on-the-job coaching, work placement or vocational training in order to allow the most vulnerable or the hardest hit groups to (re-) enter the job market. The work in this field also includes addressing socio-physiological issues, such as alcoholism, drug addiction or homelessness, that act as barriers to work. For all organisations acting in this field the **jobseeker is the client**.

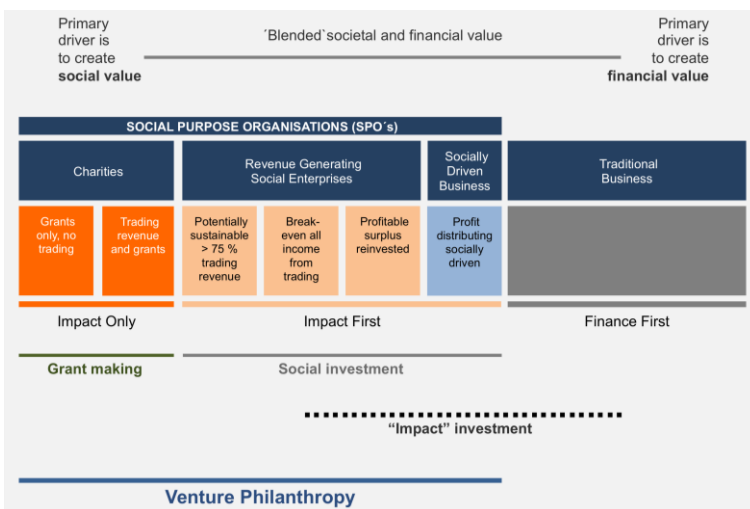


Figure 3: Definition of social enterprises and impact investing

Source: Social Venture Fund (2013) adapted from EVPA

- ◆ **Providing employment:** this means directly employing long-term jobseekers in a market-oriented entity, sometimes not in the first labour market. Often this approach includes elements of ensuring employability (e.g. on-the-job training and coaching) in order to be able to employ individuals that are distant from the job market. In this case, the **jobseeker is not a client, but an employee on the company's payroll.**

With regard to targeted beneficiaries, social enterprises can be distinguished by whether they focus on a **specific group** (e.g. ex-offenders, NEETs or the mentally disabled) or if they provide services on a more universal basis, **targeting a wide array of groups that are hit by long-term unemployment.**

This methodology allowed us to distil four different business models in the market for long-term unemployment in France, Germany, Switzerland and the UK, which are illustrated (including selected examples from the focus countries) in the figure below.

Work integrators directly employ long-term unemployed people that are referred to them by government bodies (mostly job agencies) for either a limited (e.g. 6 months) or unlimited period. They sometimes focus on one specific target group (e.g. the disabled or NEETs), but often employ the long-term unemployed in general. An example of a specific target group would be the French I.T. recycling company *Ecodair*⁴¹, which employs mentally handicapped people. In contrast *La Varappe*⁴², a French firm which serves the construction, recycling, gardening and solar industries, employs any individuals that have found it hard to secure employment in the past.

There are several sub-business models for work integrators. They can be 1.) a subcontractor to the industry, such as the French firm *Bretagne Atelier*⁴³, who operate in the automotive and aerospace industry and employ 80% disabled people, 2.) a service supplier to a wide range of low-wage sectors, such as *La Varappe*⁴⁴, mentioned above, or 3.) offer highly specialised IT services, such as the German software firm *auticon*⁴⁵ that employs people with Asperger's autism as IT specialists in their software testing process. Some of the players in this field also have their own outlets and sell their own products to the public, such as *Bikeworks*⁴⁶ in the UK, who recycle bikes with the help of the long-term unemployed (mostly homeless people) or the Swiss company *jobfactory*⁴⁷ that employs NEETs in their shops.

There are a large number of traditional work integration social enterprises (WISE)⁴⁸ in all European countries. The exact shape they take differs quite significantly, be it workers' co-operations in the UK or welfare organisations in Germany. WISE are only relevant for this study if they can be considered as social enterprises (as defined on the previous page). Government wage subsidies have particularly fostered the creation of social enterprises in this field in France⁴⁹, Switzerland⁵⁰- and to a lesser extend in Germany⁵¹. Despite the absence of far-reaching wage subsidies for work integration in the UK⁵², there are some interesting approaches for specific target groups. For example, *Bristol Together*⁵³ is a refurbishing company that mainly employs ex-offenders.

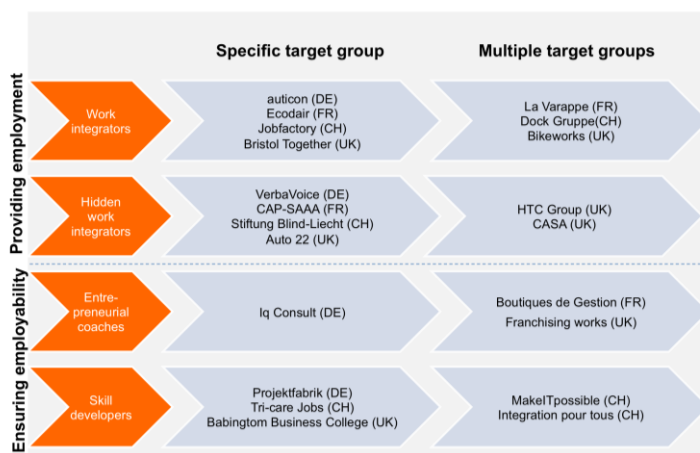


Figure 4: Business models of social enterprises in the area of long-term unemployment

Source: Social Venture Fund (2013)

An interesting case in the field of work integration is the emergence of social entrepreneurs from traditional work integration structures. *Dock Gruppe*⁵⁴ in Switzerland, originally set up as a local foundation to fight long-term unemployment, has transformed itself into a modern social enterprise (see box).

The second group of social enterprises identified by the study has been named the **hidden work integrators**. Whereas the primary focus of the work integrators is to cure long-term unemployment, the hidden work integrators pursue a different primary social purpose. Through their business model, however, they effectively employ long-term unemployed individuals. An example is *VerbaVoice*⁵⁵, a German provider of real-time speech recognition and visualisation for the hearing-impaired, where 27% of staff are disabled and have previously been long-term unemployed (see box on page 20).

Example of a Work Integrator: *Dock Gruppe* (CH)

The Swiss WISE *Dock Gruppe AG* aims to create employment for the hardest to reach long-term unemployed. Since its inception in 1997, *Dock Gruppe* has grown to 1,200 employees in 10 subsidiaries in the North-east of Switzerland. *Dock's* chief Daniela Merz, a passionate social entrepreneur, describes the company as 'market-oriented' and 'economically-minded'. Workers are paid by the hour; corresponding to their productivity they earn all or most of their social benefit entitlements from their own work. Wages are subsidised by the Swiss government, making up the difference between the individual's productivity and the minimum wage. All other operating costs and investments have to be earned from trading activity. The employees of *Dock Gruppe* are grouped into three different capability levels, allowing every employee to work according to their individual capabilities. The higher the level, the higher the earnings and requirements even up to executive positions. If an employee's capabilities develop, he or she can be promoted. Although workers are employed on a permanent basis, the individualised training, counselling and on-the-job coaching provided to the workers equips many of them with the resources necessary to transfer into the first job market. *Dock Gruppe* primarily works for clients in the industrial and recycling industry, but is also active in cleaning, gardening and construction. Since employers operating in the second labour market are subject to a non-competition clause with Swiss companies, one of *Dock Gruppe's* niches is to assume industrial work that would have otherwise been off-shored to low-cost countries.

*CASA Care and Share Associates*⁵⁶, a franchising provider of domiciliary care and self-directed support is another hidden work integrator, which employs a high number of formerly long-term unemployed individuals from some of the UK's most deprived areas. Social enterprises which can be typified as hidden work integrators are large in number, but are sometimes difficult to identify. They always act on the first job market.

Entrepreneurial coaches train and coach long-term unemployed jobseekers to become self-employed entrepreneurs. They either concentrate on a specific target group such as the German initiative *iq Consult*⁵⁷ (see box), which specialises in training and coaching young people aged 18-35 years from deprived urban areas, or focus more generally on the long-term unemployed, such as the UK's *Franchising works*⁵⁸, which offers franchising advice and entrepreneurial coaching.

Example of an Entrepreneurial Coach: *Iq Consult* (DE)

In structurally weak areas, the availability of jobs is limited and people are often forced to relocate, which can be detrimental to communities. To combat this trend, *Iq Consult* is encouraging self-employment and developing the necessary infrastructure to create new opportunities for NEETs. It offers a tailor-made, low threshold start-up support network, which comprehensively backs founders of new businesses through a collaborative network (including employment agencies, lawyers, banks, politicians, and business entrepreneurs). These partnerships serve to strengthen young entrepreneurs as agents of change in their personal lives, whilst also promoting regional development.

Skill developers are also a very heterogeneous group throughout all countries. They focus on improving the employability of the long-term unemployed by equipping them with basic professional skills (e.g. computer training, vocational training). A good example is the Swiss organisation *makeITpossible*⁵⁹, which trains jobseekers with easily accessible IT skills. Skill developers seek to ensure employability by developing interpersonal skills (e.g. self-esteem, team work) or tackling specific barriers to work such as drug abuse or mental health problems. An example of this type of work is *Intégration Pour Tous*⁶⁰ in Switzerland. They work with the long-term unemployed dealing with physical or psychological difficulties by offering personalized mentoring, coaching, training, and work placements. Skill developers also engage in the prevention of long-term unemployment. For instance, *Projektfabrik*⁶¹ is a German provider of an innovative theatre project combining artistic pedagogy with mentoring and job coaching in order to train NEETs. Skill developers are often contractors or subcontractors to national work or training programmes, such as, for example, the UK training provider *Babington Business College*⁶² (see box on page 19).

An interesting combination of the **skill developer** and the **hidden work integrator** are social enterprises that primarily focus on work integration, but which train more people than they are able to employ in specific training centres. *Auto22*⁶³, for instance, is a social enterprise that runs three car garages and a vocational training centre for mechanics, where currently 100 NEETs per year are trained with the aim of eventually working in other garages. *HCT*⁶⁴ a social community transport company in London additionally trains approximately 100 unemployed people to help them gain qualifications.

Additionally, there are social enterprises that act as intermediaries between jobseekers and employers and try to improve the efficiency of the job-matching process. We called them employment enablers. Although this approach is very innovative and promising when it comes to tackling long-term unemployment, only very few candidates, such as the UK organisation *Women Like Us*⁶⁵ that helps women to return to part-time jobs, have been identified. Therefore, this approach has not been further analysed in this report.

SOCIAL IMPACT OF INTERVENTIONS

When we look at strong social impact, two criteria appear to be important: the **efficiency of the intervention** (best practice) as well as the ability to measure a **positive social impact**.

Efficient interventions in long-term unemployment in general show a superior ability to simultaneously address multiple short-term (e.g. low skills, lack of work experience and low motivation) and long-term barriers (e.g. absence of positive social networks, health issues, poverty and its consequences) which hinder people from finding work. A recent OECD report⁶⁶ on the integration of the long-term unemployed suggests that successful interventions in this field appear to have a number of crucial characteristics in common:⁶⁷

- ◆ **early intervention** ensuring that people remain attached to the labour market (including, for example, a successful transition from school to work),
- ◆ **individually-tailored, integrated approaches** offering one point of contact for the jobseeker (often in form of mentors) and pooled resources in order to reduce transaction costs,
- ◆ **broad local partnerships** allowing local actors (such as business-men, government bodies, and not-for profit organisations) to team up and draw on their collective knowledge to meet local needs, and

- ◆ effective **evaluation** to constantly improve efficiency.

What are the relevant indicators in measuring social impact for best practice in social enterprises? The most common indicators used are **output⁶⁸ measures** of actual job entry, i.e. which percentage of participants have entered a job and have stayed in this job for a certain period or made another positive career move, e.g. into training or an internship. These numbers are often measured against the national averages given for the respective target. Payment-by-results contracts, such as the UK Work Programme, often refer to actual job entry. Another example is the French work integrator *Groupe SOS*⁶⁹, which reports a positive exit rate (i.e. more than 6 months of work) for participants of 57%, compared to 38% for the average French WISE and a dynamic exit rate (i.e. less than 6 months of work, including training or promising internships) of 66%, compared to 53% for the average French WISE. Another example is the impact report for *HCT's*⁷⁰ training centre which is illustrated below.



Figure 5: Social impact of HCT's training centre
Source: HCT Group Impact Report (2012)

Most social enterprises in the field, however, increasingly measure **the positive development of skills and behaviours**, often referred to as 'distance travelled' by a jobseeker, instead of using pure output measures. This measure of impact gives a better perspective of the value added by the intervention, even if there may be no positive transition made by the participant. The ESF, as well as the UK Work Choice Programme for disabled people, already require contractors to measure some indicators of 'distance travelled'.⁷¹

Social Firms UK, an association covering work integration service providers, has also developed a 'distance travelled' questionnaire to help evaluate the social impact of member firms.⁷²

In order to develop a common standard in assessing and evaluating social impact both for social investors and for social enterprises, Big Society Capital (together with the non-profit consultancy New Philanthropy Capital) has developed an outcomes and indicators matrix in the area of 'employment and training'.⁷³ This matrix is designed to measure the impact of three main categories of beneficiaries, specifically: 1) individuals, 2) families & children, 3) communities, sector & society and can be found at Big Society Capital's Webpage (<http://www.bigsocietycapital.com/outcomes-matrix>).

FINANCIAL RESILIENCE OF INCOME MODELS

Potential investment targets for impact investors are characterised by the capacity to generate robust diversified income and profits. Our four business models for social enterprises identified in the field of long-term unemployment all show a different income profile:

government funding among work integrators in France and Switzerland, and to a lesser extent Germany, business models of UK work integrators tend to instead rely on third party revenues. It has to be added that innovative social enterprises, such as the German firm *auticon*⁷⁸, that employs people with autism as IT

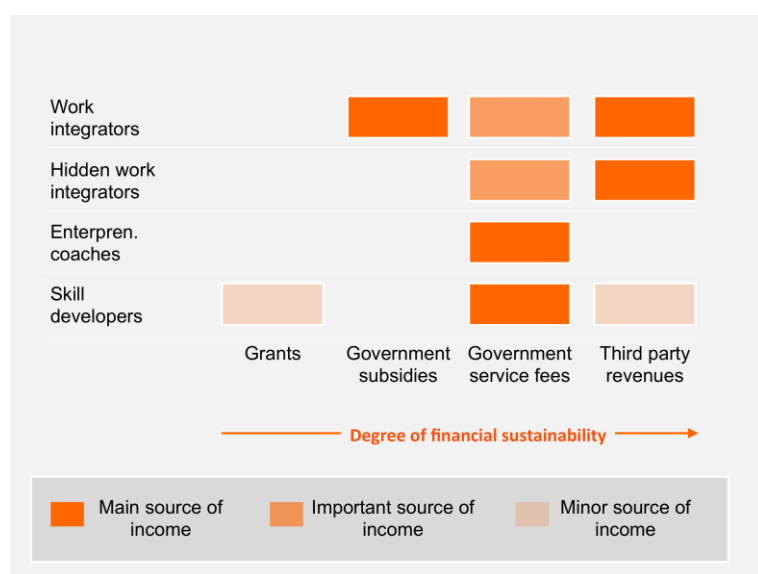


Figure 7: Income profiles of social enterprises in the area of long-term unemployment
Source: Social Venture Fund (2013)

Whereas the generic income profiles above may not represent every existing social enterprise business model, they give a good overview of the different income models in the industry and the implications for impact investors. All of the profiles above show a significant level of income diversification. We have, however, also seen that some social enterprises of **skill developers** seem to receive more grant funding, which is more readily accessible to them due to the absence of substantial third party revenues. The grant funding is, however, most likely used to fund investments or for the expansion of the organisation. An example is the €2.8m grant given by the J.P. Morgan Chase Foundation to the German organisation *Projektfabrik*.⁷⁴

Work integrators in general generate a substantial part of their income from third party revenues (also referred to as trading revenues). The Swiss Association of work integration companies, for example, believes that 30-50%⁷⁵ of their members' income stems from third party revenues. This number varies by organisation and country, and is mainly dependent on the second big income stream: direct⁷⁶ or indirect⁷⁷ government subsidies. Whereas we particularly see high level

specialists, only rely on government subsidies to a minor part. Additionally, work integrators often act as a service provider to the government (sometimes enforced by regulation), for example in public construction, which yields additional income from the government. From an impact investor's perspective, the high dependency on government subsidies makes these social enterprises (at least outside the UK and for some selected other models) highly vulnerable to changes in government funding policies, such as the recently proposed change in wage subsidies in France⁷⁹. This risk has to be carefully managed.

Hidden work integrators are mostly focused on third party revenues, and work integration is not their primary focus. Although some of them get smaller amounts of government subsidies (especially in the field of working with the disabled), most of them do not, like *CASA*⁸⁰, the franchise provider of domiciliary care and self-directed support that employs previously unemployed individuals. Government service fees again might be an additional income stream for hidden work integrators that employ disabled people, allowing governments to consider inclusion requirements, which they are often enforced to by law, with their outsourcing policies.

Entrepreneurial coaches and **skill developers** are mainly providers to government work schemes, and therefore government revenue is their primary source of

income. This money will mostly be paid in arrears and some on a payment-by result basis (see box on this page), so that substantial amounts of pre-financing are required from social enterprises. Due to large financial requirements and high levels of funding risks associated with the contract, there are only two prime non-profit providers⁸¹ to the UK Work Programme. Non-profit suppliers are, however, often subcontractors to the Work Programme. Additionally, some skill developers managed to generate some income from third party revenues such as, for example, the Swiss organisation *Intégration Pour Tous*⁸² that has developed paid services for corporate partners.

The role of Social Impact Bonds (SIBs)

Social Impact bonds are one form of payment-by-result contracts, which are developing fast in the UK. SIBs provide up front funding for prevention and early intervention services, and remove the risk that interventions do not deliver outcomes from public sector commissioners.

In the UK SIBs are emerging to address a wide range of social issues. The prevention of long-term unemployment, especially for young people that are not in education, employment or training (NEETs) is certainly one of the most pressing social problems in the UK, attracting interest from both public authorities and potential investors. Investment in prevention or 'early intervention' in this sector is relatively small compared to the potential saving made by the public sector. Additionally, there are a number of social service providers with a focus on evidence-based interventions for this target group.

In these favourable conditions for payment-by-result contracts, the DWP launched an Innovation Fund in 2011 to address youth unemployment. The fund supports social investment projects for young vulnerable people aged 14-24 years old on a payment-by-result basis over 3 years. The £30m fund entered into 10 contracts over two rounds of commissioning, including the following projects:

- ◆ ThinkForward Social Impact Ltd is managed by the Private Equity Foundation and delivered by Tomorrow's People in the London Borough of Tower Hamlets
- ◆ Triodos New Horizons is managed by Triodos Bank and delivered by Greater Merseyside Connexions Partnership in the Merseyside area
- ◆ Teens & Toddlers Innovation is managed by Social Finance and delivered by Teens and Toddlers in the North West of England
- ◆ Energise Innovation is managed by Social Finance and delivered by Adviza in the North West of England
- ◆ 3SC Capitalise is managed by 3SC and delivered by Dyslexia Action and CfBT Education Trust in the Cardiff and Newport areas

Big Society Capital, Bridges Ventures' Social Impact Bond Fund and Impetus PEF are among the leading SIB investors in this area.

INVESTMENT OPPORTUNITY

Social enterprises frequently claim that lack of funding is their single largest barrier to growth⁸³. This is also the case in the field of long-term unemployment. But are the social enterprises we discovered investable? For this analysis we have only looked at social enterprises tackling long-term unemployment in any of the four countries under review.

The social enterprises we have seen so far show high social impact and a resilient income model. But in order to be investable, there must be demand for impact investments and the capacity to repay them. While the former is determined by social enterprises looking for funding in order to grow, as well as the availability of alternative funding sources, the latter is a function of a social enterprise's investment readiness and its ability to repay risk-adjusted rates of return.

These criteria are difficult to evaluate when examining a whole market segment rather than a single investment target. Across the countries reviewed, however, we gained relevant insights regarding investment opportunities and the attractiveness of market segments through the analysis of investment deals, as well as through discussion with investors active in these markets.

In the **UK** - the most developed market for impact investing covered in this report - we have also identified the highest number of investments (approximately 10) in social enterprises tackling long-term unemployment. Impact investors active in this field include Big Society Capital, Bridges Ventures, Impetus PEF and the Esmée Fairbairn Foundation. Impact investors' activity has so far been threefold:

- ◆ funding skill developers, especially for NEETs (e.g. *Babington Business College*⁸⁴, see box on next page);
- ◆ financing hidden work integrators in deprived communities, thereby achieving a positive impact on long-term unemployment (e.g. *CASA Care and Share Associates*⁸⁵);
- ◆ investing in work integrators for special target groups, such as offenders and the homeless (e.g. *Bristol Together*⁸⁶).

Additionally, there has been a focus on investments in payment-by-results contracts (i.e. Social Impact Bonds) within the scope of the DWP's Innovation Fund (see box on page 17).

Due to scarce government subsidies for work integrators, the investment into work integration seems to be less attractive in the UK than in other countries. Skill developers, especially those that are contractors to

government programmes, seem to attract interest not only from impact investors, but also from traditional private equity investors (like Sovereign Capital) due to steady cash flows from government contracts and the opportunity for buy-and-build strategies in this fragmented industry. Some impact investors, however, indicated that due to the strong position of large commercial contractors in the Work Programme they would not consider investing in this area.

Overall, we came across a number of interesting early-stage social enterprises of all four types that have only received philanthropic funding so far, but which may feed into future deal flow. Investors are likely to continue to focus on financing work integrators and skill developers for special target groups (esp. NEETs) as well as hidden work integrators in deprived communities.

Investing in skill developers: Bridges Venture's investment in Babington Business College Ltd. (UK)

Problem:

In the UK a shortage of skills, a declining education system, and increasing budget constraints are having a negative effect on employability levels. This has led to a rising number of NEETs in the country.

Social enterprise:

Babington provides nationwide apprenticeships and trainings in areas such as accountancy, financial services, business administration, hair & beauty, health & social care, and customer service to learners aged 16 and above.

Social impact:

- ◆ Around 1,300 learners took part in Babington's training schemes in 2012. 239 previously unemployed are now in full-time work as a result of their services.
- ◆ Most of the training centres are located in the 25% most deprived areas of the country. 52% of its students are from underserved areas.
- ◆ It pioneered the first accountancy apprenticeship in the UK and the first insurance apprenticeship in the North of England.

Financial resilience:

Babington employed more than 100 staff and took revenues of £8m in 2012 through service fees from the government's Skills Funding Agency as well as from private sector organisations.

Investment:

Bridges Ventures Sustainable Growth Funds funded the acquisition of Babington from its founders in 2009. It put a senior management team in place to modernise and grow its operations. Bridges has also been active in identifying, structuring and securing bolt-on acquisitions, such as *Training for Today* in 2012.

In **France**, we identified five deals in the area of long-term unemployment since 2008 – one into a hidden work integrator and four of them in the area of work integration, which appears to be the most promising market segment with regard to size, growth and investment readiness. The main investors are PhiTrust Partenaires and le Comptoir de l'innovation (CDI), part of the work integration specialist Groupe SOS. One of PhiTrust Partenaires' work integration investments is detailed in the box on this page.

Due to significant government subsidies in work integration and interest from for-profit companies as potential add-ons to their main business,⁸⁷ there appears to be room for equity investments and realistic exit options. The risk arising from any change in government subsidy policies, however, needs to be carefully managed by impact investors. Opportunities we came across in the other segments were not numerous, and mostly not yet ready for investment.

Investing in work integrators: PhiTrust Partenaires' investment in Ecodair (FR)

Problem:

There are very few employment opportunities for mentally impaired people in France, and there are no real opportunities for them to find stable, long-term employment.

Social enterprise:

Ecodair refurbishes computers and IT equipment, employing 55 mentally impaired and handicapped workers. It provides progressive on-site training to enable the workers to move, where possible, into the first job market.

Social impact:

- ◆ Increase the number of mentally disabled persons in high quality employment and training, and assist them in finding other employment opportunities.
- ◆ Provide a second-life to pre-owned IT equipment by donating or selling it at low prices to non-profit organisations or low-income families.
- ◆ Refurbish IT equipment in an environmentally-friendly manner.

Financial resilience:

Originally structured as a non-profit organization relying heavily on government subsidies and donations, *Ecodair* has developed into a real social enterprise generating €914k in third party revenues and breaking even in 2012. Due to its recent success in securing a large contract, it plans to expand and open a new facility.

Investment:

PhiTrust Partenaires invested €65k in equity and €300k in debt and provided *Ecodair* with assistance in its restructuring and product diversification strategy. PhiTrust also identified *Ecodair's* current CEO, and continues to mentor the company on strategy and good governance.

Four impact investments have been identified in **Germany** in the area of long-term unemployment: two into work integrators and two into hidden work integrators. Interestingly, all of them deal with disabled people. The Social Venture Fund's investments into *auticon*⁸⁸ and *VerbaVoice*⁸⁹ are illustrated below.

We see some opportunities arising in work integration, despite the dominance of welfare organisations and their powerful financial backing. There may also be opportunities with hidden work integrators which are, however, difficult to predict.

Investing in work integrators: Social Venture Fund's investment in *auticon* (DE)

Problem:

Approximately 15% of people with Asperger's syndrome demonstrate above-average capabilities in areas such as attention to detail and ability to concentrate on repetitive tasks. Because of their limited social skills, however, they have low educational attainment and limited access to the job market.

Social enterprise:

By utilizing the special skills of people with Asperger's, *auticon* trains them to become highly qualified software testers and places them as consultants in IT departments of medium to large -sized organisations. Additionally, the employees benefit from special on-the-job coaching which allows them to overcome social barriers and work in a normal work environment.

Social impact:

- ◆ Provide highly qualified, appropriately paid and fulfilling employment to people with Asperger's that are otherwise difficult to integrate in the first job market.
- ◆ 75% of *auticon* employees have been unemployed before and a further 13% have been put in incapacity schemes.
- ◆ Offering high quality IT testing services delivered by specialists who achieve significantly lower error rates than the average IT tester.

Financial resilience:

Founded in 2011, *auticon* will reach more than €500k in revenues in 2013. The share of government wage subsidies is below 10%.

Investment:

As of 2011, the Social Venture Fund provided €500k in four tranches as mezzanine financing. In addition, it supports *auticon* in recruiting new staff, in developing a roll-out strategy and in identifying new clients.

No impact investments in the field of long-term unemployment have been identified in **Switzerland** so far. Judging from the profiles of Ashoka and Schwab Fellows, the area of unemployment may be an interesting opportunity in the medium-term, despite the significantly smaller size of the Swiss market overall. Due to government policies with regards to the funding of work integrators, we also believe that there are investment opportunities with 'emerging' social enterprises that were originally structured as foundations or associations.

Investing in hidden work integrators: Social Venture Fund's investment in *VerbaVoice* (DE)

Problem:

Around 300,000 hearing-impaired people in Germany are isolated from many areas of society without visual applications. Therefore, hearing-impaired persons are legally entitled to being supported by a language and script interpreter for many daily situations. This is cost-intensive and sometimes not even feasible, as the interpreters have to travel to each client individually.

Social enterprise:

VerbaVoice has developed a unique mobile solution to transfer voice into text for hearing-impaired people almost in real time. Furthermore, *VerbaVoice* has built its operational model around the integration of hearing-impaired people with 27% of staff being hearing-impaired.

Social impact:

- ◆ Offering high quality, easy to access real-time speech recognition and visualisation to the hearing impaired.
- ◆ Reduce the cost for access to visual applications for the hearing-impaired.
- ◆ Provide high quality work for hearing-impaired people, who are otherwise at risk of being long-term unemployed.

Financial resilience:

VerbaVoice was founded in 2009 and is forecast to reach €1m in revenues in 2013. Most of the revenues stem from life transcription services to hearing impaired people.

Investment:

The total capital needed for *VerbaVoice*'s market entry in Germany amounted to €750k of which €500k was provided by the Social Venture Fund as lead-investor and €240k by the Venture Capital Fund Bayern Kapital.

CONCLUSION

In this study we have established that the market for long-term unemployment is a promising area for impact investing in France, Germany, the UK and Switzerland, as there is a favourable investment climate, consisting of:

- ◆ a **real need for interventions** tackling long-term unemployment, given the size and relevance of the problem in the focus countries.
- ◆ a **growing number of innovative social enterprises** that successfully tackle the problem, despite a climate of austerity.
- ◆ **high efficiency and a strong and measurable social impact** of interventions.
- ◆ **social enterprises that have developed resilient income** models generating revenues and profits.
- ◆ examples of **investable targets and successful impact investments in this field**.

Therefore, we believe that there is opportunity for investment and that social enterprises tackling long-term unemployment will play an important role in impact investor's portfolios going forward.

In France, Germany and Switzerland, we expect investment opportunities with work integrators and to a lesser extent hidden work integrators. Some of these opportunities may, however, only be realised in the medium-term since there are a number of interesting social enterprises that appear not to be investable yet. Skill developers appear to be less attractive as an investment due to a slightly less resilient income model. **In the UK, we anticipate further investment opportunities with work integrators and skill developers for special target groups (especially NEETs) as well as hidden work integrators in deprived communities.** This includes investment opportunities in Social Impact Bonds.

APPENDIX

Selected impact investments in the area of long-term unemployment in focus countries (excluding Social Impact Bonds)

| | | | |
|----------------------------|---|---------|---|
| Bretagne Atelier | Work integrator | France | Le Comptoir de l'innovation (CDI) |
| Dialogue Social Enterprise | Hidden work integrator | France | Phitrust Partenaires |
| Ecodaire | Work integrator | France | Phitrust Partenaires |
| La Varappe | Work integrator | France | Phitrust Partenaires |
| N/A ⁹⁰ | Work integrator | France | Le Comptoir de l'innovation (CDI) |
| AfB | Work integrator | Germany | BonVenture |
| auticon | Work integrator | Germany | Social Venture Fund |
| Dialog Museum | Hidden work integrator | Germany | BonVenture |
| VerbaVoice | Hidden work integrator | Germany | Social Venture Fund |
| Auto22 | Hidden work integrator/ Skill developer | UK | Bridges Ventures Enterprise Fund |
| Babington Business College | Skill developer | UK | Bridges Ventures Sustainable Growth Fund |
| Bikeworks | Work integrator | UK | Big Society Capital |
| Bristol Together | Work integrator | UK | Esmée Fairbairn Foundation |
| CASA | Hidden work integrator | UK | Bridges Ventures Enterprise Fund |
| Cheriton Parc | Hidden work integrator | UK | Bridges Ventures Sustainable Growth Fund |
| Chill Factor | Hidden work integrator | UK | Bridges Ventures Sustainable Growth Fund |
| Franchising works | Entrepreneurial coach | UK | Esmée Fairbairn Foundation/ Big Society Capital |
| HTC | Hidden work integrator/ Skill developer | UK | Bridges Ventures Enterprise Fund |
| New Career Skills | Skill developer | UK | Bridges Ventures Sustainable Growth Fund |

Endnotes

- ¹ Melinda Weber (2012), *Impact Investing in Deutschland*, Impact in Motion and Bertelsmann Stiftung; see also the definition of the European Venture Philanthropy Association (EVPA) of impact investing on page 4.
- ² Organisation for Economic Co-operation and Development
- ³ The ILO definition of unemployment covers people who (during the reference week) had no employment, were available to start work within the next two weeks, and had actively sought employment at some time during the previous four weeks. In addition, unemployed persons include those who had no employment and had already found a job to start later.
- ⁴ Most international organisations like ILO, the OECD and the EU, as well as most national authorities, typically retain a period of one year or more as the criteria for measuring long-term unemployment, which is also the definition that will be used throughout this report.
- ⁵ OECD (2012), *OECD Employment Outlook 2012*, OECD Publishing
- ⁶ Casebourne J. et al. (2012), *Making it work: tackling worklessness through innovation*, Nesta
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<https://www.destatis.de/DE/Service/Glossar/A/Arbeitslose.html>;
<http://www.bfs.admin.ch/bfs/portal/de/index/themen/03/11/def.html>;
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- ¹¹ European Commission (2012), *European Employment Observatory Review – Long-Term Unemployment 2012*, Publications Office of the European Union
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- ²¹ Agence nationale pour l'emploi
- ²² Conseil d'orientation pour l'emploi (2011), *Le chômage de longue durée*
- ²³ OECD (2012), *OECD Employment Outlook 2012*, OECD Publishing
- ²⁴ Wages of up to €450 per month are exempted from social contributions.
- ²⁵ German labour market reforms implemented 2003-05 following a report of the commission “modern labour market services” led by Peter Hartz.
- ²⁶ P. Tergeits, D. Grubb (2006), *Activation Strategies and the Performance of Employment Services in Germany, the Netherlands and the United Kingdom*, OECD Publication Services
- ²⁷ Abbreviation for “Bildung” [Education], “Wirtschaft” [Economy], “Arbeit im Quartier” [Work in the Neighbourhood]
- ²⁸ European Commission (2012), *European Employment Observatory Review – Long-Term Unemployment 2012*, Publications Office of the European Union

- ²⁹ N. Duell et al. (2010), *Activation Policies in Switzerland*, OECD Social, Employment and Migration Working Papers, No. 112, OECD Publishing
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- ³³ F. Frick (2002), *Arbeitsverwaltungen im Wandel- Erfahrungen aus 15 Länder im Vergleich*, Verlag Bertelsmann Stiftung
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- ⁴⁰ *State of Social Enterprise UK Survey 2013*, Social Enterprise UK, results of 848 social enterprises surveyed in 2012
- ⁴¹ <http://www.ordinateur-occasion.com>
- ⁴² <http://www.groupelavarappe.fr/>
- ⁴³ <http://www.bretagne-ateliers.com/>
- ⁴⁴ <http://www.groupelavarappe.fr/>
- ⁴⁵ <http://www.auticon.de/>
- ⁴⁶ <http://www.bikeworks.org.uk>
- ⁴⁷ <http://www.jobfactory.ch>
- ⁴⁸ C. Davister et al., *Work Integration Social Enterprises in the European Union: an overview of existing models*, EMES European Research Network
- ⁴⁹ Called "Entreprises d'insertion", www.cnei.org
- ⁵⁰ Called "Sozialfirmen", <http://www.assof.ch> (for German-speaking Switzerland, <http://www.criec.ch/> (for French-speaking Switzerland)
- ⁵¹ Called "Integrationsfirmen", www.bag-integrationsfirmen.de
- ⁵² Called "Social firms" www.socialfirmsuk.co.uk
- ⁵³ <http://www.bristoltogether.co.uk/>
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- ⁸⁵ <http://www.casaltd.com/>
- ⁸⁶ <http://www.bristoltogether.co.uk/>
- ⁸⁷ For example Schneider Electric's investment in the solar panel business of *la Varapp*.
- ⁸⁸ <http://www.auticon.de/>
- ⁸⁹ <http://www.verbavoiceserver.de/>
- ⁹⁰ The fund prefers not to disclose the name of the investment.