



# Policy Case Studies on Inclusive Business

*Policymakers have expressed interest in learning from peers that have already begun to support inclusive business through a variety of policy instruments. To support this request for knowledge-sharing, the G20 Global Platform on Inclusive Business developed a series of short pieces on various policy instruments, their design elements, implementation challenges, and lessons learned.<sup>1</sup>*

## Certification and Accreditation

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<sup>1</sup> This document has been prepared in 2016 by the World Bank Group for the G20 Global Platform on Inclusive Business.

## Introduction

The policy instrument of a legal certification (also called accreditation) shares many qualities with the mission-oriented legal structure policy instrument developed in a separate policy note. Legal structures and certifications both serve as tools to distinguish a business for its special character and contributions to society. They thereby create a basis for the provision of direct support, either financial or non-financial or both.

However, while the mission-oriented legal structure may serve to create a new type of a business organization that balances both economic and social/environmental benefits, certification can provide more flexibility, allowing any legal entity to apply to be considered for the special status as long as certain criteria are met.

### *What is the objective and purpose of certification?*

The primary objective of most legal certifications is the development of a stable conceptual definition based on criteria that confirm the unique mission of the business. Fulfilment of these criteria may lay the groundwork for other business support mechanisms that ultimately help the business improve the lives of those living at the BoP. Legal certifications are often considered less intensive than a mission-oriented legal structure in that it allows the business owner to determine the legal form that best suits the company's objectives. Certification may also place fewer demands on the implementing government.

## Common elements and best practices

### *How does this policy instrument work?*

Certification and accreditation systems work by businesses voluntarily meeting a set of criteria established by the government. When designing the particular conditions for a certification instrument, policymakers should keep in mind the type of business they wish to foster. In the case of inclusive business, for example, policymakers may want to establish criteria that are specific enough to distinguish it from other socially-oriented certification programs.

### *What are the policy design options?*

#### **Qualification Criteria**

The creation of a new legal certification<sup>2</sup> allows corporations, cooperatives—and even potentially non-profits, depending on the qualification conditions<sup>3</sup>—to be eligible to achieve inclusive business certification, while maintaining their existing legal and governance structure, tax requirements, etc., unless otherwise stated in the qualification criteria.

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<sup>2</sup> This has also been referred to as the 'open form model' due to its inclusion of a range of legal forms. (Cafaggi and Iamiceli 2009)

<sup>3</sup> For example, certification could be applied to a revenue producing project carried out by a non-profit.

Qualification criteria vary based on the type of business to be included in the policy. The major categories of criteria include:

- *Private legal entity*: A standard first criterion is the need for the organization to be a private legal entity. Policymakers can determine what specific types of organizations are eligible, for example corporations, limited liability companies, cooperatives, charities, etc.
- *Financial sustainability*: The qualification process may include an evaluation of the financials of the business, requiring the business to be largely financially self-sufficient with no, or only limited reliance on philanthropic capital, or a requirement of for-profit status. Alternatively, it could be just a recognition of the business' goal of being financially self-sufficient.<sup>4</sup>
- *Governance and employees*: Several social enterprise certification strategies require proven inclusive governance mechanisms, such as including a variety of stakeholders in decision making, fair pay for employees, etc. Criteria relating to governance may also be relevant for an inclusive business given the overarching goal of benefiting the BoP.
- *Social purpose and/or social impact generated*: Businesses must prove the social reach, depth, and other effects that their operations have on incorporating the BoP into their value chain. Policymakers should consider the level of BoP engagement they require to deem a business "inclusive". Various metrics could be used here including a minimum percentage of business operations engaging with the BoP, a minimum number of BoP individuals benefiting from the business operations, as well as sector-based metrics.
- *Core business*: The extent to which the BoP are incorporated in core business operations and/or future growth strategies (as distinct from one-time projects or philanthropic endeavors) can be a key determining factor of the business to achieve social impact at scale. Alternatively, inclusive business certification could be awarded to businesses with shorter-term projects (such as inclusive business activities) being carried out by the business as a method to involve a greater variety of businesses.
- *Innovation*: In some instances, certification may be awarded for particularly innovative business strategies that do not otherwise meet the necessary requirements based on other criteria. This might include innovative business governance mechanisms, impact measurement, or other features of the business. Developing criteria around this element may however lead to more subjective analysis, potentially reducing transparency of the certification process.

### **Sector focus**

Developing a sector-specific certification strategy can enable a much more targeted and strategic approach to engaging the BoP through business. This could include providing certain types of services and benefits, or reaching specific BoP stakeholders groups.

### **Accountability**

In addition to detailing business' intended social impact in order to achieve initial certification, follow up mechanisms must also be in place to ensure that the social impact continues at the level needed to maintain certification.

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<sup>4</sup> While inclusive business will tend to seek market rate returns, there are examples of criteria for social enterprises that limit profit distribution and place a lock on the assets of the business i.e. not allowing assets to be transferred to an entity that does not have a social purpose.

## Loss of Certification

A necessary element of a certification strategy is the conditions under which the certification is revoked. This could be through failing to meet the necessary social impact conditions, a shift in financial sustainability (such as a dependence on philanthropic capital), or other issues identified through monitoring and evaluation. Certificate revocation could be applied in stages, such as starting with a probationary period to allow a failing business to retrench its criteria-related efforts in order to avoid loss of certification.

## *What are success factors and prerequisites for implementing a certification system?*

Certification itself may help a company to verify its unique mission or to better understand best practices adopted by peers and competitors, but beyond that its “compliance” effect on business models may be limited. Complementary policies, however, can significantly enhance the benefits of certification. Making clear to the business that the relevance of certification for other policies -- such as eligibility for other incentives, programs and initiatives -- could bolster demand and success of a certification policy.

## Case studies: Rep. of Korea, Italy, Denmark, Philippines, Asian Development Bank

The following case studies present a set of existing and planned government certification policies and programs.

### *Case 1: Korea – Social Enterprise Certification*

#### **Policy Instrument**

The Law on the Promotion of Social Enterprises became effective in July 2007, creating a legal category for social enterprises through a certification process. It can include non-profit organizations, corporations of public interest, or social welfare corporations.<sup>5</sup>

#### **Policy Criteria**

Korea recognizes a social enterprise as a company that produces and sells products and services as a business while also pursuing social purposes such as providing vulnerable social groups with social services or jobs to improve the quality of life of the local residents.

The law recognizes five types of social enterprises based on the purpose of the business:<sup>6</sup>

1. Job-creation
2. Social Service Provision
3. Mixed: Job-creation + Social Service Provision
4. Local Community Contributions
5. Others: Not readily classifiable

No matter the type of social enterprise, each must satisfy the same set of core criteria detailed in the table

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<sup>5</sup> Korea Social Enterprise Promotion Agency (2015). [http://www.socialenterprise.or.kr/eng/info/What\\_is.do](http://www.socialenterprise.or.kr/eng/info/What_is.do)

<sup>6</sup> Korea Social Enterprise Promotion Agency (2015). [http://www.socialenterprise.or.kr/eng/info/What\\_is.do](http://www.socialenterprise.or.kr/eng/info/What_is.do)

below.

### Certification Criteria

Criteria Category	Explanation
Type of Organization	Must be registered as a private legal entity
Business Activity and Paid Workers	Must execute business activities including production and sale of goods and services by employing one or more paid workers
Social Purpose	Must belong to one of five types: Job-creation, social service provision, local community contribution, mixed, or other
Stakeholder Engagement	Must have a decision-making structure which involves various stakeholders including the beneficiaries of the services
Income and Labor Cost	Total income made through business activities for the past 6 months should be more than 30% of the total labor cost
Articles of Association or Regulations	Required information includes business purpose, contents of business, name, location of main office, type of organization, way of operation and method of decision-making, matters of profit-sharing and reinvestment, matters of composition of personnel, matters of liquidation and settlement and others
Reinvestment of Profits	Must use at least 2/3 of profits for social objectives (applicable to companies or limited partnerships)

Source: Adapted from Kim 2013

### Policy Implementation

The Korea Social Enterprise Agency (KoSEA) serves as main point of contact and champion of the policy. Responsibility for the policy's implementation lies with multiple government entities, ranging from local governments to the national Department of Employment and Labor. The step by step process for certification is illustrated in the table below.

### Certification Process



Source: Kim 2013

### Policy Effectiveness

As of March 31, 2013, a total of 801 companies were certified as social enterprises.<sup>7</sup>

<sup>7</sup> Kim (2013).

## Policy Mix

Korea has a relatively well developed policy framework for supporting social enterprises. In addition to certification, several additional policies and government agencies also support the social enterprise ecosystem, such as the following:

### *Korea Social Enterprise Promotion Agency (KoSEA)*

As mentioned above, KoSEA is the leading national level government entity for social enterprises, designed to foster and promote social enterprises through information, support services, public outreach, among others.

### *Korea Social Investment (KSI)*

KSI provides a variety of loans that support social housing, social business, social finance intermediaries, social venture business, local business and cooperative associations.

### *Employment and Labor Policy in Korea*

This policy outlines provisions for social enterprises, indicating that the government expands indirect support services, such as business project development, new sales channels, and so on.

## Case 2: Italy – Social Enterprise Certification

### Policy Instrument

Italy is one of the few countries with a law on social cooperatives (a legal structure) as well as a law on social enterprises (a legal certification) and now most recently, as of December 2015, Benefit Corporation legislation.<sup>8</sup> This case study focuses on the social enterprise legal category. A discussion on the social cooperative legal structure can be found in the policy note on Mission-Oriented Legal Structures.

The legal status for social enterprises was created via the Law on Social Enterprises, passed in 2006. It does not create a new legal form or structure, but rather establishes a legal certification for social enterprises that all eligible organizations can obtain regardless of their ownership or organizational structure.<sup>9</sup>

### Policy Criteria

To achieve social enterprise status, the applying organization must comply with the following criteria:<sup>10</sup>

- Must be a private legal entity;
- Must engage in production and exchange of goods and services that have ‘social utility’ (amounting to at least 70% of income) and seek to create public benefit;
- Can make a profit but cannot distribute it to its members or owners.<sup>11</sup> Profits have to be reinvested to further the company’s stated public benefit goals;
- Must respect good governance principles such as transparency, openness, and participatory decision-making.

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<sup>8</sup> It is unclear at this point what the overlap will be between the new Benefit Corporation legislation and the ability to register for the category of a social enterprise.

<sup>9</sup> ICF Italy (2014).

<sup>10</sup> ICF Italy (2014).

<sup>11</sup> This feature would not be a part of an inclusive business specific certification, given the market rate returns sought after by an inclusive business.

## **Effectiveness**

It is estimated that there are roughly 35,000 social enterprises in Italy<sup>12</sup> that fully meet the criteria laid out by the operational definition, representing nearly 1 percent of all businesses. They take a variety of forms such as foundations, associations, for-profit enterprises and social cooperatives.<sup>13</sup>

## **Policy Mix**

While relatively many policies exist for the support of social cooperative in Italy, there are also some complementary policies which support businesses with a social enterprise status. These include:

### *Social reporting requirements*

Systems for social reporting were developed to specifically target social enterprises. In 2011 the Italian Government approved and published the national guidelines for social reporting for the non-profit sector prepared by the Ministry for Employment and Social Policies. The guidelines provide a framework for the compilation of a regular social report ('bilancio sociale', or social balance sheet), which outlines the social goals of the enterprise.

### *Small Grants Program*

This program was launched in the Puglia region with the support of the European Social Fund. It supports infrastructural, social and economic revitalization through small grants. It is designed to foster sustainable growth in the region.

## **Case 3: Denmark – Social Enterprise Registration**

### **Policy Instrument**

In June 2014, the Danish Parliament passed the 'Act on Registered Social Enterprises'. The act allows an interested enterprise to receive an official seal of approval as a "registered social enterprise" from the Danish authorities.

There are no legal forms tailored specifically for use by social enterprises in Denmark. Indeed, more than 14 different legal structures are currently being used by social enterprises. The majority of social enterprises are established as associations, foundations or companies limited by shares. There are no specific tax incentives associated with social enterprise status.

### **Policy Purpose**

The law aims to provide the basis for a common identity among social enterprises. The registration system allows enterprises that meet certain standards for their operation and transparency to demonstrate their social characteristics to authorities, business partners and customers through an exclusive right to use the term "registered social enterprise".

### **Policy Criteria**

An enterprise must meet five criteria to be eligible to register as a social enterprise.<sup>14</sup>

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<sup>12</sup> ICF Italy (2014).

<sup>13</sup> ICF Italy (2014).

<sup>14</sup> National Center for Social Enterprises (2014). <http://socialvirksomhed.dk/en/about-social-economy-i-denmark/the-criteria-to-be-labelled-a-social-enterprise>

- A primarily social purpose
- Significant portion of revenues derived from commercial activity
- Independent legal entity
- Inclusive and responsible governance including employees, customers, partners and stakeholders.
- Social management of profits<sup>15</sup>

### **Policy Implementation**

As of 2015, registered social enterprises are published on the website of the National Centre for Social Enterprises. The Danish Business Authority is responsible for managing the registrations using the aforementioned criteria.<sup>16</sup>

**Effectiveness:** About 80 companies have registered for social enterprise status since 2015.

## *Case 4: Philippines – Inclusive Business Accreditation and Recognition*

### **Policy Instrument**

Policymakers in the Philippines are in the process of developing a framework for identifying inclusive businesses. The proposed plans call for a system where interested businesses can apply for recognition/accreditation through the government and once accredited, they will be recognized as inclusive businesses.

### **Policy Purpose**

The objective of an Inclusive Business Accreditation System is to help distinguish an inclusive business model from other types of investment, with the following principles in mind:

1. Accreditation can establish trust and accountability.
2. Not all companies have business models that make growth more inclusive.
3. It is important to distinguish between companies generally contributing to economic growth, and companies with inclusive business models, in order to provide targeted investment support.<sup>17</sup>

### **Policy Implementation**

The accreditation process is planned to be carried out by the Board of Investments (BOI) through a formal application and review process. As a result, accreditation is based on initial assessment, and the preliminary rating is then validated with a follow up check after 6-12 months.<sup>18</sup>

While this instrument is still being developed, policymakers in the Philippines are considering a variety of add-on incentives for businesses or projects that achieve accreditation/recognition. These may include lower

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<sup>15</sup> The enterprise must spend its profits on social objectives or reinvest the funds with a limited share of profits that may be distributed as dividends to investors or owners. This limit on profit distribution distinguishes the Danish social enterprise scheme from an inclusive business scheme.

<sup>16</sup> National Center for Social Enterprises (2014). <http://socialvirksomhed.dk/en/initiatives/other-initiatives/other-initiatives>

<sup>17</sup> Agoncillo-Reyes and Dietrich (2016).

<sup>18</sup> Ibid.

corporate tax rates, guarantees for lenders that finance inclusive business accredited projects, and other options.

### Case 5: Asian Development Bank (ADB) – Inclusive Business Eligibility Criteria

The ADB has developed a draft methodology to recognize inclusive business projects. It begins by defining the core eligibility criteria and their respective weighting:<sup>19</sup>

- A. Integration of the BoP (15%)
- B. Relevance to the BoP/Depth of Potential Impact (20%)
- C. Part of a company’s core business and commercial viability (30%)
- D. The business model’s scale and replicability (10%)
- E. Financial and social returns (15%)
- F. Degree of business model innovation (10%)

The questions are scored based on a guided answer key (see example below) with the most affirmative answer (furthest to the left) receiving 5 points, second most affirmative 3 points, the next 1 point, and the least affirmative/ negative answer (0 points). The maximum score obtainable is 5 points for each question. Projects must score at least 3.25 in aggregate to be considered an inclusive business.<sup>20</sup> The table below<sup>21</sup> includes a sample of the specific criteria used in the ADB certification process.

#### Sample of the specific criteria used for Part C of the ADB certification process

C. Core Business (30%)			
4. Is the business activity targeting the low-income segment part of the company’s core business and an important component of their strategy for growth? (10%)			
Yes, the business model is part of core business  ( )	Somewhat, the business model is part of the company’s growth strategy but not yet part of core business  ( )	Somewhat, but the business model is not part of core business/part of the company’s growth strategy  ( )	No, it is not part of the company’s core business nor is it official to their strategy for growth  ( )
5. Do the results of this business contribute meaningfully to the company’s bottom line? (10%)			
Yes, this business activity represents more than 50% of our revenue projections Y – o – Y  ( )	Yes, this business activity represents between 25 and 50% of our revenue projections Y – o – Y  ( )	Somewhat, this business activity does not contribute revenue, but reduces costs or mitigates other risks  ( )	No, this business initiative is meaningful to the low-income segment but does not contribute meaningfully to the company’s bottom line  ( )
6. Is or will the business be commercially viable and profitable? (10%)			
Yes, the business or will be profitable  ( )	Yes, the business will be profitable in the near term (within three years)  ( )	Somewhat, the business requires financial incentives and/or subsidies to be profitable  ( )	No, the business is completely dependent on subsidies and other forms of patient capital  ( )

<sup>19</sup> De Jongh 2 (2013).

<sup>20</sup> De Jongh 2 (2013).

<sup>21</sup> Adapted from De Jongh 2 (2013).

Source: Adapted from De Jongh, W. (2013). 'Inclusive Business Potential at the ADB: A Preliminary Portfolio Assessment.' Mandaluyong City, Philippines: Asian Development Bank.

## Ideas for further research / knowledge gaps

While certification has yet to be applied in many situations and therefore has a limited track record, it is worth investigating given the relative simplicity of its policy design and potential impact. Adopting a transparent, replicable national standard for certification could facilitate a more widespread adoption of complementary policies than would have otherwise been possible.

To advance our knowledge on the role and effectiveness of certification and accreditation systems to support inclusive businesses, the following is a sample of ideas for further research:

- How do the costs and benefits differ between a legal certification and a mission-oriented legal structure from the perspective of government, business and the broader community?
- Does inclusive business certification need to favor a certain sector of inclusive business i.e. agribusinesses, tourism, etc.?
- What incentives are most effective in attracting businesses to pursue certification? What factors would these incentives depend on to be effective?
- How can governments demonstrate the additionality of inclusive business certification policies? What kinds of metrics can indicate success on a business-level as well as policy-wide level?

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*Case study available at [www.g20inclusivebusiness.org](http://www.g20inclusivebusiness.org)  
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