



Social Purchase for Social Purpose*

Is there more money than we think?

Social finance concerns itself with finding capital for social enterprise. While there are many different types of social enterprise, they all have a common thread. They invest capital and use profit to meet social purposes [Torjman and Young 2007].

Social finance focuses largely on the supply side of the equation: the availability of capital.

But the demand side of the equation – in the form of demand for goods and services produced by various social enterprises – is equally important. A major challenge for social enterprises is to figure out how to bolster interest in and purchase of their products.

We started to think about this question when the Caledon Institute was asked by the City of Hamilton to write a paper on the concept and practice of social inclusion.

Social inclusion is a big idea with lots of applications. We narrowed down this large conceptual tent into three major streams of actions related to: engagement, participation and employment.

On the employment front, in particular, we recommended several measures. One was to examine the *hiring practices* of the City itself. As a major employer, it should have a diverse workforce that reflects the community.

* This commentary was written as a series of blogs for *socialfinance.ca* based at the MaRS Innovation Centre in Toronto.

A second stream of action was to examine its *purchasing practices*. The City can affect employment not only directly through its hiring but also indirectly through its purchasing.

Hamilton, like all other cities, requires a wide range of goods and services in order to operate effectively. In its upcoming role as co-host of the PanAm Games in 2015, it will need an even broader set of products than it normally does in the course of regular business.

Opportunity knocks. What a perfect time to encourage the City to include social enterprises among its potential list of suppliers. And what a perfect time to ask the City to incorporate a community benefits statement in all their contracts. More on this on later.

In the meantime, paying greater attention to procurement may yield positive results. Who is buying what from whom? How do social enterprises go to the front of the line – or at least be on the list – when important purchasing decisions are made?

Of course, Hamilton is just a metaphor for local government and government more generally. There are many more prospective purchasers, and lots of potential dollars, to harness in support of social enterprise.

Social purchase is not a magic-bullet solution for supporting social enterprise – nothing ever is. And it is far easier said than done. But its wider application could help generate some badly-needed cash for a sector that certainly could use it.

Harnessing the value of values

So a case can be made that additional funds potentially could be found for social enterprise by encouraging the practice of social procurement – or social purchase.

There are two ways to do this. One way is for the buyer – in this case local governments – to purchase goods and services directly from social enterprises. Another route is to require any enterprise that successfully wins a public contract to create broader benefits for the community.

Purchasing decisions typically are made on the basis of three factors: consumer need, product quality and price. Increasingly, however, consumers are adding a fourth variable to the equation: their values.

They may buy products, for example, which explicitly avoid the use of child labour or that are made with environmentally friendly ingredients. They may patronize companies that direct a percentage of their profits toward social or environmental causes, such as breast cancer research, wildlife preservation or earthquake relief.

As consumers become increasingly aware of their power, many companies have linked with causes they believe will attract a consumer base that they otherwise would not have had.

So how best to harness the value of values?

All government contracts, grants and contributions come with conditions to which the providers of goods and services must adhere. The public dollars basically require a certain set of behaviours.

By virtue of the fact that the enterprise or voluntary organization that won the bid will be receiving taxpayer dollars, there is an expectation of *reciprocity*.

This exchange is at the heart of social procurement. The successful bidder not only must deliver high-quality products or services. It is also expected to return something to the community that has enriched the bidder's bottom line.

While governments have long recognized the power of embedded terms and conditions, the expectations associated with contractual arrangements typically take the form of legal, ethical and efficiency considerations.

But there is a new dimension that has become recognized increasingly in recent years: community benefits.

Does your community benefit from community benefits?

It can be argued that governments should build some form of reciprocity into contractual agreements with bidders. In addition to delivering goods and services, prospective contractors should be required to 'give something back.'

They should be expected to deliver community benefits. These refer to the notion that the benefits of a given contract should be felt more broadly than by just the firm or organization that derives monetary gains in the form of cash payments.

In terms of employment, community benefits can mean that the successful bidder offers job opportunities to designated groups – such as persons with disabilities, Aboriginal youth, new Canadians and young offenders. The company promises to hire, in fulfillment of the contract, a certain number or percentage of individuals who are typically underrepresented in the labour market.

A variation on the employment theme involves encouraging social enterprises to bid for the available contracts.

Community benefits can also involve training prospective employees. This form of skills development helps raise awareness among employers and community members, more generally, about the value of people who often get overlooked as potential workers.

Training may not result in immediate employment because participants may have to complete an apprenticeship or require additional skills. But the very act of being engaged as trainees may afford them the confidence to pursue a skilled trade or return to school.

The experience may also provide trainees with contacts and letters of referral that they otherwise would not have had.

Finally, community benefits can involve support for designated voluntary organizations. While this approach is the least direct form of community benefit, it nonetheless can raise awareness about certain social issues. It can also direct resources to organizations struggling with scarce supports.

Of course, social procurement can never replace direct public investment. The fact that successful contractors would be expected to make available training or employment to individuals typically underrepresented in the labour market can never supplant a publicly supported, widely available program to develop skills, retrain workers or help them link to the job market.

At best, the community benefits derived through social procurement can be understood as a complement and supplement to solid public investment in employment and social well-being. At the end of the day, more support for social enterprise is what counts.

Enough talk. Where's the action?

Social purchase is a way to bolster demand for the goods and services produced by social enterprises.

The Caledon Institute recommended this approach to the City of Hamilton as one option in pursuing its goal of social inclusion. The City was interested in this objective in respect of its role as co-host of the PanAm Games in 2015.

So what to do? Here are the recommendations on social purchase that we made to the City. They pertain to the Games specifically but clearly have broader application.

- Commercial activity should promote social inclusion in business practices related to training, hiring, building and operations.
- Companies and organizations receiving contracts for the Games should be required to pay a living wage.

- Successful bidders should also be required to build and/or operate according to the highest accessibility and environmental standards.
- Businesses receiving contracts for Games-related facilities, venues and services should be required to provide training to and/or employ people who face barriers to employment.
- Businesses receiving contracts for Games-related facilities, venues and services should be encouraged to engage with a local voluntary organization pursuing a social goal to promote training and employment opportunities for the people it serves.
- Local small businesses and social enterprises should have access to advice and training on how to engage in the bidding process related to the procurement of Games-related contracts.

But how to actually take these actions? Municipalities that have had experience with social procurement advise to do first things first. Develop a set of guiding principles.

A 2010 guide for local governments in Australia talks about *open and fair competition*.¹ All suppliers are treated fairly, in a transparent manner and with access to the same information. *Transparency* means that procurement processes are conducted in an honest and open manner, with the highest level of integrity and in the public interest.

Another good piece of advice – this time from Vancouver. It set up a community portal for the procurement of goods and services for the 2010 Winter Olympics. The information helped ensure that all bidders, including social enterprises, had access to the same information regarding contract opportunities.

Social enterprises and local small businesses can be encouraged to work together or to partner with larger suppliers to respond to tenders. Sometimes a job appears too big or too complex for a single enterprise – social or other – to bid on its own.

The Vancouver Olympic experience was instructive in many ways.

Get real

The Vancouver Olympic Organizing Committee actively employed a Community Benefits Agreements approach.² The benefits of a contract must go to more than just the successful bidders.

Vancouver's experience in developing Community Benefits Agreements grew from its commitment to social, economic and environmental sustainability. The Agreements were a starting point for communicating this objective.

Bidders were required to include a social enterprise component as part of the assessment process. Comparable price and product value were the first elements considered in a bid package. The onus was on the bidder to work with a local social enterprise to add value to the submission.

The City of Vancouver, Millennium Southeast False Creek Properties Ltd. and Building Opportunities with Business Inner-City Society negotiated a Community Benefits Agreement. Its purpose was to ensure that the community benefited directly from the development of the Southeast False Creek lands, which included the site of the Olympic and Paralympic Village Vancouver.

The Community Benefits Agreement provided for 100 construction jobs for inner-city residents on the site, \$750,000 in training to prepare them for these jobs and \$15 million in goods and services purchased from inner-city suppliers. Most of the entry-level construction workers hired in these positions were trained in the CORE program housed at the Fabrication Shop.

The RONA Vancouver 2010 Fabrication Shop is an inner-city construction facility producing more than 2,300 wood products required for Games venues. It provides carpentry training and work experience for at-risk populations. The Fab Shop also housed the CORE program, a six-week employment training program delivered by the Vancouver Regional Construction Association.

The City of Glasgow in Scotland is adopting a similar approach. Community benefits are playing a vital role in achieving the legacy principle for the Glasgow 2014 Commonwealth Games.

The *Community Benefit in Procurement* introduces appropriate measures into procurement contracts to ensure that Glasgow secures, as far as possible within legal constraints, the maximum economic and social benefit for local residents and businesses.

Community Benefits account for 10 percent of the overall score in the evaluation of tenders. Tenders are required to deliver opportunities for targeted recruitment and training, and the development of small and medium enterprises/social enterprises, including the advertising of all appropriate subcontracts on the Commonwealth Games Business Portal.

Contractors are being advised to contact the Local Regeneration Agency Network to link with people seeking job opportunities. Contractors are being encouraged to ensure that employees working on Glasgow 2014-related contracts benefit from selected measures, including the Glasgow Living Wage.

The policy has been piloted and successfully implemented within the Site Remediation Contract for the Athletes' Village. The intent is to roll out the policy across all relevant Glasgow procurement.

Back at home, the City of Calgary provides a good model of across-the-board social procurement.

Standards: Not your standard fare

Due to the significant scope of procurement activities within the City of Calgary, its Council has adopted a *Sustainable Environmental and Ethical Procurement Policy* to help guide its purchases. The Policy has been applied through a phased approach.

A pilot project first examined how the implementation of the Policy would affect the purchase of four commodities: apparel, food, and chemical and custodial services.

The City next explored whether the Policy could be integrated into other purchases including appliances, cleaning products, and courier and freight services.

The Policy eventually will apply to the procurement of all City goods and services. The City's *Supplier Code of Conduct* provides a minimum set of environmental and ethical standards that suppliers must meet. It must be signed by the supplier as a condition of doing business with the City.

Way to go, Calgary!

Its ethical standards oblige suppliers to meet basic human rights and labour practices as legislated by jurisdictional requirements. This expectation ensures that workers who make or deliver City products and services are treated fairly according to local and international standards.

Suppliers must also meet basic environmental standards. These include environmental permits and reporting, pollution prevention and resource reduction. Suppliers must use products and services that are energy efficient and that contain low toxicity and packaging, and high recycled content.

The City has taken steps to minimize the potential cost burden on suppliers. It also helps them understand how to achieve the required standards within an acceptable timeline.

Social purchase holds promise for social enterprises because it helps create a bigger market – and vital capital – for their goods and services.

But the practice is not without challenges.

The challenges of social procurement

Despite all the advantages of using social purchase as a way to bolster demand for the goods and services produced by social enterprises, it is sometimes easier said than done.

There are concerns, for example, as to whether procurement processes will circumvent unions. Vancouver used the 2010 Olympic experience as an opportunity for dialogue with organized labour.

Fortunately, local corporations and unions in Vancouver had long-standing, positive relationships. In 1994, for example, BladeRunners was established to give at-risk youth the chance to work on construction sites and receive the support they needed to enter the trades.

Demographic experts predict a 25 percent decline in union membership over the next decade. The Vancouver unions saw BladeRunners as an opportunity to recruit and secure new members.

Large construction contracts also include ancillary contracts for services, such as work-site catering, clean-up and signage. Firms employing workers with developmental disabilities to construct worksite signage, for instance, create a more efficient workplace by ensuring that skilled labourers are engaged in work for which they are trained.

BC unions were open to this type of arrangement, given their strong social justice perspective.

Another challenge relates to the long-term allegiance to a social procurement approach. A one-time commitment around a high-profile event, such as the PanAm Games, may not ensure a legacy of social purchase after the event itself.

The City of Glasgow is seeking to move beyond the hype of the moment.

Glasgow's 2014 – Legacy Framework includes a comprehensive strategy based on three principles: health, inclusion and sustainability. While metrics are being developed for evaluating each legacy area, planners are envisioning what success will look like over the *long term*.

The City of Glasgow sees the Commonwealth Games not merely as a means to an end. The ultimate objective is to shift to a platform of social procurement that helps create a climate of social change and broader community benefits.

All this to say: Social procurement has the potential to create million-dollar pools of capital for social enterprise. Can we afford to say no?

Endnotes

1. *Social Procurement: A Guide for Victorian Local Government and Local Government Expert Support Program – Social Procurement in Practice.*
2. For details, see Sherri Torjman and Anne Makhoul. (2011). *Social Inclusion in the City of Hamilton.* Ottawa: Caledon Institute of Social Policy, June.

References

Torjman, S. and B. Young. (2007). *Money and Meaning: Blended Value in Community Enterprise.* Ottawa: Caledon Institute of Social Policy, February.

Sherri Torjman

Copyright © 2012 by
Caledon Institute of Social Policy

1354 Wellington Street West, 3rd Floor
Ottawa, ON K1Y 3C3 CANADA

Tel/Fax: (613) 729-3340 | E-mail: caledon@caledoninst.org | Website: www.caledoninst.org