CENTER FOR THE GOVERNANCE OF CHANCE

Secretaría General Iberoamericana
Secretaria-Geral Ibero-Americana

BUSINESS WITH PURPOSE AND THE RISE OF THE FOURTH SECTOR IN IBERO-AMERICA

The world will fail to achieve the Sustainable Development Goals — here's how purpose-driven companies can fix that.

Contents

Executive Summary

The state of the Fourth Sector in Ibero-America.

% of national GDP

170,000 fourth-sector entities

10 million employees

6 % of the total GDP

— Ibero-America is witnessing the rise of a new generation of enterprises driven by purpose beyond profit. These entities come in a wide variety of forms (from cooperatives to B-corps) and fall within numerous movements (social entrepreneurship, circular economy, human-centered business, fair trade, banking with values, and many others) but all of them share the same goal: to use a market-driven approach to become self-sustaining and deliver a positive social and environmental impact at scale.

— The business models and principles of these purpose-driven enterprises make of them one of the most powerful allies that governments, NGOs and societies have to achieve the 17 Sustainable Development Goals by 2030.

— This study analyses the current state of purpose-driven enterprises in 7 countries of Ibero-America, which together account for 87 % of the total GDP of the region: Argentina, Brazil, Colombia, Chile, Mexico, Portugal and Spain.

— The data collected suggests that there are more than 170,000 purpose-driven enterprises in Ibero-America, which account for over 6 % of its total economy and employ almost 10 million workers annually.

— There are significant divergences between countries, mainly dictated by the different weight of cooperatives, which still represent the bulk of the fourth sector. Nevertheless, in all territories we find a significant rise of new organizational forms and enterprises aimed at tackling problems such as poverty, inequality and climate change.

— Governments are increasingly aware of the need to support purpose-driven enterprises. 11 countries in the region have adopted or are currently discussing new regulations aimed at typifying and supporting alternative forms of organizations that integrate commercial activities with public benefit pursuits, usually under the framework of “social economy” and “BIC enterprises”.

— Despite all these efforts, purpose-driven enterprises still lack the appropriate ecosystem to grow and scale. This report advances a vision for the fourth sector development, as well as a number of specific recommendations for each of the countries.

Preface

Rebeca Grynspan
Ibero-American Secretary General
—
Manuel Muñiz
Dean of IE School of Global & Public Affairs

With stagnating growth rates, increasing inequality and unwavering pollution rates across the developing and developed world, it is clearer than ever that our current economic framework, developed late in the 19th century, is under severe stress. At the current pace, we will not meet the Sustainable Development Goals set in the 2030 Agenda, an agenda which explicitly relies on the commitment of the private sector to succeed. We must all contribute to rethinking the functioning of the market and give it a new purpose. Only thus will we find a new development trajectory.

Our current three-sector social and economic model (government, private sector and NGOs) is the place to start. This division seems to imply that businesses cannot have any other purpose than maximizing profit and shareholder value. But, as our study shows, this is not true. A new Fourth Sector of the economy, made up of for-social benefit and purpose-driven companies, is rising both in the world and in our region of Ibero-America; a region where roughly 10 % of the world's population lives. The Fourth Sector represents 6 % of the total economy of the seven countries we have studied (Argentina, Brazil, Colombia, Chile, México, Portugal and Spain), which, in turn, account for 87 % of total Ibero-American GDP. This new Sector employs almost 10 million workers annually.

The reasons behind this rise are manifold, and in the present work many are discussed, including the birth of an innovative regulatory framework in some countries in the region. But we would like to highlight one in particular: the arrival of a new generation of consumers and entrepreneurs who, against all odds, have started to search for purpose beyond revenue.

This, the fact that the rise of the Fourth Sector is partly organic, is very encouraging news.

However, much more needs to be done. In this study, we set some guidelines of where action should be directed, and what policies should be enacted to make this new ecosystem thrives. Only if we succeed at carrying them forth will we be able to build that prosperous, inclusive and sustainable future to which our region is profoundly and explicitly committed. Only thus will our economies reflect the nature of our citizens' values, and will we be able to address the deep challenges of the 21st century.

Introduction

Diego Rubio
Coordinator of the Study

It is becoming increasingly evident for most of the world that our current economic systems and organizational models need a strong update. Modern capitalism has produced unprecedented prosperity and improved the quality of life for much of humanity. But, at the same time, it has created the most large-scale, urgent, and complex economic, social, and environmental challenges that we have faced in history.

The Sustainable Development Goals (SDGs) designed by the United Nations, are a clear call to action. They encompass 169 targets under 17 broad goals to protect the planet and ensure prosperity for all as part of a comprehensive sustainable development agenda to be achieved globally. Governments and NGOs of 194 countries have committed to work on this agenda. However, research already shows that the efforts of these actors will not be enough. While significant advances are taking place on some fronts, data reveals that progress is absent in most areas, and that there where it can be detected, it still shows an insufficient pace to meet the targets on time. This will have terrible consequences for both humanity and the planet (Global Opportunity Report, 2018) (UN, The Sustainable Development Goals Report, 2018). A number of things are missing: compressive policy action from governments, deeper commitment from citizens, technological innovation that allow us to do things such as absorbing CO_2 from the atmosphere, and, of course, investment. The United Nations Conference on Trade and Development estimates that there is a $ 2.5 trillion financing gap for the period of 2015–2030, without which most of the goals would remain unmet worldwide (UNCTAD, 2014).

How could this capital be leveraged?

With most states crippled by debt and non-profits at the limits of their capacity (OECD DAC report, 2017), the private sector is increasingly being seen as a crucial part of the solution — a novelty compared to the 2015 Millennium Development Goals. Nonetheless, it should be noted that the potential contributions of the private sector to the 2030 Agenda are trapped in a vicious cycle when it comes to combining social good with economic profit.

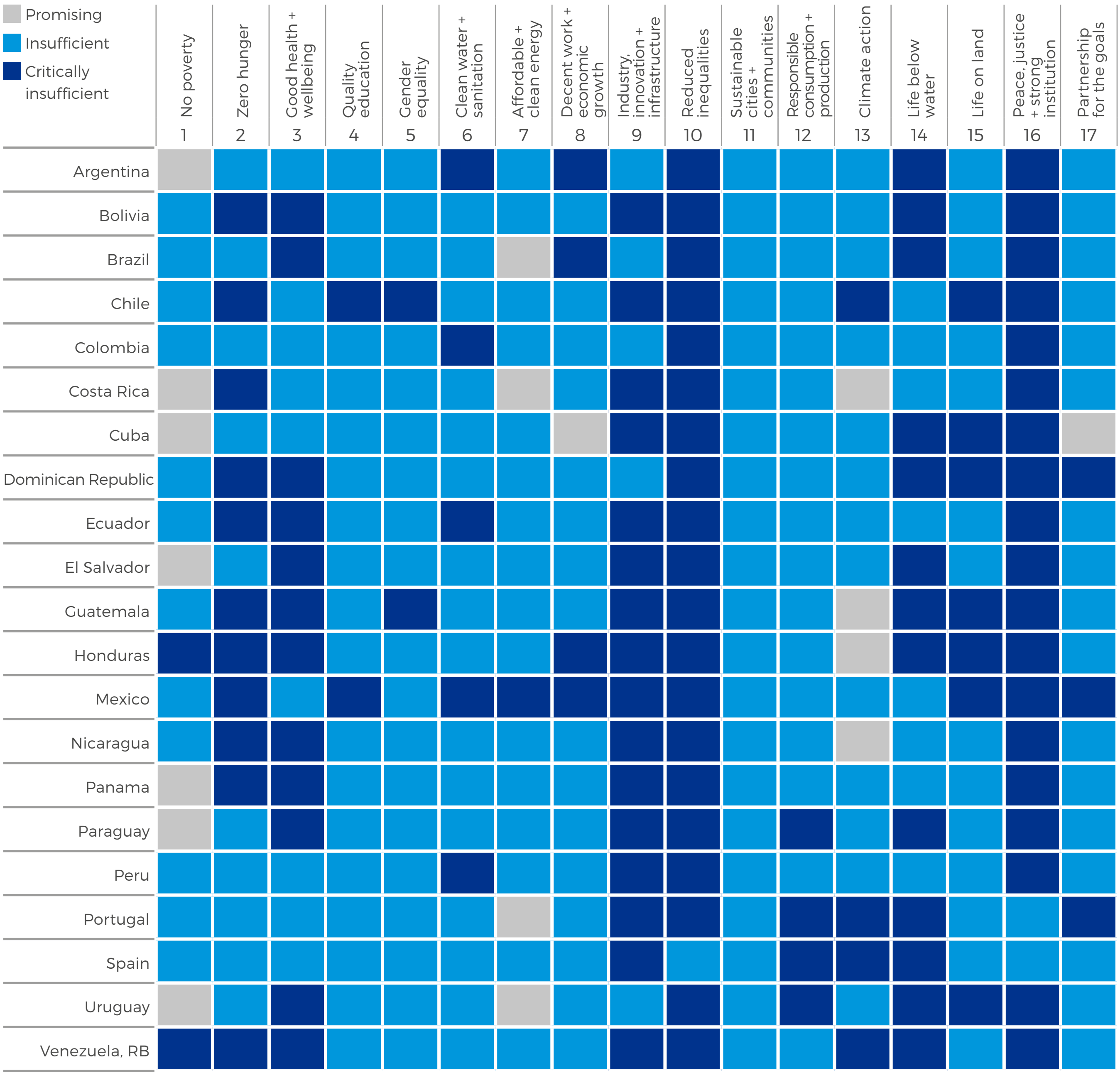
On the one hand, there is no doubt that the market is one of the most powerful forces shaping today's world, and that private firms have the capacity to leverage the vast amount of capital required to advance the SDGs.In 2017, the global private equity industry alone raised $ 453 billion from investors, leaving it with over $ 1 trillion to pour into companies and new business ventures. Meanwhile, mutual funds and sovereign wealth funds reached more than $ 9 trillion inflows worldwide (Morningstar, 2017; SWFI, 2017).

On the other hand, however, it cannot be forgotten that the private sector is the source of most of the challenges that the SDGs are aiming to tackle. Modern capitalism was born in the industrial age, at a time when natural resources were considered limitless, climate change was unknown by scientists, human rights were narrowly conceived, and globalization was still in its infancy. These shortcomings gave rise to a near-sighted system that measures success exclusively in terms of economic growth, where for-profit enterprises are encouraged to, and rewarded for, prioritizing short-term financial results over sustainable long-term value creation.

Thus emerged a vicious cycle in which the production and consumption of goods and services are intrinsically linked to the creation of negative externalities — both at the environmental and the social levels. For instance, a manufacturing company generates wealth, jobs and taxes, but it also causes air pollution, which in turn produces health and environmental issues and imposes medical and clean-up costs on the whole society.

If we are to achieve the SDGs by 2030, this vicious cycle needs to be broken. This means transforming the way in which the private sector operates, going far beyond current incremental reforms such as corporate social responsibility. Our traditional organizational models and economic systems need to be upgraded to a fundamentally new architecture, one in which enterprises deliver strong social, environmental and economic benefits, without generating the negative externalities we often see with traditional businesses.

SDG Dashboard for OECD countries



Source: SDG Index and Dashboards Report 2018

A significant part of the population supports this view, not just academics and social activists. Recent surveys reveal that three-quarters of Ibero-American citizens consider that companies should be responsible for the environment, while 71% declare that they would be willing to pay more for sustainable brands — a percentage that increased 21 points between 2011 and 2015 (GfK, 2015). In countries like Argentina, Brazil and Spain, the majority of people think it is very important that businesses start thinking about the SDGs, and between 76% and 90% report that they would be more likely to use the goods and services of a company that had signed up to the 2030 Agenda (PwC, 2015; Deloitte, 2017). This mind-set seems particularly acute among Millennials (born 1981–1996), whose commitment to sustainability when selecting products or accepting their current employment doubles that of Generation X (Deloitte, 2018; Nielsen, 2015).

There are also significant changes on the supply side, as evidence suggests that companies' environmental, social, and governance performance has an impact on their long-term financial success.

Today, 70% of Latin American executives believe that a sustainability strategy is necessary for a competitive company, and 40% claim that eco-friendly activities have actually increased their profits in the past years (PwC, 2014).

Moreover, investors of all kinds (from small green firms to BlackRock) are demanding new funds designed to drive positive social or environmental impact alongside financial returns (Unruh *et al.*, 2016).

The Quest for Purpose

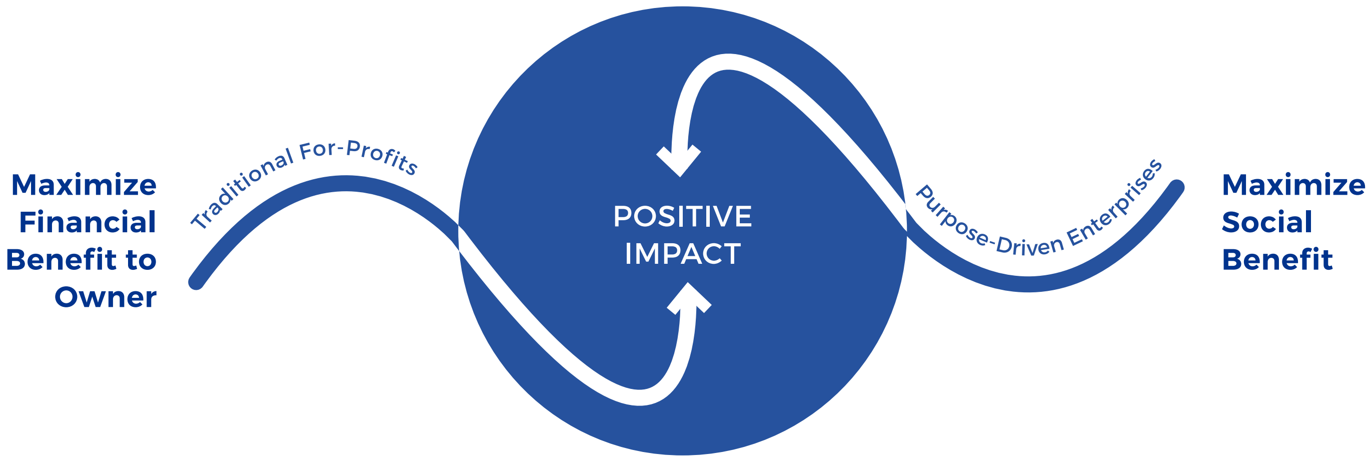
The rise of these new values and priorities has prompted a convergent movement towards purpose. On one hand, many traditional for-profit enterprises (from SMEs to big multinationals such as IKEA) have begun to transform their productive and organizational models to meet the sustainability demands of customers, employees, investors and regulators — a transformation that can provide major support for the SDGs.

On the other hand, the changing mind-set among Ibero-Americans has led to the appearance of new hybrid organizations and business models, often referred to as *businesses with purpose* or *for-benefit companies,* which have the commitment to prioritize purpose over profits already embedded into their DNA.

These organizations can be found in many different movements (social entrepreneurship, social and solidary economy, shared and circular economy, human-centered business, fair trade, banking with values, and many others), and come in a wide variety of forms (B and BIC enterprises, cooperatives, low-profit limited liability companies, mutuals, banks with values, triple impact businesses, and so on). Nevertheless, all of them share the same ambition: to address basic unmet needs and solve the social and environmental problems of our time through a market-driven approach (Doherty *et al.* 2014). Like traditional companies, for-benefit companies generate their revenues primarily through market transactions, which enable them to become self-sustaining and deliver impact at scale. But, like non-profits and governments, their main purpose is to have a positive impact on the world through their products, services, practices, and/or profits, while keeping their negative externalities to a minimum.

TO ON-GOING TREND

A Double Convergence Towards Impact



Such a goal translates into three key features that define and distinguish for-benefit companies from other businesses operating on the market:

1. The primacy of society and environment over capital: purpose-driven companies seek to make economic profit, but as a means to achieve their mission, not an end to itself.

2. Sustainable growth: purpose-driven companies' activities are not exclusively geared towards the generation of profits to be distributed to their owners. Rather, they pursue the interests of all their stakeholders and of the community at large, well beyond the limits of traditional corporate social responsibility. Many of them use a significant amount of their revenue to reduce the negative externalities of their activities and, between 50 % and 65 % of them, reinvest part of their profits to advance social goals — either through direct action or by collaborating with charities and non-profits (British Council, 2016; GEM, 2016; Fomin, 2013; SEFORIS, 2016). This means, on the one hand, actions to reduce unnecessary consumption, carbon emissions and other forms of pollution to achieve sustainable growth. On the other, a commitment to deliver good working conditions and opportunities to all their employees.

3. Inclusive governance and ownership: for-benefit companies are made up of individuals who are equal and decide to work together on a collaborative and reciprocal basis. Consequently, their governance and ownership structures often tends to be more inclusive and democratic, giving voice in the decision-making process to employees, consumers, and other stakeholders, rather than just investors, and more equitably sharing the fruits of their success.

To make sure that these principles do not fade over time, for-benefit companies have structures of governance and ownership, legal models, agreements, and policies that uphold their commitment to sustainability and human rights; as well as monitoring and reporting mechanisms to account for their financial performance and social and environmental impacts with full transparency.

NATURA: An inspiring example

Natura is the largest cosmetics maker in Latin America and an outstanding example of what purpose-driven companies can do for the 2030 Agenda in the region. Based in Cajamar, Brazil, this company generates an annual turnover of US$ 4.4 billion (2017), employs more than 7,000 people, and runs a network of 3,200 stores in 70 countries around the world.

Its main goal, however, is not to benefit just its shareholders, but society in general. Natura provides a voice, good working conditions, and professional development for all its employees, as well as ethical trade to its thousands of suppliers (mostly based in the rural areas of the Amazonia and the Atlantic forest) — with an estimated distributed capital of US$3.3 million in 2014. The company also runs programs to support women of all backgrounds as well as a scholarship scheme that has helped over 500,000 young students.

Natura is strongly committed to fighting climate change by prioritizing the use of recycled and recyclable materials and creating new, innovative ways of sustainable production. Since 2007, the company is 100% carbon neutral. Emissions are meticulously monitored, reduced to a minimum, and off-set, not only during production, but also transportation and storage. Its perfumes only use organic alcohol produced from sugar cane, an innovation that reduced water consumption by a 30%, and that has enabled the regeneration of around 50,000 acres of forests in Brazil every year.

Moreover, Natura was one of the first cosmetic companies in the world to eliminate raw animal materials in its products and established a zero-animal testing policy, developing and implementing over 60 alternative methods to test its products without damaging any living creatures. Another way Natura looks to reduce its impact on the planet is by avoiding redundant packaging, using recycled plastic (PET) in all its *Ekos* products, and by pioneering the use of "green plastic," a fully biodegradable polymer produced from sugar cane.

For all these efforts, in 2014, Natura became the first open-capital company to receive the B-Corp certificate and in 2015 it was awarded the "Champion of the Earth" prize by the United Nations. Today, Natura keeps advancing its ambition to deliver a strong social impact. Just last year, it invested US$70 million on product development, launching 164 new products and achieving an innovation index of 64%. Its current strategic plan includes new objectives for 2020, and the commitment to ensure that all its retailers have a credited positive impact by 2050.

Although much more research is still needed, the studies conducted so far suggest that purpose-driven companies could play a crucial role in fostering sustainable economic development and helping nations to achieve the SDGs by 2030. Estimates are that sustainable businesses could unlock more than US $ 1 trillion in Latin America and the Caribbean alone, and generate up to 24 million new jobs by 2030 (Business and Sustainable Development Commission, 2017), due to the new rising demands of consumers, investors and regulators in the region.

In addition to generating wealth, for-benefit companies could also help foster social inclusion and tackle climate change, since their business models and organizational systems have been engineered to support better working conditions, seek gender equality, empower vulnerable workers traditionally discriminated by the labour markets, curbing CO_2 emissions and reducing all forms of pollution (Canadian CED Network, 2015; European Parliament, 2014 and 2016; OECD, 2013; SEFORIS, 2016; SEUK, 2015).

Finally, for-benefit companies could have an enabler effect on other stakeholders, supporting them in their quest for welfare:

- **Governments** will find in these companies new and powerful allies in these companies to better fulfil their duties at a time of public resource scarcity and rising demand for social services.

- **NGOs.** For-benefit companies will help non-profit organizations overcome the problem of long-term financial sustainability by providing them a model to achieve successful revenue generation through commercial activities without compromising the integrity of their mission. For instance, in Australia, for-benefit commercial activity represented over 39 % of revenue in the not-for-profit sector in 2006 (Productivity Commission, 2010).

- **For-profit companies.** For-benefit companies can support those traditional for-profit companies that are committed to expanding their goal and impact by providing them new business models, tools, valuable lessons, and examples of success.

- **Individuals & Communities.** For-benefit companies are human-centered. One of their main goals is to enhance the wellbeing of their employees, providing them with good working conditions, decent salaries, career development opportunities, self-actualization and empowerment. Such benefits go beyond the individual. As the multiplier-ripple effect shows, those small improvements have the ability of making a ten-fold change in society. As one individual gains better employment and becomes a more productive and active member of a community, others member of the community benefit as well.

The Needed Ecosystem

In the last decade, purpose-driven companies have increased significantly in visibility (GEM, 2016) and volume worldwide, to the point that they already represent around 8 % of the European Union's total GDP and employ 7 % of its working population (European Parliament, 2016). Other studies suggest similar figures for Australia (8.3 % of national GDP) (NME, 2017; Social Traders, 2017) and Canada, where there are more than 7,000 social enterprises in Quebec alone, making up 8–10 % of the province's GDP, and providing more than 215,000 jobs (Chantier de l'économie sociale, 2017).

As for Ibero-America, our analysis of 7 countries (that represent 87 % of the total GDP of the region) suggests that there are more than 170,000 for-benefit enterprises in Ibero-America, which account for over 6 % of its total economy and employ almost 10 million people. There are, of course, significant divergences between countries (see table below), mainly dictated by the different weight of cooperatives, which represent the bulk of the Fourth Sector (as opposed to new forms of companies, such as B-corps, which still are very small in number and size).

These estimates should, however, be handled with extreme caution. For-benefit companies operate in various legal formats across countries, addressing a wide range of social issues with different degrees of motivations in profit-making and social impact. This, coupled with the lack of standard frameworks and national census, makes it impossible to produce solid data at this point.

Nevertheless, what is certain is that the purpose-driven economy is growing fast and that this trend is projected to continue over the next years; although, unfortunately, not at the pace and scale that is needed to bridge the US$ 2.5 trillion gap that is required to achieve the SDG by 2030.

Country	Number of purpose-driven companies	Number of (direct) employees	% of national employment	GDP Contribution in USD (bn)	% of national GDP
Argentina	37,682	346,064	1,89 %	1.4	4 %
Brazil	27,624	357,000	0,39 %	94.5	4.6 %
Colombia	3,812	77,697	0,34 %	6.8	2.1 %
Chile	2,433	45,664	0,7 %	22.9	1,7 %
Mexico	60,402	7,141,184	13 %	68.8	7 %
Portugal	2,286	27,480	8 %	2.9	0,5 %
Spain	35,040	2,196,907	12 %	160	13,4 %
TOTAL	**169,279**	**9,870,696**	**...**	**377**	**6,3 %**

Source: Compiled by authors

The need for a common framework, but not for a single name

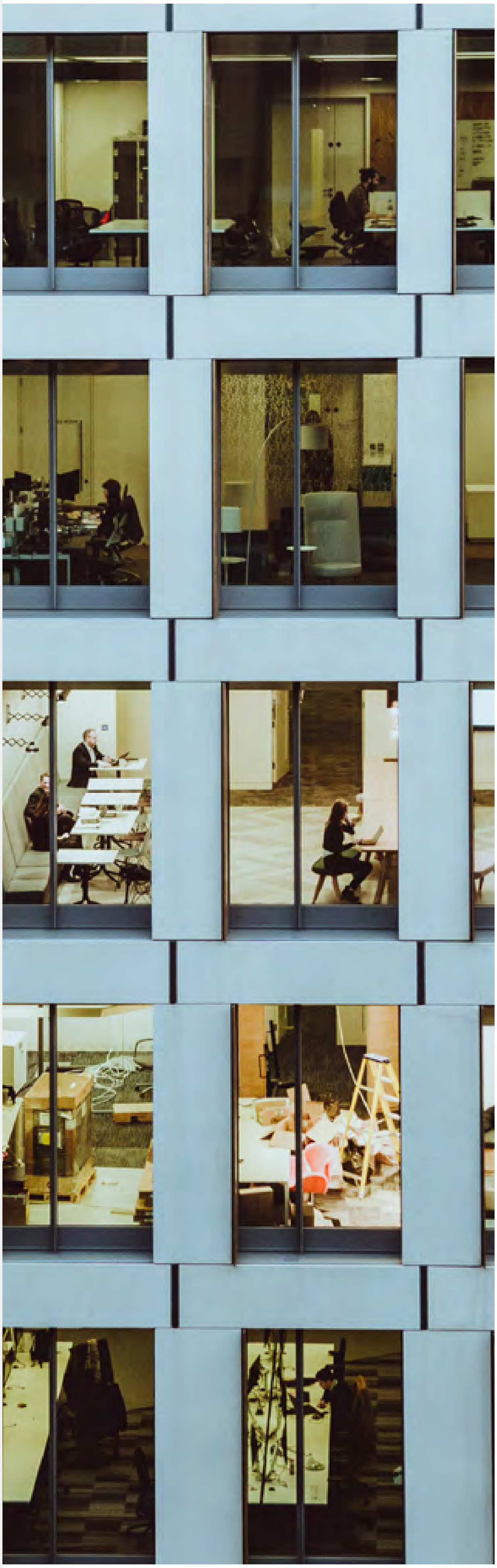
For-benefit companies exist under a variegated number of legal forms and business models. For instance, in the United Kingdom, 39% of them are registered as *Company Limited by Guarantee*, 22% as *Community Interest Company*, 16% as *Company Limited by Shares*, and 9% as *Industrial and Provident Society* (Social Enterprise UK, 2017). In Japan, almost half of all purpose-driven companies are registered as *non-profit organizations*, followed by *joint-stock corporations* at 21%, *Sole Proprietorships* at 11%, and *Unions* at 11% (SEFORIS, 2016). In Canada, 42% identify as co-operatives, and just one-fifth identify with new legal structures — such as *B Corporation*, Original IP and Limited Liability Partnership (Canadian CED Network, 2015). Similarly, in Latin America most for-benefit companies are *Cooperatives*, and just few appear under the recently created form of *Companies of Public Interest and Benefit* (BICs).

This diversity in the composition of for-benefit companies registration makes very hard to measure the real size of these entities and their contributions to the global economy.

In order to solve this problem, in the last few years many governments have created new legal forms, such as *for-benefit corporation*, *low-profit limited liability company* (L3C), and *enterprises of Public Benefit and Interest* (BIC), to mention but three.

These new forms are of great help to those enterprises that could not find a legal status coherent with their activities and principles in the existing regulatory frameworks. However, it would be a mistake to try to constrain all for-benefit companies into a single legal form. Attempts to do so have generally resulted in resistance from the social entrepreneurship community, low levels of adoption, and poor policy usefulness, since forms were too broad to be representative of the different entities, as well as to produce solid estimates of the social economy's size (Defourney *et al.*, 2014).

Instead of forcing one single legal figure, too broad to be precise, what governments should do is advance the creation of an inclusive framework (the Fourth Sector) that integrates all for-benefit businesses respecting their different identities and legal forms. The UK and Hong Kong governments' approaches provide good examples (BIS, 2011; Public Accounts Committee, 2014).



What is missing?

Data suggests that the problem lies not in the pace at which for-benefit companies are emerging, but in their failure to scale up. Every year, thousands of for-benefit companies are created in Ibero-America — in fact, most of the growth of the past decade has come from new enterprises. The region features an overall prevalence of social entrepreneurial activity slightly less than the US (11 %), similar to Europe (6 %), and superior to that in South-East Asia, North Africa and the Middle East, with some countries displaying nascent and post-start-up social entrepreneurial activity in the world far above the global average (Chile 14.5 %, Colombia 16.4 %, Peru 16 %) (Bosma *et al.*, 2016).

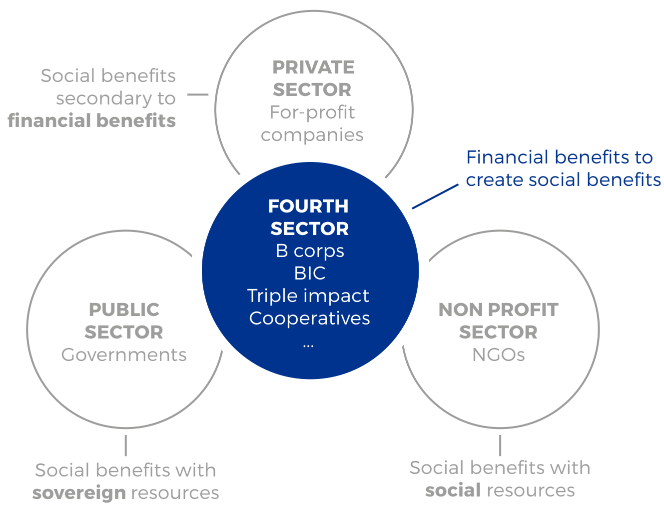
Of the newly created for-benefit enterprises, around half of them remain active after their first year, a survival rate similar to for-profit companies. However, those existing enterprises show only limited growth. The majority do not exceed the 10 full-time employee's threshold and that, therefore, only have a limited impact on the countries where they operate (Muñoz *et al.*, 2016; The Failure Institute, 2017).

The factors holding them back are numerous, but can be summarized into a general one: the lack of a supportive ecosystem (Bosma *et al.*, 2016; Hechavarria *et al.*, 2016; Kerlin, 2017; Nova, 2009; RECON, 2018; Sabeti, 2011; Stephan *et al.*, 2014; The Failure Institute, 2016). Once incubated and constituted, for-benefit enterprises are forced to compete in a private sector that has not been tailored for them, but for large for-profit companies that, since the times of Friedman, are built to prioritize the profit of their shareholders over the benefit of society.

This lack of a supportive ecosystem translates into a number of problems. For-benefits do not have a specific regulatory framework that reflects their particular hybrid nature. Rather, they are forced to operate within the rigid boundaries and constraints imposed by a system that only acknowledges for-profit and non-profit entities. This forces them to adopt unnecessary duplicities (e.g., Ltd. plus Foundation), operate within inadequate fiscal frameworks and, most importantly make tradeoffs between their social goals and financial viability, thus limiting their impact potential. Moreover, for-benefits also lack appropriate financial tools, since the traditional channels to access capital are not always suitable for them. This makes it extremely challenging to grow beyond the start-up phase without compromising their mission to accept trade-offs, and to attract bigger funders and government support. Finally, they are also missing the right talent, work training, and knowledge tools, since most universities still do not train their students in this way of understanding business. All together, these shortcomings are constraining significantly the ability of for-benefit enterprises to grow and, thus, limiting the positive impact that they could deliver to Ibero-American societies.

With the aim of solving this situation, a number of entrepreneurs, governments, multilaterals, non-profit organizations, investing firms and thought-leaders have started to work on the creation of a new enabling ecosystem, which adapts to the unique characteristics of for-benefit enterprises and helps them scale up without making compromises that dilute their original values and impact objectives — just as we created the third, non-profit sector after the 1960s (European Commission, 2011; Reiser, 2013; Terjesen *et al.*, 2016).

This ecosystem is what we call the *Fourth Sector,* a new economic space that will bring together all new enterprises and business models at the intersection of the three traditional sectors (public, private and non-profit), and help unleash their power to tackle some of the most pressing social and environmental challenges of our time.



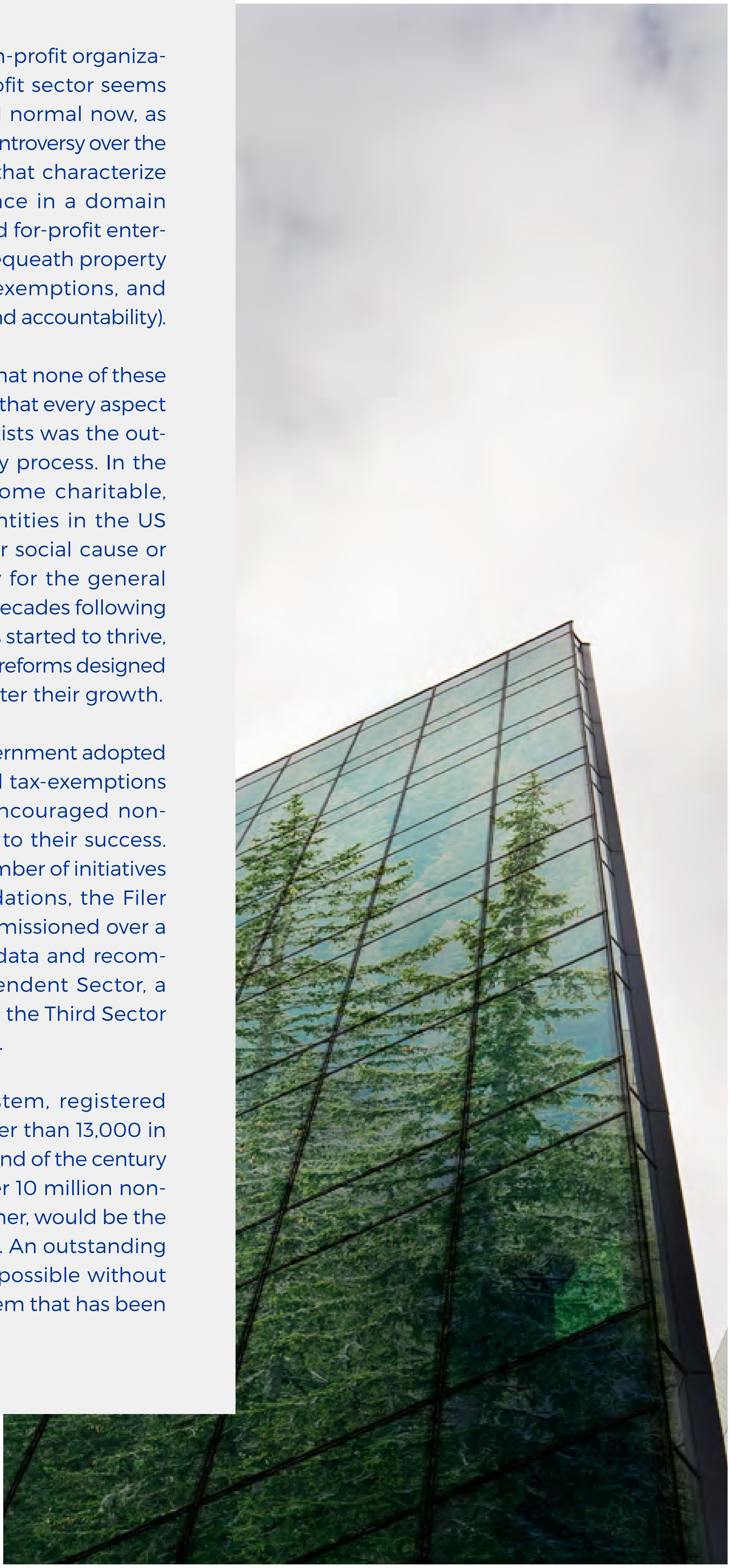
An insightful precedent: The creation of the Third Sector

The existence of non-profit organizations and a non-profit sector seems quite accepted and normal now, as there is hardly any controversy over the particular features that characterize them (their existence in a domain different than public institutions and for-profit enterprises, their capacity to donate or bequeath property for charitable purposes, their tax exemptions, and their commitment to transparency and accountability).

Nevertheless, we should not forget that none of these elements existed a century ago, and that every aspect of the Third Sector as it currently exists was the outcome of a long and complex policy process. In the early 1900s, there were already some charitable, educational, religious, and civic entities in the US dedicated to furthering a particular social cause or advocating a shared point of view for the general good. It was not, however, until the decades following World War II, when these institutions started to thrive, mainly thanks to a series of legislative reforms designed to recognize their existence and foster their growth.

From the 1950s onwards, the US government adopted a number of regulatory policies and tax-exemptions that defined and systematically encouraged non-profits and those who contributed to their success. This process was supported by a number of initiatives such as the 1949 Council of Foundations, the Filer Commission (that in the 1970s commissioned over a hundred studies and reports with data and recommendations), and the 1980 Independent Sector, a coalition of non-profits that assisted the Third Sector by lobbying to impact public policy.

Fuelled by this supportive ecosystem, registered non-profits in the US rose from fewer than 13,000 in 1940, to more than 1.5 million at the end of the century (Dobkin, 2006). Today, there are over 10 million non-profits in the world that, if put together, would be the fifth largest economy on the planet. An outstanding growth that would not have been possible without the support of the enabling ecosystem that has been created for the Third Sector.



In Ibero-America, considerable strides had been made to create this new ecosystem in the past few years. On the policy front, eleven countries in the region have adopted or are currently discussing new regulations aimed at typifying and supporting alternative forms of organizations that integrate commercial activities with public benefit pursuits. Most of them comprise new legal frameworks, generally under the concepts of *empresas sociales* and *empresas de beneficio e interés colectivo* (BIC), but some also include fiscal incentives and special treatment in public procurement processes.

At a regional level, the Presidents and Heads of State of the 22 Ibero-American countries recently acknowledged the importance of the Fourth Sector as a way to advance the 2030 Agenda and declared their commitment to support all those enterprises that "seek to generate a positive impact for society and the achievement of sustainable development" (SEGIB, 2018).

On the investing front, there has been an exponential growth of financial vehicles and instruments designed to support responsible businesses. Between 2016 and 2017, there were US$ 4.7 billion assets being professionally managed under responsible investment strategies in Latin America, mainly aimed at microfinance, agriculture, and information and communication technology (LAVCA, 2018; Brookings & Ethos, 2017). The number of impact investing firms went from a handful to more than 55, and the green bonds issued in the region risen to more than US$ 8.4 billion (ECLAC, 2017).

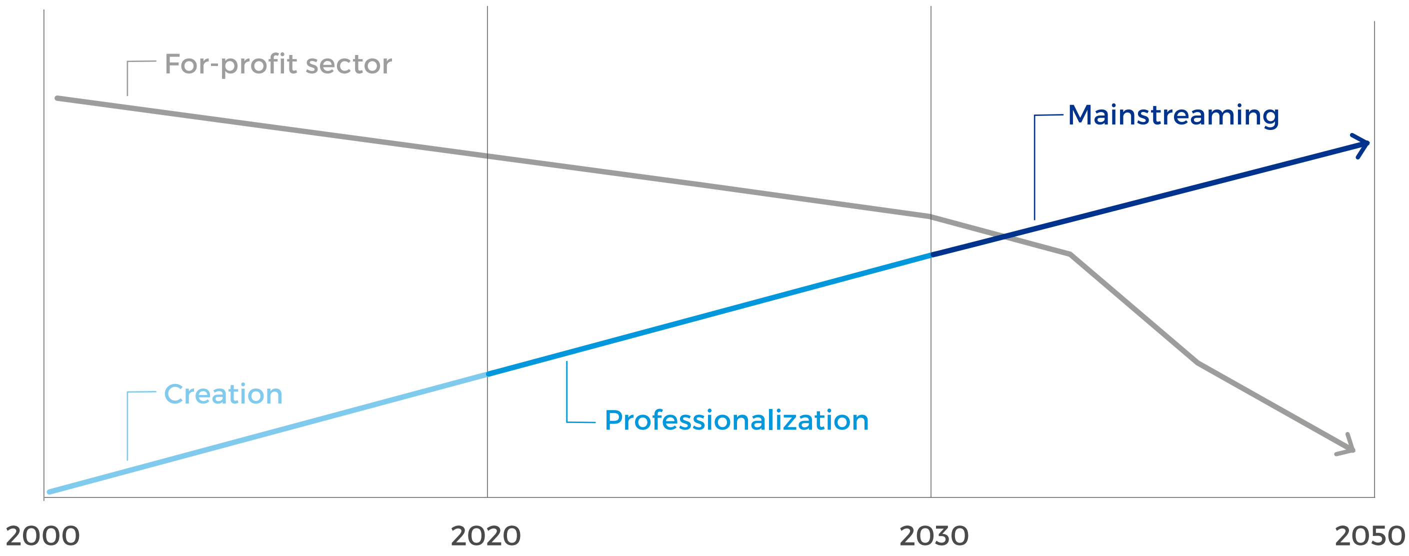
Nevertheless, these advancements do not change the fact that, at present, the majority of for-benefit companies struggle to finance their activities and growth, and that more than 40% of Latin American's ventures rely on public funding to survive (GEM, 2016). Globally, government grants seem to be, after market activity, the second main source of financing for-benefit enterprises — although their importance vary substantially across countries, ranging from 36% in Sweden to 19% in China (GEM, 2016; SEFORIS, 2016).

Finally, several universities, think tanks and non-profit organizations of the region have started to integrate Fourth Sector thinking into their curricula and research programmes, with the aim of generating the skills, knowledge, certifications and reporting tools that for-benefit enterprises need.

Country	Law	Status
Argentina	Ley de Emprendedores Proyecto de Ley para Sociedades de Interés y Beneficios Colectivos	2017 In Congress
Bolivia	Estrategia Plurinacional de la Economía Solidaria y Comercio Justo	2010
Brazil	Ley de Emprendimientos y Economía Social y Solidaria	In Congress
Chile	Ley de Emprendimiento Social	In Congress
Colombia	Ley para Sociedades Comerciales de Beneficio e Interés Colectivo	2018
Ecuador	Ley Orgánica de la Economía Popular y Solidaria y del Sector Financiero Popular y Solidario	2011
Mexico	Ley de la Economía Social y Solidaria	2011
Peru	Ley para Sociedades de Beneficio e Interés Colectivo	In Congress
Portugal	Ley de Bases de Economia Social	2013
Spain	Ley de Economía Social Estrategia Española de Economía Social	2011 2018
Uruguay	Ley para Sociedades de Beneficio e Interés Colectivo	In Congress

Compiled by authors

A Vision for the Future and a Policy Roadmap



These initial advancements indicate a promising future, however, they should not make us forget that for-benefit enterprises and their ecosystem are still in the early stages of development, and that much more needs to be done. Getting the Fourth Sector formally and properly established will be a long-term, multi-stakeholder endeavour that will require a number of steps — from creating new regulatory frameworks, to standardizing metrics and assessment methods to measuring social and environmental impact in empirical, efficient ways. For conceptualization purposes, we could divide such process into three phases: creation, professionalization, and mainstreaming.

CREATION PHASE
2000–2020

— Clear definitions and new regulatory frameworks are created to recognize and typify a wide array of Fourth Sector entities.

— The Fourth Sector is mapped, measured and analysed.

— New financial mechanisms are enabled.

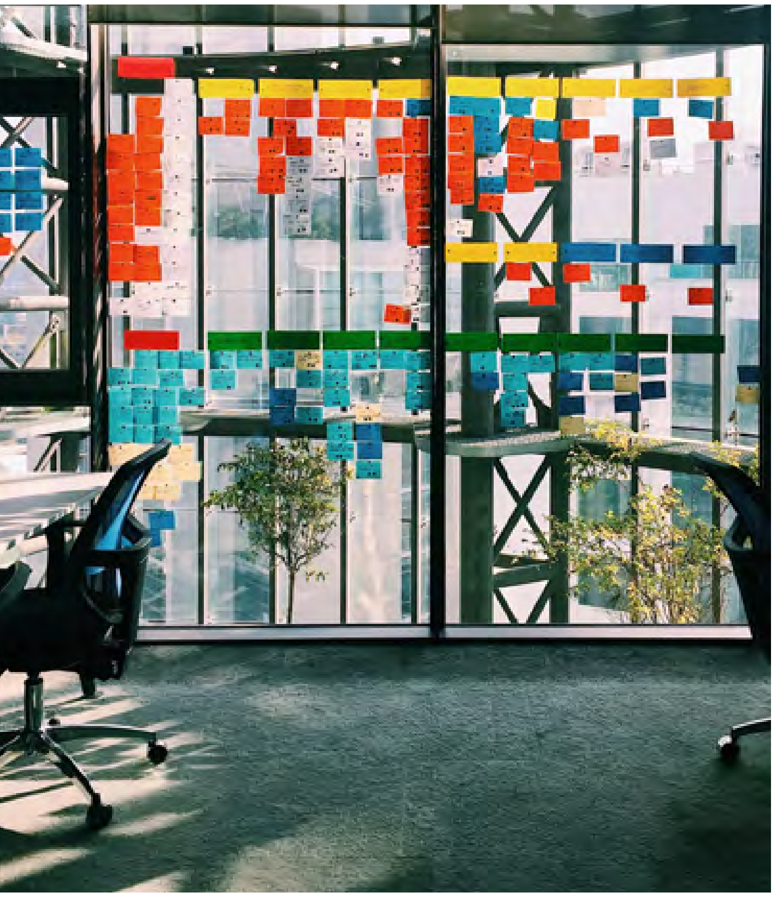
— Innovation programs and incubators are fostered.

— More research is conducted to enhance our understanding.

— Governments institutionalize new metrics & reporting standards to assess for-benefits' impact.

— Actors advancing Fourth Sector development are aligned.

— Domestic and international economic development strategies broaden to encompass Fourth Sector development.



PROFESSIONALIZATION
2020–2030

— Governments enable new policy reforms that recognize for-benefits and create a level playing field.

— More investment flows into the Fourth Sector.

— New Assessment Agencies & Certifications are established.

— Professional Assistance Networks mature to help for-benefit entities to scale-up.

— The Fourth Sector becomes embedded in academic curricula and research agendas.

— New Marketing & Communications Channels proliferate.

— Enhancing Connection & Representation

— New trade associations, networks, and affinity groups are created to represent and support Fourth Sector entities.

— The old binomial *good equals unprofitable, profitable equals bad,* is finally abandoned.

— For-benefit organizations that were trapped in the traditional three sectors start to migrate to the Fourth Sector.

MAINSTREAMING
2030–2050

— The Fourth Sector becomes mainstream and economies become more sustainable and inclusive as they harness the market to advance public good while reducing negative externalities.

1. CREATION

We are living at the tipping point of the creation phase. Changes have been underway for decades, but much more needs to be done in order to establish the Fourth Sector formally:

1.1 Establishing clear definitions and enabling new regulatory frameworks: The most immediate need is to create a new conceptual and regulatory framework that defines with precision the Fourth Sector's perimeter and typifies the entities that belong to it. Without such a framework, policy and market formation are severely hampered. The taxonomy needs to be more descriptive than prescriptive. It has to be informed by data, and it should acknowledge different types of for-benefit entities beyond the so called BIC corporations (in Spanish, *Empresas de Beneficio e Interés Colectivo*) — just as the Third Sector comprises over 40 kinds of non-profit entities in the U.S.

1.2 Mapping the landscape: Once the taxonomy and regulatory framework have been created and adapted to particular countries, governments need to map all for-benefit enterprises operating in their territory, in order to determine the size, nature and needs of the Fourth Sector. Chambers of commerce, trade associations, incubators and for-benefit innovation clusters will be pivotal in such endeavor.

1.3 Enabling new financial mechanisms: The standard for-profit and non-profit channels to access capital are not suitable for for-benefit companies. Governments, banks, venture capital and private equity firms need to create new financial instruments that take into account the particular principles, characteristics, and goals of for-benefit enterprises.

1.4 Enlarging the innovation space and tools: More incubators and acceleration programs are needed to stimulate and support the creation of new for-benefit enterprises. This should be promoted by governments, in close collaboration with non-profit organizations and for-benefit enterprises.

1.5 Fostering research: Far more research is needed to understand the challenges and opportunities generated by the Fourth Sector. Universities, multilaterals, and think tanks must integrate the topic into their curricula and research programmes to advance the frontiers of theory and knowledge about this emerging ecosystem.

1.6 Institutionalizing official metrics and reporting standards: Many for-benefit enterprises still do not measure their impact. Those who do use a wide array of different measurement methods, which make it difficult to quantify or compare the contributions of individual enterprises or the sector as a whole. Governments need to design clear metrics and reporting standards with the support of universities, think tanks, incubators and for-benefit enterprises themselves, and then institutionalize them, so common, official frameworks become available.

1.7 Coordinating aligned efforts: Right now, the Fourth Sector is being discussed and designed in a Babel tower, populated by numerous movements and institutions that, unfortunately, do not always communicate and collaborate as much as they should. This is limiting the visibility of the otherwise common movement to which they belong, as well as its ability to attract talent, funding and public support. For-benefit stakeholders should therefore adopt a more collaborative approach in order to succeed.

2. PROFESSIONALIZATION

To scale-up and achieve its impact goals, the Fourth Sector needs to professionalize on multiple dimensions. This will allow existing for-benefit companies to access more capital, attract better talent, franchise, and eventually grow beyond the start-up phase. A number of things need to be done:

2.1 Conducting Policy Reforms: National and local governments should enable new legal forms and tax treatments for for-benefit entities and investors. In addition, they should, as a large buyer of goods and services (approximately 12 % of total GDP and 29 % of government expenditure in OECD member countries), take the lead in including for-benefit criteria in their procurement processes.

2.2 Creating new assessment agencies and certifications: Following the creation of the appropriate metrics, governments need to establish new protocols and assessment agencies to ensure that for-benefit enterprises are fully accountable, and rating and certifications platforms to help consumers, investors, and employees to identify the enterprises' impact.

2.3 Build professional assistance networks: For-benefit enterprises will require legal, accounting, strategic, marketing, technology and other types of support from professionals properly trained in the emerging laws, standards, practices, protocols, procedures, technologies, and goals of Fourth Sector entities.

2.4 Advancing education and training: Educational institutions would be key in training the new for-benefit leaders and professionals by offering the appropriate programs and certification frameworks. They can also play a major role in teaching future generations of consumers the principles and relevance of a purpose-driven economy.

2.5 Fostering marketing and communications channels: To succeed, for-benefit companies will need specialized marketing, communications, and public relations methods that show customers and other stakeholders their commitment to social and environmental performance in honest, compelling and measurable ways.

2.6 Enhancing connection and representation: Membership and trade associations, networks, and affinity groups need to connect the various constituencies within the Fourth Sector, provide support, facilitate knowledge exchange, drive changes in public policy and enhance visibility.

2.7 Changing the culture: In two directions. On the one hand, investors and business people need to understand that it is perfectly possible to make a profit while reducing negative externalities and delivering a positive impact to society. On the other, people need to understand as well that the provision of social goods is not solely the domain of governments and non-profits, and that it is desirable and perfectly sensible to make profit while helping others — even in hard situations, such as a humanitarian crisis.

2.8 Facilitating the transition of existing for-benefit entities towards the Fourth Sector: Effective opportunities and mechanisms need to be developed to help traditional for-profit companies to shift beyond their CSR activities and embed social purpose into the core of their business models, eventually becoming for-benefit enterprises — a shift that is already happening both among SMEs and big multinational corporations.

3. MAINSTREAMING

The Fourth Sector is a complement, not a substitute, to the other sectors. As it scales, it drives value to them and helps improve their social and environmental performance, while leveraging some of the billions of dollars of private finance and investment that the world needs to achieve the SDGs by 2030.

For-benefit enterprises (as opposed to traditional for-profit companies) advance scalable, market-based solutions across all the SDGs while at the same time reducing the negative social and environmental externalities associated with growth. As they become mainstream, for-benefit entities will transform the driving principles of the economy to the point that net value becomes the backbone of our system, and the notions of sustainability and social fairness become so embedded into businesses' and citizen's mind-sets that tags such as "fair trade", "organic" or "recyclable" become redundant — just as today it is unnecessary to state that a product was not manufactured by unpaid workers.

This prognosis might sound naïve to many, but history provides numerous examples of countries and regions that transformed their entire economic systems in just a couple of decades, when the right incentives were aligned (e. g. Japan and Germany after the Second World War, South Korea after the 1950s, some communist countries after the fall of the Soviet Union, the energy transitions from coal, and so on).

This time, the process may take longer — perhaps much longer than we expect. There will be advancements and setbacks, determined by the cycles of the world economy and the rise and fall of certain political forces. Some countries will complete the transition in a decade; for others, it may take several, or even more than a century. Different levels of achievement will coexist, just as the telephone coexisted with the telegraph.

No one can predict the final overall outcome. There are too many uncertainties. But we can be certain that such a transformation is possible, crucial for our survival, that it is already underway, and that now we have the opportunity to hasten it. Whether we do it or not, is entirely up to us.

Team of Researchers

DIRECTOR:

Dr Diego Rubio (IE University)

RESEARCHERS:

- Carlos Azevedo (IES-Social Business School)
- Adrián Blanco Estévez (ICEX)
- Mildred Daniela Berrelleza Rendón (Instituto Tecnológico y de Estudios Superiores de Monterrey)
- Sybil Caballero (ASHOKA Región Andina)
- Sandro Cabral (Insper)
- María Eugenia Castelao Caruana (CONICET)
- Pedro M. de Godoy (Insper)
- Diana Carolina Gutiérrez (La Salle University)
- Paula Miranda (Pontificia Universidad Católica de Chile)
- Filipa Pires de Almeida (IES-Social Business School)
- César Sánchez Álvarez (La Salle University)
- Ígia Vasconcellos (Insper)
- Ricardo Zózimo (Nova School of Business and Economics)

RECOMMENDED CITATION:

CGC, *Business with Purpose and The Rise of the Fourth Sector in Ibero-America,* Madrid: Center for the Governance of Change, IE University, 2019.

Bidet, E. and R. Spear (2003). *The Role of Social Enterprise in European Labour Markets,* EMES Network Working Paper no. 03/10.

Bosma, N. *et al.* (2016). *Global Entrepreneurship Monitor 2015 to 2016: Special Report on Social Entrepreneurship.*

Brookings and Ethos (2017). *Impact bonds in Mexico: opportunities and Challenges.*

Business and Sustainable Development Commission. (2017). *Sustainable Business Opportunities in Latin America and the Caribbean.*

Deloitte (2017). *2030 Purpose: Good business and a better future. La Sostenibilidad en la estrategia de las empresas españolas.*

Deloitte (2018). Deloitte Millennial Survey.

Dobkin Hall, P. (2006). "A Historical Overview of Philanthropy, Voluntary Associations, and Nonprofit Organizations in the United States, 1600–2000." in W.W. Powell and R. Steinberg (eds.). *The Nonprofit Sector: A Research Handbook.* New Heaven: Yale University Press.

Doherty, B., H. Haugh, and F. Lyon, F. (2014). *"Social enterprises as hybrid organizations: A review and research agenda". International Journal of Management Reviews* 16 (4): 417-436.

Chaves Ávila, R., J. L. Monzón Campos, J. M. Pérez de Uralde, and M. Radrigán (2013). "La economía social en clave internacional. Cuantificación, reconocimiento institucional y visibilidad social en Europa, Iberoamérica y Norte de África". *Revista de Estudios Cooperativos* 112: 122-150.

ECLAC (United Nations Economic Commission for Latin America and the Caribbean) (2017). *The rise of green bonds. Financing for development in Latin America and the Caribbean.* Washington DC.

European Commission (2011). *Social Business Initiative: Creating a favourable climate for social enterprises, key stakeholders in the social economy and innovation.* Brussels.

European Parliament. (2016). *Social Economy.* Brussels.

Fomin (2013). *El fenómeno de las empresas B en América Latina.*

Fonteneau, B. *et al.*, (2011). Social and Solidarity Economy: *Our common road towards Decent Work,* ILO, Montreal.

GEM (Global Enterpreneurship Monitor) (2016). *Gem 2015 Special Report on Social Entrepreneurship.*

GfK (2015). *Valores medioambientales y compra ética. Informe Global.*

Hechavarria, D., S. Terjesen, A. Elam, M. Renko, and R. Justo (2016). "Taking care of business: The impact of culture and gender on entrepreneurs' blended value creation goals". *Small Business Economics.*

Heerad Sabeti. (2011). "The For-Benefit Enterprise". *Harvard Business Review,* November.

IFC (International Finance Corporation) (2017). *Green Bond Impact Report.* Washington DC.

Kerlin, J. (ed.) (2017). *Shaping social enterprise: understanding institutional context and influence.* Bingley.

LAVCA. (2018). *The Impact Investing Landscape in Latin America: Trends 2016 & 2017.*

Leme, A., F. Martins, and K. Hornberger (2014). *The State of Impact Investing in Latin America: Regional trends and challenges facing fast-growing investment strategy.* Bain & Company.

Muñoz, P., J. Kimmitt, T. Serey, and L. Velázquez (2016). *Estructura y Dinámica del Emprendimiento Social en Chile.* Proyecto Corfo Mejoramiento del Ecosistema Emprendedor. Universidad del Desarrollo, Chile.

Nielsen (2015). Estudio Global de Nielsen sobre Sostenibilidad.

Noya, A. and E. Clarence (eds.). (2007). *The Social Economy: Building Inclusive Economies,* OECD, Paris.

Noya, A. (ed.). (2009). *The Changing Boundaries of Social Enterprises,* OECD, Paris.

OECD. (2013). *Job creation through the social economy and social entrepreneurship.* Paris.

Pérez de Uralde, J. M. (coord.). (2006). *La Economía Social en Iberoaméérica. Un acercamiento a su realidad.* Valencia.

PwC (2014). *PwC Survey on Sustainable Development in Latin America.*

PwC (2015). *Make it your business: Engaging with the Sustainable Development Goals.*

RECON. (2018). *El emprendimiento social en Colombia: Informe de Resultados.*

Reiser, D. B. (2013). "Regulating social enterprise". *UC Davis Business Law Journal* 14.

SEGIB. (2018). *Declaración Oficial de la XXVI Cumbre Iberoamericana,* Guatemala.

Stephan, U., L. M. Uhlaner, and C. Stride (2014). "Institutions and social entrepreneurship: The role of institutional voids, institutional support, and institutional configurations". *Journal of International Business Studies* 46 (3): 308-331.

Terjesen, S., N. S. Bosma and E. Stam. (2016). "Advancing public policy for high growth, female, and social entrepreneurs". *Public Administration Review* 76 (2): 230-239.

The Failure Institute (2017). *Causes of Failure in Mexican Social Enterprises.*

United Nations Global Compact. (2018). *Global Opportunity Report.* Oslo.

United Nations. (2018). *The Sustainable Development Goals Report,* Nueva York.

Unruh, G., D. Kiron, N. Kruschwitz, M. Reeves, H. Rubel, and A.M. Zum Felde (2016). "Investing for a Sustainable Future". *MIT Sloan Management Review* 57 (4), May.

ANNEX

ANNEX I –
THE FOURTH SECTOR IN NUMBERS

ANNEX II –
COUNTRY SUMMARIES

Country	Fourth Sector Entities		Employees (direct)		Gross domestic product (DGP)		Members affiliated
	Type	Number	Number	% of national employ-ment	Absolute terms (in national currency)	% of National GDP	
Argentina	TOTAL	37,682	346,064	1.89%	$ARG 24,007 millions	4%	16,299,815
	Accelerators and other Social Companies	139	7,759	0.04%	ND	ND	161,901
	Cooperatives	29,789	299,560	1.67%	$ARG 24,007 millions	4%	9,392,713
	"Mutualidades"	4,730	29,092	0.16%	ND	ND	6,500,000
	Microcredit Organizations	62	1,246	0.01%	ND	ND	88,238
	Familiar Agriculture Organizations	2,962	8,407	ND	ND	ND	156,963
Brazil	TOTAL	27,624	357,000	0.39%	R$ 301,6 bilhão	4.6%	14,790,000
	Social and Environmental Impact Companies	1,139	10,000	0.01%	R$ 1,0 bilhão	0.015%	ND
	Solidarity Economy Cooperatives	19,708	ND	ND	R$ 6,8 bilhão	0.103%	1,400,000
	B-corps	122	10,000	0.01%	R$ 8,8 bilhão	0.133%	ND
	Traditional Cooperatives	6,655	337,000	0.37%	R$ 285 bilhão	4.318%	13,370,000
Colombia	TOTAL	3,812	77,697	0.343%	COP 20,046,247	2.16%	6,224,185
	Cooperatives	2,131	55,632	0.25%	COP 18,890,933	2.04%	5,158,515
	Employees Cooperatives	1,484	15,589	0.07%	COP 999,173	0,11%	1,047,825
	"Mutualidades"	18	587	0.003%	COP 41,492	0,004%	16,456
	Other Solidarity Organizations	129	145	0.001%	COP 72,437	0,008%	1,389
	B Corps	50	5,744	0.03%	ND	ND	ND
Chile	TOTAL	2,433	45,664	0.7%	MUS$ 22,921.80	1.7%	14,468,347
	Start ups	1,309	2,800	0.03%	MUS$ 37	ND	ND
	B Corps	130	10,128	0.12%	MUS$1,500	ND	ND
	Cooperatives	952	13,951	0.16-0.4%	MUS$21,212	1.5%	1,748,000
	Compensation Funds	5	7,919	0.1%	MUS$115,8	ND	7,020,347
	"Mutuales de seguridad"	3	9,714	0.1%	MUS$56,6	ND	5,700,000
	Fair trade organizations	34	1,152	0.01%	MUS$0,4	ND	ND

Country	Fourth Sector Entities		Employees (direct)		Gross domestic product (DGP)		Members affiliated
	Type	Number	Number	% of national employ-ment	Absolute terms (in national currency)	% of National GDP	
Mexico	TOTAL	60,402	7,141,184	13.08 %	MXN 1,303,016	7 %	4,937,030
	"Ejidos" and Communities	31,914	7,100,000	13 %	MXN 558,435	3 %	4,210,830
	Cooperatives	13,685	41,184	0.08 %	MXN 744,580	4 %	7,262,000
	Other forms of social organization for the production, distribution and consumption of basic goods and services.	14,803	ND	ND	ND	ND	ND
Portugal	TOTAL	2,286	27,480	8 %	2,548 € millions	0.55 %	
	Cooperatives	2,117	24,316	7 %	2,332 € millions	0.5 %	ND
	Social Companies	154	1600	0.5 %	38 € millions	0.01 %	ND
	B-corps	15	1,564	0.5 %	178 € millions	0.04 %	ND
Spain	TOTAL	35,040	2,196,907	8 %	160,000 € millions	0.55 %	
	"Mutualidades"	287	1,380	0.1 %	0–51,000 € millions	0–4 %	ND
	Cooperatives	20,958	1,840,095	10 %	112,000 € millions	9.4 %	ND
	Employees Cooperatives	9,234	63,471	0.3 %	0–51,000 € millions	0–4 %	ND
	Special Employment Centers	576	92,102	0.5 %	0–51,000 € millions	0–4 %	ND
	Labor Insertion Companies	201	3,201	0.1 %	0–51,000 € millions	0–4 %	ND
	Other social economy companies	3,784	196,658	1.1 %	0–51,000 € millions	0–4 %	ND
TOTAL (the 7 countries)		**169,279**	**9,870,696**	...	...	**6.3 %**	...

For details on sources and the limitations of the data, see the country papers at: www.ie.edu/cgc/research/the-fourth-sector/

ARGENTINA

NUMBER OF FOURTH SECTOR ENTITIES	**37,682**
EMPLOYEES (DIRECT)	**346,064**
% OF NATIONAL EMPLOYMENT	**1.89 %**
GDP CONTRIBUTION	
ABSOLUTE TERMS (MILLIONS)	**$ARS 24,007**
% OF GROSS VALUE ADDED	**4 %**

Legal / Policy situation

Although cooperatives and mutual organizations have regulatory frameworks that govern their creation and operation at a national level, businesses within the Fourth Sector generally find national and provincial legislation inadequate when it comes to fully addressing the nature, purpose and style of these entities. Instead, they find that these regulations restrict the access that the organizations have to certain markets and sectoral, tax, social and employment policies.

Financial situation

The financial situation of businesses within the Fourth Sector is highly diverse and depends as much on the company's economic sector as the conditions that encourage the creation of these companies (e.g. exporting firms vs. recuperated enterprises). Regardless, they face obstacles when attempting to access funding, which limits opportunities for economic growth, as well as for social and environmental impact.

Economic situation

Fourth Sector businesses are present across all economic sectors, produce more than 4 % of the GPV, and employ over 346,000 people. However, their economic (and social) impact is far greater, since they offer many intangible, collective goods and services, while promoting economic activity in their areas.

Main challenges

The main challenges in this sense are to increase the visibility of the Fourth Sector and consider the social and economic impact of these organizations within society so that citizens can commit to helping these entities grow as consumers, investors and entrepreneurs. Another key challenge is to enhance the vertical and horizontal intersection of organizations in this sector in order to create a dialogue between the public sector and other sectors within civil society.

Three policy recommendations

1. Design a regulatory framework that addresses the specific points of each organization and that allows new governance models to be implemented.
2. Create and enhance the investment market for social and environmental impact through changes in regulation and taxation, while designing new financial tools that drive growth and development within the sector.
3. Design promotional tools that contribute to the social and environmental objectives of these entities (e.g. employment for people in vulnerable situations, long-term unemployment, disability, in a situation of poverty).

Three examples of Fourth Sector entities

Animana, Grupo Mutual Devoto and La Riojana

Author/s of the study

María Eugenia Castelao Caruana
Centro de Estudios Urbanos y Regionales–CONICET

BRAZIL

NUMBER OF FOURTH SECTOR ENTITIES	**27,624**
EMPLOYEES (DIRECT)	**357,000**
% OF NATIONAL EMPLOYMENT	**0.39 %**
GDP CONTRIBUTION	
ABSOLUTE TERMS (BILLIONS)	**R$ 301.6**
% OF GROSS VALUE ADDED	**4.6 %**

Legal / Policy situation

The legal frameworks that regulate the Fourth Sector are still developing in Brazil. Legal frameworks concerning projects that aim to achieve socio-enviornmental results are uncertain, although bills are being discussed in the Brazilian Parliament.

Financial situation

In Brazil, cooperatives and b-corps often receive the best financial support, as opposed to social and solidary economy enterprises, who suffer a significant lack of access to capital. Over 30 % of these enterprises still belong to the informal economy, and 38 % had virtually no profit in the past year of their commercial activity.

Economic situation

Brazilian Fourth Sector entities billed R$ 302 billion in 2017, accounting for around 4 % of the country's GDP. Companies with a social and environmental impact and certified b-corps represent only a small portion of that: 1300 enterprises and R$ 10 billion in revenues. In contrast, cooperatives numbered at around 7000, and were valued at R$ 285 billion in revenue, while "associations of solidary economy" totaled 20.000 and R$ 7 billion in 2013.

Main challenges

One of the main challenges that the sector faces is overcoming the traditional distinction between social impact and economic profit that every business requires. Measuring social and environmental impact is also a challenge, as a result of a lack of clearly defined metrics.

Three policy recommendations

1. Define the scope of action of these organizations, bringing greater clarity to the concept of the Fourth Sector and the ways that comanies can effectively reconcile profitability with social impact.
2. Introduce financial incentives and fiscal exceptions, enhance public and private partnerships with for-benefit enterprises, and transform public procurement processes.
3. Enhance the technical capacity of the stakeholders involved and create a culture of social and environmental impact assessment, instead of accounting for products that are not related to benefits to the population.

Three examples of Fourth Sector entities

Inova Urbis
Avante
COOSTAFE

Author/s of the study

Sandro Cabral. Insper, Instituto de Ensino e Pesquisa
Lígia Vasconcellos. Insper, Instituto de Ensino e Pesquisa
Pedro M. de Godoy. Insper, Instituto de Ensino e Pesquisa

CHILE

NUMBER OF FOURTH SECTOR ENTITIES	**2,401**
EMPLOYEES (DIRECT) % OF NATIONAL EMPLOYMENT	**1,930,855** **22.72 %**
GDP CONTRIBUTION ABSOLUTE TERMS (MILLIONS) % OF GROSS VALUE ADDED	 **US$ 22,922.82** **1.7 % – 2 %**

Legal / Policy situation

There is currently no legal consensus on the definition and different methods used within the sector. Two bills addressed this:

- The 2014 Draft Bill for social enterprises and social economy (not submitted) was more inclusive.
- The 2015 Draft Bill that was presented before the House of Representatives only takes B Businesses into consideration, but does include a conceptualization of the Fourth Sector.

Financial situation

The state-owned Corporación de Fomento de la Producción (CORFO) provides the larger funds, while many smaller public funds that do not respond to a unified fiscal policy are also available. This pushes Fourth Sector entities to obtain funds from private sources. Crowdfunding for B businesses is not currently regulated, but an ethical bank model is under development.

Economic situation

Contribution to the country's GDP amounts to around 2 %. The cooperative movement plays an important role in job creation. Innovation policies result in 25 % of the population engaging in the initial stages of the entrepreneurial process (GEM 2017). Internationalization is key for sustainability, social equity and quantification of the social economy. Economic freedom and legal security provide an ideal environment for the creation of social enterprises.

Main challenges

The primary challenge faced is a lack of legal and regulatory frameworks that professionalise the sector and unite all stakeholders. There is a need for a Fourth Sector observatory that processes data; gauges key international indicators; generates reports and acts as coordinating body that strengthens the ecosystem.

Three policy recommendations

1. Financial policies with participation from the private sector.
2. Policies that promote professional training and create larger spaces for innovation, youth entrepreneurship and inclusion.
3. Innovation policies that integrate the Fourth Sector.

Three examples of Fourth Sector entities

TriCiclos
Al Gramo
BallomLatam

Author/s of the study

Paula Miranda. Pontificia Universidad Católica de Chile
Sybil Caballero. ASHOKA Region Andina, Instituto Internet

COLOMBIA

NUMBER OF FOURTH SECTOR ENTITIES	**3,812**
EMPLOYEES (DIRECT)	**77,697**
% OF NATIONAL EMPLOYMENT	**0.34%**
GDP CONTRIBUTION	
ABSOLUTE TERMS (MILLIONS) 2017	**20,046,047 COP**
% OF GROSS VALUE ADDED	**2.16 %**

Legal / Policy situation

After eight years, the elected government succeeded in their effort to sign a definitive Peace Agreement, ending over 50 years of armed conflict. By mid-2018, the newly elected government was faced with the challenge of consolidating the peace process. The current government's political agenda is focused on strengthening the productive sector by consolidating the orange economy, a project central to their political strategy. Elements that were negotiated in the final Peace Agreement have a limited presence in the new National Development Plan.

Financial situation

In 2016, a tax reform was carried out that anticipates a boost in investment and diversification in the production economy, in different sectors. Specifically, this reform aims to reduce dependence on national oil revenues. The devaluation of the national currency and the fall of oil revenues since 2014 has increased the global budgetary deficit. This has lead to proposals for laws that would limit public spending and increase consumer taxation.

Economic situation

The country's economic situation is characterized by its resilience when faced with the drop in the price of raw materials. In the same way, macroeconomic policies sustained economic growth, with an average of 4.8 % from 2009 to 2014. In 2018, GDP growth was at 2.7 % compared to the previous year. The poverty rate has declined in recent years, reaching 29.8 % of the population in 2018.

Main challenges

Productivity in Colombia is low compared to similar countries. Inequality presents significant challenges for public policy in favor of social cohesion. To reduce social inequality, Colombia needs social and redistributive policies that drive social mobility. This should be done through income transfer in the form of increased social expenditure. This would allow different groups to access to the formal market, thereby impacting employment and productivity.

Three policy recommendations

Facing the current macro and microeconomic situation in Colombia, the Fourth Sector should introduce a series of structural policies, namely:

1. A cognitive policy for development within the National Development Plan.
2. An adequate fiscal policy that recognizes their contribution to the country's socio-economic development.
3. A series of consolidation policies, developed in cooperation with public and private stakeholders at the local, regional and national levels.

Three examples of Fourth Sector entities

Fundación Coomeva, Cooperativa Social Coopetín and Sodexo

Author/s of the study

César Sánchez Álvarez. Professor and researcher at La Salle University
Diana Carolina Gutiérrez, M.Sc.

MEXICO

NUMBER OF FOURTH SECTOR ENTITIES	**60,402**
EMPLOYEES (DIRECT) % OF NATIONAL EMPLOYMENT	**7,141,184 MILLION** **13.08%**
GDP CONTRIBUTION ABSOLUTE TERMS (MILLIONS) % OF GROSS VALUE ADDED	 **$MXN 1,303,016** **7 %**

Legal / Policy situation

Mexico has adopted laws and policies to promote the development of social economy practices. Specific legislation and a constitutional framework have guided these measures. For instance, the Law of Social and Solidarity Economy (LESS10) aims at 1) presenting the scope of the law, 2) defining the type of organization that comprises the sector, 3) presenting the principles and values that distinguish the social and solidarity sector, and 4) presenting specific implementation measures.

Financial situation

In 2016, the Mexican government assigned 47.8 billion Mexican pesos to the promotion of the social and solidarity sector. This amount was divided between the INAES (6 %) and other agencies and organisms that have an indirect impact on the sector (94 %).

Economic situation

Mexico faces a challenging socioeconomic context of deep inequality and environmental degradation. Half of its population lives in poverty and 1,6 million people are unemployed. Companies associated with the Fourth Sector face an adverse economic context as they need to operate within a competitive environment dictated by the market rules.

Main challenges

The main challenges for the Fourth Sector are policy formulation and the lack of recognition and visibility. There are currently no official data instruments to measure its potential. The existing constitutional framework and specific legislation passed has had been very limited impact on the sector.

Three policy recommendations

1. To create instruments and a specific regulation that allows companies to achieve both their transformational and profit-oriented goals.
2. To create instruments and organisms that help companies from this sector penetrate international markets.
3. Tax benefits for Fourth Sector companies.

Three examples of Fourth Sector entities

¡Échale! a tu casa
Sociedad Cooperativa de trabajadores Pascual
Finae

Author/s of the study

Mildred Daniela Berrelleza Rendón. Head of the Business School at Tecnológico de Monterrey (ITESM)

PORTUGAL

NUMBER OF FOURTH SECTOR ENTITIES	**2,286**
EMPLOYEES (DIRECT)	**27,480**
% OF NATIONAL EMPLOYMENT	**8 %**
GDP CONTRIBUTION	
ABSOLUTE TERMS (MILLIONS)	**€ 2,548**
% OF GROSS VALUE ADDED	**0.55 %**

Legal / Policy situation

In Portugal, impact organizations benefit from a very supportive policy agenda. The Portuguese government, mainly through its Ministry of Public Modernization, is deeply committed to promoting the impact agenda and to positioning Portugal as one of the most advanced countries in this field. The Economist ranked Portugal as one of the 7 countries in the world with the most stimulating policies for social innovation. Nonetheless, the Portuguese legislation has no legal status for benefit companies.

Financial situation

The financial situation and funding for the Fourth Sector has evolved positively. Both the private and public sector (MAZE, Santa Casa da Misericórdia, Fundo Bem Comum, Portugal Inovação Social, CMVM, etc.) have been creating incentives and funds to invest in impactful initiatives with growing opportunities.

Economic situation

The Portuguese Fourth Sector ecosystem has a peculiar and very synergetic interplay between private, social and public organizations. These players work together on the leveraging of the ecosystem with impressive results. Impact and sustainability are clearly a part of the upcoming economic growth agenda.

Main challenges

The key challenges are the slow legislative evolution in this field and the need of professionalization and market mindset of the sector companies.

Three policy recommendations

1. To bring the corporate sector to the central stage of impact creation.
2. To create a common impact agenda and ways to measure it across the country.
3. To bring the impact agenda into the education system.

Three examples of Fourth Sector entities

SPEAK
Academia de Código
Collor Add

Author/s of the study

Filipa Pires de Almeida. IES-Social Business School
Ricardo Zózimo. Nova School of Business and Economics
Carlos Azevedo. IES-Social Business School

SPAIN

NUMBER OF FOURTH SECTOR ENTITIES	**35,040**
EMPLOYEES (DIRECT)	**2,196,907**
% OF NATIONAL EMPLOYMENT	**12 %**
GDP CONTRIBUTION	
ABSOLUTE TERMS (MILLIONS)	**€ 160,000**
% OF GROSS VALUE ADDED	**13.4 %**

Legal / Policy situation

The concept of the Fourth Sector has still not been introduced into the Spanish political or legislative sphere. However, there are two potential prescedents — firstly, the formation of a social economy based on different types of entities, with cooperatives being the most important. The social economy has its own law (passed in 2011), its own plan (2015), and its own strategy (2018) for promoting its own development. The second precedent is social entrepreneurship, a nascent yet vibrant reality without institutional recognition or specific regulation.

Financial situation

Despite being quite heterogenous, social economy entities have developed through successful and sustanainable business models. There is, however, a debate surrounding social entrepreneurship and the presence of significant funding gaps in this area. Ethical banking is an important source of capital, and alternative funding channels have become more commonplace in recent years. This includes venture capital funding and crowdfunding platforms, to name a few.

Economic situation

The social economy has grown a lot in recent years and nowadays is a well consolidated and important reality in Spain. More than 35,000 entities and 2 million employees form the social economy in Spain today, and yet we are still unable to quantify the economic impact of social entrepreneurship. This could be the result of a lack of legal status and a universally accepted definition, rendering the execution of censuses nearly impossible. Nonetheless, Spain's booming social entrepreneurship ecosystem cannot be denied.

Main challenges

There is a long road ahead to consolidate the Fourth Sector in Spain, with many clear obstacles presenting themselves along the way. The primary challenge is that entities are very heterogenous in terms of legal form, size, interests, sophistication and business models; and it is very difficult to move the social economy and social entrepreneurship around a common goal or direction in such a fragmented context.

Three policy recommendations

1. Moving towards a common legal framework that captures the dynamics of hybrid organizations, as a first step to further discussing regulatory or fiscal advantages.
2. Giving more acknowledgement and visibility to Fourth Sector, in particular to the capacity to provide innovative solutions to social and environmental challenges.
3. Increasing public-private collaboration, by reinforcing and spreading mechanisms that would allow incorporating Fourth Sector firms as public sector providers.

Three examples of Fourth Sector entities

Grupo Mondragón
La Fageda
Auara

Author/s of the study

Adrián Blanco Estévez. Economist and researcher at ICEX www.cgc.ie.edu

CENTER FOR
THE GOVERNANCE
OF CHANCE