

USA Certified Social Enterprise - Eligibility Criteria

Principles

- The **Social Enterprise Mark** is the long-standing accreditation for businesses who are primarily dedicated to trading in support of serving social purposes (which include environmental objectives) ahead of individual and shareholder profit interests. It is designed for genuine social enterprises committed to demonstrating their credentials by standing up to the scrutiny of external assessment, thereby proving they have met the sector agreed criteria that define what social enterprise is, earning the recognition and credibility this bestows. In the USA the Social Enterprise Mark is branded as the **USA Certified Social Enterprise** accreditation and administered through Society Profits L3C, based in Michigan. All references within this document to the Social Enterprise Mark or USA Certified Social Enterprise should be considered one in the same standard.
- The USA Certified Social Enterprise is a brand that tells customers that a product or service comes from a social enterprise. In order to build a credible and trustworthy brand for social enterprises in the US, documentary evidence is relied upon in support of the operational credentials of social enterprise that the certification embodies.
- This evidence may be available in the public domain and this will be referred to as part of the assessment process. If information is not readily available organizations will be asked to provide this. They must also provide responses to a set of questions asking them to describe how they have strived to achieve their social objectives. These social impact statements will be published online via the Society Profits Public Declarations page, to both promote certification holders and reinforce interests of public accountability for their claims.
- Social enterprises can be very different from one another. The USA Certified Social Enterprise does not dictate one legal form or one way of demonstrating social impact, so long as organizations are able to show how they fulfill the criteria that follows below.
- As well as proving how they meet this criteria, all applicants must agree to the terms and conditions for holding the certification, along with other declarations relevant to the assessment process. If ever there is reason to suspect a failure to comply with these conditions, certification holders may be required to submit additional evidence in support of how they are meeting different criteria.
- Society Profits reviews all applications and license renewals. Awards are overseen by a Certification Panel, who are independent of Society Profits. They consider and make judgments on all new applications that do not readily conform to existing precedents governing eligibility and assessment of the evidence in support of this. They routinely examine a selection of all applications that have been approved by Society Profits across the year, to ensure consistent standards of assessment are being applied. The Certification Panel includes representation from the Social Enterprise Mark CIC organization.
- USA Certified Social Enterprise status is subject to an annual renewal process, through which an organization must be able to confirm that it remains committed to the same eligibility requirements, declarations and license terms, as when they first applied. Unless there have been significant changes or other developments in an organization's circumstances, this is usually a very straightforward process. Organizations will otherwise be required to submit to a fuller re-assessment at least once every three years, where all relevant evidence outlined in this framework must be updated and reviewed.
- All USA Certified Social Enterprise holders will be required to complete and sign a Public Declaration which will be published both on their website and the website of Society Profits. Failure to adhere to the contents of the Public Declaration could render the certification holder ineligible to continue using the certification.

The Eligibility Criteria

	Criteria	Rationale	Relevant Evidence (not necessarily all compulsory)	Commentary
A	A social enterprise must be primarily dedicated to social objectives ¹ .	Transparency of purpose is a vital element of being a social enterprise.	Governing documents. ²	<p>In the case of organizations who retain profits to pursue their own social purposes, social purpose should be clearly articulated within the legal objects of the organization (NB: social purpose includes environmental purposes). Ideally speaking, this purpose should be articulated in the form of the overarching social aims the organization is working to achieve, and not be a simple description of the activities that may contribute to the fulfillment of these aims (which may vary over time).</p> <p>This may be directly relevant to an organization's revenue generating activities but social purpose must clearly hold precedence over all other non-social objects.</p> <p>Governing documents may refer to other objects, but it must be clear that these are only pursued in support of achieving these primary social purposes.</p> <p>Organizations with overtly commercial objects or non-social objectives may still qualify. However, they must have a relevant profit distribution clause and be able to regularly prove how they distribute annual profits in support of the social objects of others – as defined under Criterion D below (e.g. the revenue generating arms or other businesses that gift aid profits to registered charities).</p> <p>If an organization supports purposes or acts in a way that might reasonably be considered unethical or socially questionable, then this may render them ineligible.</p>

¹ Social objectives should clearly be concerned with addressing some sort of local community or wider societal need or problem: all references to social objectives throughout this criteria document are meant to encompass any that fulfill this basic definition, including environmental related objectives.

² The term “governing documents” refers to a company's constitution – typically memorandum and articles of association or company rules that are available in the public domain, including Articles of Organization, Operating Agreement.

B	<p>A social enterprise must be an independent business.</p>	<p>Independence and self-governance distinguishes businesses from the public sector, from projects within larger organizations, and from other corporate interests.</p> <p>It also ensures a social enterprise is primarily committed to pursuing social purposes in line with certification criteria, without undue influence or control from other legally registered entities who do not clearly share similar purposes.</p>	<p>Governing documents (including Annual Tax Returns or Shareholding Statements, Lists of Members, etc.).</p> <p>Additional evidence may be required for externalizations from the public sector.</p>	<p>Independence means that no public or government agency or body, or other private, corporate bodies, hold majority ownership and therefore final decision-making control of the organization: this may be evident in any external agencies or companies holding a dominant shareholding, membership, or director representation on the company board.</p> <p>The only exception to this is if the dominant shareholder or member (and/or director representation) is made up of organizations who are registered non-profits or social enterprises. In some circumstances this allowance may extend to organizations with other sorts of legal structure; in such cases, their other operational interests should not evidently compromise social and ethical business principles and they must be able to demonstrate their social purpose in setting up the applicant subsidiary.</p> <p>Projects within other larger organizations are not eligible for the certification as they are not independent businesses with their own governing documents. Such projects may still be able to benefit from using the certification of their parent organization, if the parent successfully applies.</p> <p>Externalizations from the public sector may still retain some level of public sector involvement or control. In such cases, assurances will be required regarding the autonomy of the applicant.</p>
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C	A social enterprise must earn 50% or more of its income from trading.	50% traded income is currently accepted as a way of distinguishing a business from a donations, or grant reliant organization.	Annual company accounts or Tax Returns. Other financial statements that are produced in support of annual accounts.	<p>If an organization has been trading under a different guise and has only recently incorporated, accounts from the previous trading history may be considered, if the activity is the same.</p> <p>Abbreviated accounts are not acceptable and full financial statements supporting such accounts will be required. The details required are:</p> <ul style="list-style-type: none"> • a breakdown of different sources of income; • main areas of expenditure; • confirmation of any profits generated; • confirmation of any dividend or similar distributions. <p>Trading income most commonly derives from the sale of goods and other services. This is typically evident in the receipt of payments and other fees, income from contracts or other agreements. It can sometimes be labelled as grant income; some grants are <i>solely</i> paid according to strict expectations of delivering specific activities and outputs that are subject to service level agreements or other contractually defined conditions, which effectively constitutes trading income.</p> <p>Typically, pure grant income is recognizable in that it is not <i>solely</i> directed at service outputs. It may be awarded according to quite general terms linked with supporting a particular project or directed at organizational inputs – that is, the resources required to provide services (e.g. premises, tools, equipment, staff etc.).</p> <p>Some grants may include service delivery conditions but if the grant is not <i>solely</i> payable on delivery of agreed outputs and outcomes it does not constitute trading income.</p>

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				<p>In distinguishing if grant payments may constitute trading, asking the following questions may help:</p> <ul style="list-style-type: none"> ▪ are the services provided ones that the paying body is statutorily obliged to provide? If yes, it is likely to be a fee and is therefore trade; ▪ does the paying body benefit directly from the services provided? If yes, it is likely to be a fee and is therefore trade. <p>Most loans, investments and interest receivable count against the balance of trading income compared to overall revenue. Capital loans and investments may be an exception, as is interest receivable in organizations who deliver financial services as part of their core trading purposes.</p> <p>If an organization is on the cusp of the 50% trading requirement or has received a grant or loan, causing them to dip below this, then trading levels in previous years and plans for future years can be considered in determining whether or not they are primarily trade dependent.</p>

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D	A social enterprise dedicates a principal proportion (51%+) of any annual profit or financial surplus generated to social purposes.	Social enterprises are driven by social objectives rather than the maximising of profit or surplus for private gain by shareholders and owners.	Governing documents. Annual company accounts or Tax Returns. Other financial statements that are produced in support of annual accounts.	<p>There should be relevant clauses in governing documents, which confirm an organization's commitment to how profits or any financial surplus generated is distributed. Such clauses should unequivocally commit to the stated Criterion requirement, clearly holding precedent over any other clauses that might otherwise serve to undermine or contradict the required application of annual profits.</p> <p>The business may distribute its profits/surplus in a number of different ways that have a positive social/community and/or environmental benefit:</p> <ul style="list-style-type: none"> ▪ if the trading activity of the social enterprise is, in itself, socially beneficial, then direct reinvestment or retention of profits/surplus; ▪ donated to other organizations or resources for social benefit, e.g. a registered charity, or investment in some other socially beneficial activity or resource that is external to the organization. ▪ distributed to shareholders or members who primarily serve social purposes (most typically this will be formally constituted charities or other social enterprises). <p>It must be clear that at least 51% of any distributable annual profits or surpluses generated are distributed as above. Any dividend, profit, interest or similar payments made to shareholders, owners or members should not exceed 49% of the total net profits generated in that same year. However, on occasion there may be legitimate circumstances where the amount distributed to such entities exceeds 49% (e.g. late dividend claims from previous years); in such cases further clarification will be sought to justify why and to explore profit distribution trends from previous years, to ensure an overall balance has been maintained.</p> <p>NB: this criterion requirement does not allow for the use of profits as alternative means of paying director or employee salaries (possibly to reduce tax implications), beyond this 49% distribution allowance.</p>

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E	On dissolution of the business, a social enterprise distributes all remaining residual assets for social purposes.	As for (D) above. A commitment on residual asset distribution demonstrates a commitment to social objectives.	Governing documents.	<p>There should be relevant clauses in governing documents, which confirm an organization's commitment to how any residual assets would be distributed in the event of dissolution ("winding up" of the company).</p> <p>The USA Certified Social Enterprise certification is not limited to Charities, L3C's, Benefit Corporations (and some forms of Credit Union/Co-operative) where such "asset locks" are subject to legal statutes. Other legal forms may also be eligible if they have an appropriate dissolution clause that commits all residual assets to the furtherance of social purposes. This usually takes the form of the residual assets being committed to other organizations who are primarily constituted to serve social purposes; in such cases, their registered governing documents will contain clearly defined social objectives and clauses having equivalent or even greater restrictions on private profit distribution and asset distribution on dissolution, than those described in this criteria document.</p> <p>Any outstanding company debts are payable before any residual assets are finally calculated. Shareholders may also be repaid the <i>nominal value</i> of their shareholding at the date shares were issued, prior to the distribution of remaining assets (i.e. the original price of the shares at the point of issue – not the price it may have changed to at the point of dissolution or the price the shareholder may have purchased the shares for during the lifetime of the business).</p>
F	A social enterprise can demonstrate that social objectives are being achieved.	Social enterprises exist to produce social benefit. A social enterprise must at least be able to describe how it has strived to achieve its social objectives.	Satisfactory social impact statements. Other supporting evidence may also be presented towards this criterion, <i>but statements are mandatory.</i>	<p>Applicants must agree to a statement that as a certification holder they would strive to maximize social impacts and minimize negative environmental effects in the course of trading.</p> <p>Organizations must commit to confirming how they have strived to fulfill their social purpose over the previous year. This involves answering a set of questions designed to explore this, which will provide social impact statements that will form part of the Public Declaration promoted via the certification holder directory on the Society Profits website.</p> <p>Further details of these questions can be found on the Society Profits website.</p>