



# Social Enterprises

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# Social Enterprises

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## 1 Introduction

In the realm of social services, social enterprises are seen as innovative actors that can supplement, or even replace, formerly public social services (European Economic and Social Committee 2012, pp.1-2). This paper intends to analyse this trend in a cursory fashion. The aim of this document is to provide a brief overview of the development of social business in different European countries (UK, Germany, Spain, Italy, France and Sweden), as well as in the European Union as a whole and the possible positive impacts of smart policies in the field.

Before this aim can be achieved, it is necessary to look at how welfare regimes are changing in these countries, especially in the face of the economic crisis.

Questions addressed in the first part are therefore: Which kind of welfare was in place in these countries traditionally? Which changes have welfare policy frameworks undergone in recent years with regard to social services?

The second part of the paper will first look at the privatization of social services during the economic crisis. It will examine the actors involved: For-profit companies, the third sector, and social enterprises. There will be a particular focus on social enterprises as a relatively new actor in the delivery of social services. The paper will discuss the advantages of social enterprises in delivering social services. Questions addressed here are: How are social businesses regarded by society and by politics? Which role do they play? How important are these businesses?

The third part of the paper focuses on the different policy initiatives to support social businesses: Clear legal frameworks, financial support etc. Again the situation in various countries will be analysed. The chapter provides some good examples of social policies to support social businesses. The paper finishes with a short section on conclusions.

## 2 Decline of the welfare state

Currently, we are witnessing the retrenchment of the welfare state in many EU countries. The consensus among decision-makers is that there are multiple challenges to European welfare systems and that these systems cannot be supported in their original form (Juncker 2012, pp. 8-9). Adaptive challenges for 21st century European welfare states are: Aging populations, deindustrialization, accelerated economic internationalization, intensified European integration, and changing gender and family roles (Hemerijck et al. 2013, pp.4-5). In addition, the economic and financial crises that hit Europe hard have led to higher unemployment rates, weak or even negative economic growth, and thus tighter state budgets. A crucial policy answer to the crises has been budget consolidation, which goes hand in hand with austerity measures and a decline in public spending on social services.

While the welfare state is withdrawing, poverty, inequality, and unemployment are on the rise in the EU, especially in southern European countries. Various recent reports discuss increasing economic instability and social despair caused by economic hardship (Cavero and Poinasamy 2013; International Federation of Red Cross 2013). The combination of the economic crisis and the retrenchment of the welfare state has placed a double burden on European societies, as the demand for social services increases during times of economic hardship. Thus, there is a need for new, innovative solutions to the pressing social problems that states are no longer able to address.

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### 2.1 The decline of the welfare state – Germany

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Germany's welfare system belongs to the conservative, corporatist "Bismarck" model. A major trait of this model is a generous welfare state, in which social security is based on an insurance system. The right to and amount of social transfers is based on contributions, mostly dependent on the amount of contributions paid by employers and employees. Another significant feature is the traditional role of the family, as the model centres around the male as breadwinner (Urbé 2012, pp.21-22). The German welfare system underwent several changes in the 2000s, even before the crisis hit. Most of them were implemented under the so-called Agenda 2010. The welfare state moved towards a more activating system with a sharp reduction in the duration of unemployment benefit payments. It also moved away from the male breadwinner model by expanding child day care facilities, changing parental leave, and introducing a parental allowance. Contributions to health insurance were raised. Additionally, first steps were taken to turn the pay-as-you-go pension system into a multi-pillar system that included a partial privatization of pensions. The retirement age was also raised (Hemerijck et al. 2013, pp.61-64).

Germany has not been hit as hard by the crisis as other countries. So while budget consolidation measures have been taken, the austerity measures have not been as severe as in the other countries presented in this paper (Heise and Lierse 2011, p.14). Reasons for Germany's relative robustness in face of the crisis are a) its reliance on exports and b) its

economic competitiveness. The competitiveness stems from structural advantages such as a skilled labour force and advanced technologies. But Germany's competitive edge can also be attributed to its Agenda 2010 welfare and labour market reforms. One might say that the reforms many EU countries are now undertaking had, to a certain extent, already occurred in Germany prior to the crisis (Wahl 2013, p.2).

Austerity measures introduced in 2010 were implemented through the Package for the Future ("Zukunftspaket" in 2010), the Supplementary Budget Act (2011), and the medium-term Financial Plan (2010-2014). The measures intend to save €80 billion and constitute one of the biggest austerity plans in German history. Budget cuts in social spending make up 30% of the debt reduction plan. These include: Cuts in parental benefits for recipients of "unemployment benefit II", abolition of state pension contributions for recipients of "unemployment benefit II", abolition of heating subsidies for recipients of housing benefits, and cuts in parental allowance (Heise and Lierse 2011, pp.12-13). Furthermore, several Federal Employment Agency programs for the integration of unemployed into employment will be shut down. The measures also entail cuts to federal public sector staff (about 10,000 jobs will be cut), which should save about €4 billion per year ("Zukunftspaket: Solide Finanzen für Wohlstand und soziale Sicherheit").

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## 2.2 The decline of the welfare state – France

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France's welfare system mainly reflects the "Bismarck" model. Its welfare state is very comprehensive and complex, and as a result, France is among the EU countries that spend the most on welfare—more than 30% of its GDP (Hampshire). France has a national social health insurance, which is financed through employee and employer payroll contribution and taxes. The system guarantees universal access, but does not cover all healthcare costs so that about 90% of the population have a complementary voluntary health insurance (Green et al. 2013, p.2).

In contrast to southern European EU countries, France attempted to consolidate its budgets by increasing revenues through tax hikes instead of cutting public spending. However, from 2013 on there has been a slow transition to reducing debt by cutting public budgets. In 2013, public expenditure was cut by €10 billion (Fourmy 2013, p.1). The budget for 2014 envisions spending cuts that will make up 80% of the deficit reduction. The goal is to save €14.5 billion: €7.1 billion cut in national spending, €5.8 billion cut in social security, and a €1.5 billion cut in transfers to the territorial collectivities (Gey and Schreiber 2014, p.2). In April 2014, the French government announced its plan to save €50 billion between 2015 and 2017. The plan includes a freeze in state pensions and civil servant pay. €21 billion will be saved through cuts in social benefits and the healthcare system, €18 billion will be removed from government ministries' budgets, and €11 billion will be saved by restructuring local government and reductions in subsidies (Melvin 2014). In June 2014, a revised budget plan, which includes an additional €1 billion cut in healthcare and welfare spending, was announced (Melander and Vey 2014).

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### 2.3 The decline of the welfare state – UK

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The UK belongs to the liberal “Beveridge” system. Features of this system are: poor social security systems, small social transfers, modest insurances and national health systems with graduated child benefits (Urbé 2012, pp.21-22). Despite the modesty of this welfare model, the UK offers a variety of social services to its citizens. For example, there is a free national health care system provided by the National Health Service. Moreover, the UK has a very active labour market policy including training and education programmes offered to various target groups. Families are another focus of the social service sector. The Blair government introduced a wide range of family policies including: a) the provision of child care service centres, b) services to ameliorate the quality of family relations in low-income urban areas, c) parental employment measures, and d) greater flexibility in work and family life. With regard to pensions, pensioners can rely on a means-tested minimum income guarantee since the year 2000. In 2004, the government also put a pension protection fund in place, which protects members of occupational pension schemes (Hemerijck et al. 2013, pp.53-55).

Although the UK has implemented cuts in social services and privatized public services since the 1980s, the crisis has still had a strong effect on social services. The budget consolidation plans decided upon in 2010 stated that 77% of the deficit reduction was to be achieved through spending cuts over a four year period. These cuts include the elimination of half a million public sector jobs and cuts of £11 billion in social spending (just part of overall budget cuts totalling £81 billion). Cuts in social spending affect housing benefit, child benefit, and pensions (Heise and Lierse 2011, p.28-29 FES). However, local governments were also hit hard by spending cuts: Between 2010 and 2015, local government funding is on course to be cut by 27.4% (£7.6 billion). This has resulted in local budget cuts and the reduction of local public staff (Slay and Penny 2013, p.11). As local governments are crucial to the delivery of social services in the UK—traditionally, but even more so now because of the current government’s new decentralization strategy regarding public services (see page 12 of this document)—these cuts have a huge, negative impact on the social service sector. Local government cuts affect pre-school and 16-19 college education, the careers service, local housing, and care for frail and older people, as for children (Taylor-Gooby 2012, p.228). Moreover, the UK has started to open up social services and education to private and third sector providers in order to make social services more efficient (Minister for Government Policy 2011; pp. 6,9).

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### 2.4 The decline of the welfare state – Italy

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Like Spain, Italy belongs to the “Mediterranean” welfare model group. Most public spending goes into passive benefits, while social services are underfunded (Hemerijck et al. 2013, pp.67-69). As in Spain, familial support structures play an important role in providing social services that the state does not cover. The welfare state allows for a lot of local autonomy, and there are remarkable differences in the distribution of social services (“Italy” 2007).

In 2011, Italy started to embrace austerity measures leading to pension reforms, lower

wages for public sector staff, and cuts in various areas affecting social services (healthcare, education, local government, and public sector staff) (Goretti and Landi 2013). In the health sector, budgets were reduced, user charges introduced, and some services cut (Mladovsky et al. 2012, pp. 15,17). Public sector staff was reduced by 4.3% between 2007 and 2013. Public wages declined by 2.3% during the same period. Moreover, transfers to local authorities have been cut, leaving them with less financial means for social services (Goretti and Landi 2013). In 2012, Italian municipalities reduced their social expenditures by 3.6%. Moreover, since 2008 Italy has reduced the main national funds for social interventions by 75%, including The Fund for Social Policies, The Fund for Long-Term Care, the Fund for Family Policies, and the Fund for Youth Policies (Petrelli 2013, p.4).

An important part of the budget consolidation package was the pension reform, as public expenditure on pensions made up 15% of Italy's GDP in 2010. There has been a series of reforms since 1992 that address that problem, but in 2011 another, stricter reform was deemed necessary. First, the government increased the statutory retirement age in the public and private sector in two steps. Secondly, pension payments were linked to changes in life expectancy. Thirdly, early retirement was made more difficult by increasing the minimum contribution period (Goretti and Landi 2013).

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## 2.5 The decline of the welfare state – Spain

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Spain's welfare system belongs to the "Mediterranean" welfare model. In this model, the social system is organized similarly to the "Bismarck" model, but the social benefits are less generous, and not all branches of social insurance are equally developed. In contrast to the "Bismarck" model, it also places more responsibility for social wellbeing on the family (Urbé 2012, pp.21-22). In the EU-15, Spain is one of the countries with the lowest spending on welfare, (22% of GDP compared to an EU-15 average of 27%), (Navarro 2012). Like the UK, Spain has a National Health System that offers universal coverage.

In 2010, Spain started to implement budget consolidation measures. Strongly affected areas are health insurance, education, pensions, child benefits, and public staff. The Toledo Pact (2010) laid out a pension reform plan that increased the retirement age, strengthened individual equivalence, and increased the minimum contribution period. The reform mostly affects those with an unstable and irregular work history. Moreover, the government has put an end to the "baby cheque", which granted parents a one-off payment of at least 2,500 euros after their child's birth (Heise and Lierse 2011, p.15). As Spain leaves more responsibility pertaining to child and elderly care in the hands of families, these policies have a strong impact on people with modest financial means.

With regard to healthcare, expenditures have been cut by 18.21% including a cut of 55,000 jobs since 2009 (Navarro 2014). Undocumented immigrants are now excluded from free healthcare services, co-payments have been raised, staff has been reduced, and there have been cuts in payments to autonomous regions, which are primarily responsible for health policy ("Austerity cuts to Spanish healthcare system may 'put lives at risk'" 2013). Due to the regional responsibilities, healthcare reforms vary considerably between the regions. In Cata-

lonia, austerity measures have been especially severe, resulting in cuts to staff and investment as well as a move toward the privatization of hospitals (McKee et al. 2012, p.348).

Education budgets have also been affected. Between 2011 and 2012, the total education budget was reduced by 21.4% and by 14.4% in 2013, which has had a negative impact on all levels of education. As a result of the cuts, central state funding for the development of early pre-schooling has ceased. In addition, programmes targeting measures to support children in disadvantaged areas or from disadvantaged backgrounds have been drastically cut (Muiznieks 2013, p.9). Class sizes have grown and teachers' salaries have been cut (Verger 2013).

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## 2.6 The decline of the welfare state – Sweden

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Sweden's welfare system comes under the social democratic or Scandinavian (Nordic) regime. The Nordic model adheres to the principles of universalism, social rights for all, and equality and is more generous than the other welfare system types (Urbé 2012, p.23). The Swedish welfare state is all-encompassing and has three main pillars: Social security, health, and free education. Its programmes include: Support for the unemployed (benefits, job training, retraining and job creation), healthcare, pensions, disability and sickness benefits, parental leave, child allowances, financial assistance for families with disabled children, and decent housing for all (Joseph 2012, p.188). Sweden puts special emphasis on gender equality, which is mirrored in the government's family policy. There is strong support for the dual-earner model in the form of 1) parental leave (up to 480 days after the birth of the child), 2) guaranteed access to affordable, heavily subsidized child day care (from one year on), and 3) separate taxation of spouses (ibid. p.191; Hemerijck et al. 2013, pp.50).

The effects of the current economic crisis on the Swedish welfare state differ from those of the aforementioned Eurozone countries, since Sweden has weathered the global financial and economic crises fairly well. Hit by its own financial crisis in 1992, Sweden had already modernized its welfare system in the 1990s and 2000s, which may be one of the reasons why Sweden was not forced to employ budget cuts in the last years. Following the financial crisis of 1992, the Swedish government implemented pension reforms: In 1994, for example, the Swedish government raised the retirement age from 65 to 67 years. Generosity in social insurance systems was reduced, for instance by cuts in unemployment benefits. In addition, healthcare budgets were cut. To ensure balanced budgets, public sector employment was reduced. Moreover, certain social services were opened up to the private sector: 1) The government introduced a voucher system for primary and secondary schools, which allowed private schools to compete with public schools. 2) Local government, which provides the majority of social services (healthcare, education, childcare, elderly care, and many technical services), was subject to privatization. As a result, by the mid-2000s, the private sector already provided 20 per cent of publicly financed services in Stockholm and 9 per cent in the entire country (Hemerijck et al. 2013, pp.49-50; Freeman et al. 2010, pp.6,14,22). By 2013, the private sector provided around 27 per cent of healthcare services, including the management of nine major hospitals and 10 per cent of ambulance services (Tanner 2013).

In 2006, the newly elected centre-right government started implementing further changes in line with the policies of the 1990s. It limited the duration of unemployment benefits and

lowered them along with sickness benefits. The government also reduced the amount of active labour market programmes. These cuts allowed the government to reduce taxes (income and corporate taxes) to increase work incentives and economic competition (Freeman et al. 2010, p.7; Carlstrom and Magnusson 2014)<sup>1</sup>. All these post-1992 crisis reforms have helped Sweden keep its finances under control—the country reduced its national debt from 84% of GDP in 1996 to 49% in 2011. Despite the budget cuts, Sweden continues to have one of the most generous welfare states in the world. Currently, economists have started praising Sweden's as a good example of a generous welfare state that is efficient, solution-oriented and innovative. They say Sweden could serve as a blueprint for cutting public spending during a national debt crisis (Tanner 2013; "Northern Lights" 2013). In contrast to the aforementioned countries, Sweden did not need to implement budget cuts within the welfare state in recent years, one reason being that welfare reforms were already in place. The other reason is that Sweden emerged from the financial crisis as one of the strongest economies in Europe ("Sweden: Economy" 2013).<sup>2</sup>

1 According to OECD estimates, Sweden still has the fifth-highest tax burden relative to GDP in the developed world (Carlstrom and Magnusson 2014).

2 However, the Swedish population does not seem to be satisfied with the effects of welfare reform. There have been numerous scandals in private social services, plummeting PISA results show a deterioration of the education system, and inequality is on the rise. With a call for higher taxes and a stronger welfare state (especially concerning healthcare and education), the Social Democrats are leading in the polls for the upcoming election (Alfredsson 2013; Bott 2014; Carlstrom and Magnusson 2014).

## 3 Situation of social enterprises

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### 3.1 Social businesses as a solution?

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Social services are under severe pressure in multiple countries due to budget constraints. However, they are essential to social functioning, especially with regard to the social consequences of the economic crisis (high unemployment, rising poverty, and inequality). One government strategy to deal with smaller social service budgets is the privatization of social services. The advantages of privatizing formerly public services usually cited are: Increased competition and efficiency, higher levels of innovation, a decrease in costs, less bureaucracy and corruption, financial discipline, and the mobilization of private and foreign investment (the4thwheel 2011). Those traditionally involved in outsourced public services or public-private partnerships are private companies delivering social services and the voluntary sector. A relatively new actor in the provision of social services that is gaining ground is the social enterprise.

In the realm of social services, social enterprises are seen as innovative actors that can supplement or even replace formerly public social services (European Economic and Social Committee 2012, pp.1-2).

Social enterprises are businesses that fill the gap between the public sector and the private sector. Their objective is to solve social problems by using market tools. While they operate as businesses, they focus on making a positive social impact instead of trying to maximize profits for shareholders (Varbanova 2009, pp.3-4). An extensively used, broad definition of social enterprises stems from a report by the UK Department of Trade and Industry:

“A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners.” (2002, p.13)

The European Commission defines the social enterprise as:

“an operator in the social economy whose main objective is to have a social impact rather than make a profit for their owners or shareholders. It operates by providing goods and services for the market in an entrepreneurial and innovative fashion and uses its profits primarily to achieve social objectives. It is managed in an open and responsible manner and, in particular, involves employees, consumers and stakeholders affected by its commercial activities.” (quoted in OECD/European Commission 2013, p.3)

In Europe, the concept of social enterprises started appearing in the early 1990s in Italy, in close relation to the cooperative movement. After cooperative initiatives began working in services neglected by the welfare state, the Italian government introduced the legal form of “social cooperative” in 1991 (Defourny and Nyssens 2008, pp.4-5). In the late 1990s and early 2000s, other European countries (France, Portugal, Spain, Greece, Belgium) followed suit and introduced new legal forms for social enterprises. In 2002, the UK started enacting a

national strategy for social enterprises to promote them (ibid. pp. 7-8).<sup>3</sup> In the last years, social enterprises have also started to gain recognition on the EU level. Policymakers have started to see the importance of creating an enabling environment for them as they are regarded as being able to play a key role in weathering the current social and economic crises (OECD/European Commission 2013, p.3; European Economic and Social Committee 2012, p.1).

Social enterprises are seen as beneficial, because their social focus as well as their local roots and knowledge help them to be more successful at achieving public goals than the private and the public sector (OECD/European Commission 2013, p.3). Moreover, they have been more robust in face of the crisis than private companies (European Economic and Social Committee 2012, p.1). They promote active citizenship, create employment, drive social innovation, and are instrumental in fostering social and economic cohesion. In addition, they create novel ways of service provision leading to more effective and efficient services, thus reducing public spending (ibid. p. 2; OECD/European Commission 2013, p.12).

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### 3.2 Social business – the situation in Germany

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The historic background is somewhat ambiguous; Germany has a strong third sector tradition as proven by a number of corresponding legal forms such as Vereine, Genossenschaften, Stiftungen, gAGs und gGmbHs., but it also has a strong and generally highly valued and trusted welfare state. The strength and the expansiveness of the welfare state combined with a pronounced aversion to risk makes it considerably more difficult:

- to convince people to start a social enterprise
- for small social enterprises to compete

The demand for care services not provided by the welfare state is, however, slowly increasing.

The German welfare system takes a semi performance-based approach in that it pays a fixed amount of money for certain tasks but doesn't take efficiency or long term success into consideration. Therefore, it seems as if the integration of social businesses in the system and the step to a fully performance-based approach will not be too difficult. The market has a size of €51 billion (Scheuerle et al., 2013).

3 “Social enterprises take various legal forms in different countries across Europe. These forms include solidarity enterprises, co-operatives or limited liability social co-operatives, collective interest co-operatives, as have been adopted in Italy, France, Spain, Portugal and Greece, social purpose or collective interest companies in Belgium and community interest companies in the United Kingdom. A review of the legal structures and legislation in a number of European countries that have adopted national laws regulating social enterprises (i.e. Belgium, Finland, France, Italy, Poland, Portugal and the United Kingdom) reveals that these laws address common issues including the definition of social enterprise; asset allocation; stakeholder and governance systems; and, accountability and responsibility towards internal and external stakeholders.” (OECD/European Commission 2013, p.3)

Due to the aforementioned strong welfare state and the general risk aversion, the idea of social intrapreneurship seems more appealing in the German context than that of social entrepreneurship. Social intrapreneurship describes the development and promotion of practical solutions to social or environmental challenges inside a major organization (Scheuerle, Glänzel, Knust, & Then, 2013).

Some German universities like TUM and Zeppelin University are beginning to show interest in social entrepreneurship. They establish network structures to support social entrepreneurs with specialised consulting and basic infrastructure. Additionally, they initiated research projects in the field and formed a curriculum for non-profit management degree courses. (Scheuerle et al., 2013)

Germany has 615,000 third-sector organisations, of which around ¼ work in fields that are typical for social enterprises, such as health, care and education. About half of these organisations have revenues of €0.25 million or less and are thus considered micro enterprises (Kleinstunternehmen) and only 8% reach revenues of €5 million. There is a high concentration of big high-revenue players, especially in the field of social care (Wohlfahrtsverbände und größere Trägerstiftungen).

2.8 million people work in the third sector, which makes up around 9% of all employment subject to social insurance contributions. 40% of the organisations have 5 or less employees and 13% have 100 or more employees. (Scheuerle et al., 2013)

The proportion of women lies at 74% and is thus atypically high. With over 16% the growth rate of social the sector exceeds that of the whole economy by factor 4. The sector is soon to meet a skill shortage due to:

- enormous growth
- the staff's high average age of 45-55 years
- the aging German society

The financing of social services is another problem for that sector, as the related expense for the current working population is above average. They:

- finance the welfare state through taxes
- have to pay for their own private pension scheme
- actively care for their relatives when the welfare states' performance is insufficient (Deloitte, 2012)

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### 3.3 Social business – the situation in France

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Although France has an economy that is far more state-driven than any other European country, it also has a tradition of social economy that accounts for 10% of the French GDP. Aside from this, there is almost no tradition of philanthropy as it is commonly believed that wealth should be redistributed through taxes and the state should care for disadvantaged people.

The very idea of social business with its creation of social value seems to be highly welcome, especially by young people who are, in general, willing to take a pay cut - however, they demand a high level of maintenance and supervision of fidelity to the stated social aims. This is why the development of evaluation tools is more important in France than in other countries. Additionally, there is a danger that the principle of social business might be high-jacked in the name of alternative economy approaches.

Equally, as in Germany, social intrapreneurship is often discussed, not due to risk aversion but rather for the reason that big companies might use it “to promote their image to the outside world and to create a spirit of cohesion and motivation internally among their employees.” (Perron, 2011)

About 2.3 million people work in the 215,000 firms of which the ESS sector comprises. These 215,000 firms make up for 90% of the ESS, respectively 45% of the establishments for elderly and handicapped persons and 60% of general care institutions. (Chauffaut, Lensing-Hebben, & Noya, 2013).

In 2007 Crédit Agricole created the Danone Community fund, which has since raised €75 million. 10% of these assets can be invested in social businesses. Similar funds have been created by other companies, such as Schneider Electrics.

France has a high rate of savings invested in collective investment schemes or passbook accounts. “Some of these savings are intended to support projects with a strong social focus ...The amount of such solidarity investment plans in France was estimated at €2.4 million in 2009. This is therefore a potentially important source of financing for SB funds.” (Perron, 2011)

Since 2010, a sum of €100 million from the governments investment in the future program goes to social businesses. (Chauffaut et al., 2013)

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### 3.4 Social business – the situation in the UK

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NPOs, such as voluntary and community organisations, have a long history in the UK and can be traced back to the mid 19<sup>th</sup> century. They are subsumed under the term *social enterprises* since the 1990s when the government discovered them as a means to fight social exclusion deriving from problems such as unemployment, poor skills, health and mental problems and family breakdown.

Even though social enterprises have become an important research field for the social sciences, understanding of the sector is still astonishingly poor. Empirical data is limited and the impact of social business is hardly measurable.

The whole sector suffers from a lack of a specific regulatory framework, insufficient business support and difficulties in raising finance. This is, in part, due to deficient research findings, as a lack of knowledge makes planning and providing of appropriate support and risk profile assessment very difficult. Moreover, traditional businesses have only just started to view social enterprises as potential partners and working in the field of social enterprises is not yet seen as a feasible career option.

According to Li and Wong (2007) “in the UK, most social enterprises are represented by the Social Enterprise Coalition (SEC), which represents more than 240 national umbrella bodies of social enterprises, 46 regional and national networks of social enterprises, and 10 000 social enterprises that operate in more than one region in the UK. SEC provides a national platform for social enterprises to voice their needs and discuss with the government on social enterprise issues. It also helps raise the profile of social enterprises to both the public and the business sector.”

With some 70,000 social enterprises, the social business sector makes up roughly 5% of businesses with employees nationwide. About 80% of the social enterprises are micro and small enterprises (up to 10 respectively up to 49 employees). Around 1 million people are employed in social enterprises. Its contribution to the economy has been valued at over £24 billion and represents thus almost 1% of the UK's annual Gross Domestic Product (GDP).

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### 3.5 Social business – the situation in Italy

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Italy has a long history of third sector economy and social businesses dating back to the 19th century when neither the state nor the market played a major role in the production and delivery of goods and income. However, from the 1890s on the third sector was mainly regarded with suspicion but started to regain momentum after World War II. In 1948, the “Constitution explicitly recognized the role of private non-profit organisations, giving them freedom of action, especially in social activities, according to a model in which public and private elements complemented and completed each other.” (Loss, 2004)

In 1970 the shortcomings of the Italian welfare model, with its emphasis on families providing social support, became more and more obvious. The increasing participation of women in the labour market, the slowdown of economic growth, a bulging rate of unemployment amongst young people and a growing percentage of elderly people added to the mixture of problems that were hardly to be solved by traditional policies. A lack of financial resources as well as management and administration skills prevented the public sector from tackling these problems or looking for new approaches and solutions.

The gap was soon filled by local groups that relied heavily on volunteers and experimented with innovative organisational forms to meet the demand for social services such as help for “teenagers with family problems, the elderly, the disabled, the homeless, drug addicts, and immigrants”. These groups soon received limited legal recognition and small amounts of financial aid.

Traditionally, the Italian interpretation of social business aims strongly at the creation of jobs for disadvantaged people in order to provide them with an income. The idea to implement them as a means to ensure a certain level of social welfare is rather new.

The following factors have been described as limiting the growth of the social business sector and have not yet been tackled:

- an absolute ban on distributing profits
- an absence of information policies and administrative support

Another type of problem can be seen in the combination of the socio-economical differentiation between the Italian north and south, and the twofold aim of social businesses of getting people into work and providing services that can no longer be upheld by the state. Many people in the south are jobless, care for children and the elderly themselves and thus have no need for professional care. The whole idea of social business does not seem particularly suitable to fight structural deficits of whole regions but could only be used to help the poor living in relatively wealthy regions.

As of 2011, there were 11,808 social cooperatives constituted in accordance with Law 381/91, 404 other businesses using the phrase “social enterprise” in their business name and 365 social enterprises constituted in accordance with Law 118/05. About 383,000 workers are employed in social enterprises, which makes up roughly 3% of the private nonfarm economy.

The social enterprises reach 5 million users with their services, of which 60.6% use social welfare and health services and 15.5% use educational services. 45% of the social enterprises name public bodies as their main clients, while 38% reach individuals and families directly.

However, a large number of other enterprises remain that might be considered social businesses even though they are not (yet) registered among those mentioned above. “A first important area of social entrepreneurial activity is represented by the non-profit organisations that are neither social cooperatives nor legally designated social enterprises. An initial survey of Chamber of Commerce archives, looking at registered non-profit subjects for which, given the nature of the source, we can assume to be organizations with social aims and an orientation towards production, reveals a population of just over 22.000 units. These are primarily association-type subjects (71%) followed by moral and religious bodies and foundations.” (Venturi & Zandonai, 2012)

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### 3.6 Social business – the situation in Spain

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Spain lacks the long tradition of social economy, as known in the UK and Italy. Despite this, social economy was, from the 1980s on, seen as a means to fight the then common social problems like poverty, social exclusion and unemployment.

Even though the term *social economy* was never officially defined, its promotion is embedded in the Spanish Constitution. Development of the sector was thus mainly government-driven.

The problems that have been identified to hinder further growth of social businesses are mostly the same as in other countries:

- administrative barriers
- non-existence of a specific regulatory framework
- financing difficulties
- insufficient business support

- a lack of public understanding (Li & Wong, 2007)

In 2006, Spain counted more than 51,500 social economy enterprises. One of these enterprises is the Mondragon Corporation, one of the biggest worldwide with more than 83,000 employees.<sup>4</sup> Most however, are rather small: 96% of social enterprises were micro and small enterprises. They employed more than 2.4 million people, equalling 25% of the total working population of Spain (Li & Wong, 2007).

A great number of these enterprises are represented by the Confederation of Spanish Social Economy Businesses (CEPES), founded in 1992. CEPES provides a permanent platform for a dialogue between social enterprises and public authorities and has strongly influenced both the development of national and regional (and later even European) policy and initiatives at different levels.

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### 3.7 Social business – the situation in Sweden

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Even though Sweden has a strong history of social engagement, its community was, most of the time, scattered and without horizontal organisation. Social engagement traditionally contributed to the cohesion of social groups and was thus also a vehicle to build political influence. The political and cultural vision of the third sector conflicts with the idea of making it a business.

Social movements played an important role in establishing a modern welfare state as they did not refuse to give up on their classic fields of work like social care, health and education. In most of the areas the structures built were handed over to the state. They concentrated on other fields such as sport, culture and further 'minor' areas and were thus marginalised. In those less central areas the work of the social movements was always strongly supported by the state due to the historically developed understanding of division of labour.

That situation changed from the 1980s on. As the government looked for alternatives to the contemporary welfare system, the fields of care, health and education were reopened to the private and third sector. That development reached its peak in the 1990s when Sweden was experiencing considerable financial difficulties.

Nowadays, the Swedish approach to social business development can be described as incremental. It is characterised by a unique structure of political independence, regional embeddedness and mixed financing. Like some other countries, Sweden does not have a particular legal form for social businesses.

<sup>4</sup> The Mondragon Corporation is "... a federation of worker cooperatives based in the Basque region of Spain. Started in 1956 with the creation in the town of Mondragon of the first industrial cooperative in the province of Gipuzkoa, it is now the 10th largest business association in Spain, with production subsidiaries in 41 different countries and sales in 150. As of 2011, the group consisted of 258 companies and entities, with close to 84,000 workers and €14,755 million in revenues." (European Commission, 2013)

The third sector is well established in Sweden and remarkably emphasises formal membership. On average, every Swedish citizen has four formal memberships in third sector organisations. These numbers seem impressive but only about 30,000 people have paid jobs in social businesses. (Olsson et al., 2005)

Today, “(...) the Swedish sector is self-financed to a large degree through money earned from member dues and fees, second hand sales or entrance fees. As much as 60 per cent of its income comes from the organisations’ own/independent activities, while only 29 per cent comes from different government sources.” (Olsson et al., 2005)

To understand the special development of the Swedish third sector, it is crucial to know that the political and societal view on social enterprises in Sweden does not correspond to the general understanding in other countries. Even though social businesses now play a bigger role, as said above, social businesses are still not valued for their abilities to provide social services that cannot be upheld by the state or the possibility to create jobs but primarily for the democratic potential to create communities that are able to bond and voice opinions of the group they represent. This view comes about due to the tradition and role of social movements in Sweden and is only slowly beginning to change. To the public, neither social businesses nor conventional businesses seem to offer acceptable alternatives to the welfare state.

## 4 Policies promoting social enterprises

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### 4.1 Policies in the EU

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The EU's interest in social business is rather new. One can take the following description as proof as to how young interest actually is:

“In 2011, there was little support for the people running projects improving the lives of other Europeans. There was no ecosystem to support social innovation, and little support for the innovators themselves. Little was known about how to grow or finance innovative projects, processes and programmes and there was no platform or place with examples, stories and case studies of other people involved in this work” (Social Innovation Europe, 2014)

The interest has been growing ever since and a number of studies and activities were started to improve the situation as soon as possible. Social businesses are considered an integral part of the fight against the consequences of the financial crisis.

To support the growth of social business the EU:

- facilitates access to funding
- improves the visibility of social entrepreneurship
- installs new laws and regulatory frameworks (European Union, 2011)

While the EU has prescribed austerity measures, the implementation of which has negatively affected social services in member states, it also recognizes the importance of social services for societies, particularly in times of economic hardship. Therefore, the EU has worked on different policies that support social services in new ways in order to help countries deal with the current challenges. The basic idea is to combine a social investment approach with innovation in social services so as to be able to respond to current social challenges within tight budget guidelines (“Social Investment”, “Social Innovation”). For this reason, the European Commission has enacted the *Social Investment Package* (2013) as well as different policies that support innovation and in turn, social enterprises. Examples are the *Social Business Initiative*, the *European Social Entrepreneurship Fund* and the *Social Impact Accelerator*.

The *Social Investment Package* “sets out an integrated framework for social policy reform, helping Member States to use their social budgets more efficiently and more effectively and to tackle the social consequences of the crisis by identifying best practices and providing guidance on the use of EU funds for social investment” (European Commission 2013, p.3). It offers member states guidance in the form of several recommendation documents and has influence on the Country-Specific Recommendations in the European Semester, thereby strengthening the social dimension in the European Semester (ibid. pp.16-18). The Commission is also creating a database of good practices, and executes pilot projects and research on future social investment policies to supply governments with advice. In addition, the EU offers funds to enable member states to finance their social investments. The chief financial resource is the *European Social Fund* (ESF), which is complemented by other funds including the new *Programme for Employment and Social Innovation* (EaSI), the *Fund for Europe-*

*an Aid to the most Deprived* (FEAD), the *European Global Adjustment Fund* (EGF)<sup>5</sup>, the *European Regional Development Fund* (ERDF), and the *Cohesion Fund* (ibid. pp.23-24).

Parts of the ESF have already been used for social innovation purposes during the last decade. As the SIP regards the social economy and social entrepreneurship as vital components of their strategy, the ESF regulation drafted for the period 2014-2020 includes new provisions to reinforce support for social innovation (ibid. p.27). Apart from the ESF, EaSI is of special interest for the development of social enterprises. It has a proposed budget of €815 million for the 2014-2020 period and assists member states in enacting social reforms at European, national as well as regional and local levels. EaSI integrates and extends the coverage of three existing programmes: 1) *PROGRESS* (Programme for Employment and Social Solidarity), 2) *EURES* (European Employment Services), and 3) the *European Progress Microfinance Facility*. EURES supports mobility for job seekers in the EU. Regarding social businesses, the *European Progress Microfinance Facility* strengthens the development of the social investment market and allows social enterprises access to finance. *PROGRESS* serves as a financial instrument for the development and coordination of EU policy in: 1) employment, 2) social inclusion and protection, 3) working conditions, 4) anti-discrimination, and 5) gender equality. The programme has allocated a specific budget for social innovation and social policy experimentation (“New programme for Employment and Social Innovation (EaSI)”, “PROGRESS programme (2007-2013)”).

Apart from the aforementioned funds, the EU assists social entrepreneurs with access to financial aid through further initiatives. For instance, the EU has set up the *Social Impact Accelerator*, a pan-European, public-private partnership between private sector investors, the European Investment Bank, and the European Investment Fund. Its goal is to make equity finance available to social businesses. It is organized as a fund-of-funds that “invests in social impact funds which strategically target social enterprises across Europe” (“The Social Impact Accelerator (SIA)” 2014). The Commission also created the *European Social Entrepreneurship Fund* label to facilitate social entrepreneurs’ access to private finance. The label allows investors to 1) easily recognize funds that focus on investing in European social businesses and 2) receive clear and effective information on investments. A fixed set of requirements define how funds qualify for this label, which allows managers of social business funds to market their funds better across Europe (“Social Entrepreneurship Funds”).

To support social enterprises in general, the European Commission launched the *Social Business Initiative* in 2011. The initiative aims to improve social entrepreneurs’ access to finance, improve the legal environment for social enterprises and to increase their recognition. It has already delivered successfully in all of these areas. Thanks to the SBI, EaSI has been opened up to social enterprises and Structural Funds have been reformed to include funds for social enterprises. The SBI was responsible for the creation of the aforementioned *European Social Entrepreneurship Fund*. Furthermore, the initiative has helped social enterprises gain traction by setting up the online platform *Social Innovation Europe*, which allows social entrepreneurs to communicate and share information. By publishing a guide on social

5 These four funds also form the four pillars of the EU Initiative for Employment and Social Inclusion 2014-2020 (“New programme for Employment and Social Innovation (EaSI)”).

innovation and an on-going mapping exercise of the sector, the initiative tries to assist national authorities in understanding the sector. With regard to the legal environment, SBI pushed for reforms in public procurement, which were adopted in early 2014 (European Commission 2014, pp.6-7). The reform package “encourages and enables public authorities to consider the full life-cycle of products in their purchasing decisions taking into account social criteria linked to the production process” (ibid. p.7), which clearly benefits social enterprises. While all these endeavours taken on the EU level are helpful, action on national and local levels is essential as well.

Additionally, the EU plans to “make quality and working conditions more important criteria for the awarding of public procurement contracts, particularly for social and health services,” as well as to “simplify the rules for awarding public aid to social and local services.” (European Union, 2011)

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## 4.2 Policies in France

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Contrary to some other countries, France has a clear legal framework for social enterprises. Traditionally, French law has three legal categories for third sector economy that goes under the French term *Économie sociale et solidaire* (ESS):

- “Associations: some associations are true businesses that provide goods and services. A good example is the SOS Group, which employs more than 3,000 people in France in healthcare, assistance services and waste recycling. The Group is the property of three associations. From an economic point of view, an association that engages in a competitive business actively is subject to the same rules as a private business, including tax regulations. However, any profits made by association must be transferred to reserves; they may not be distributed.
- Mutual organisations: There are 2,100 mutual organisations in France, providing care and supports services to some 38 million people. There are also 41 mutual insurance companies that insure 24 million people. Mutuals are social organisations operating on the principle of solidarity between their members. They may make a profit, but there are strict rules on its distribution amongst the members.
- There are 21,000 cooperatives in France spanning all business sectors and employing 700,000 people, the capital of which is owned by members in the form of member shares. Unlike ordinary shares, member shares may only be exchanged at their par value. Their value does not move in line with a market price or with changes in net asset value. Cooperatives may pay dividends if they make enough profit but this amount is capped by law. This effectively means that most of the value created by a cooperative must be ploughed back into business and contribute to its development. Another fundamental principle governing cooperatives is the 'one person, one vote' rule, which enables all members to take an equal part in decision-making regardless of the number of shares they own.” (Perron, 2011)

In recent years, France has also come up with a number of initiatives to strengthen the social economy. In 2006, the French government decided to relaunch the council on social economy four years after it was disestablished. The council's task is to identify possibilities to

improve the situation for the social economy.

Since 2010 a network of local centres for social businesses is being established. Currently there are 15 of these centres providing:

- shared back office activities for all social businesses
- common market research activities combined with regional strategy development
- public and political relations
- networking activities between the local social enterprises (Chauffaut et al., 2013)

In Nord-Pas de Calais the establishment of the first social economy cluster called “Initiatives et Cité” is supported with funding of €190,000. That cluster experiments with the possibilities of close cooperation between social businesses with equal or similar fields of activity and customers in the same region. The experiment was so far rated a success and the approach is to be deployed to other regions. (Chauffaut et al., 2013)

Another good practice example from France is the *Jeun’ESS* initiative that was launched in 2011. *Jeun’ESS* is a public-private partnership between several ministries and six enterprises and foundations from the social economy sector. It seeks to promote positive attitudes toward social businesses by getting young people engaged in the sector. The initiative promotes social economy among young people through the education system, supports social economy initiatives for young people, and aids integration of young people in the social economy (OECD/European Commission 2013, p.13).

*PROGRESS* (Plan Régional de Développement de l’ESS - Regional Programme for the Development of the Social and Solidarity Economy), a successful multi-pillar scheme that promotes social enterprises by making them a key element in local and regional economic development strategies, has been implemented in the PACA (the Provence-Alpes-Côte d’Azur) region in France (ibid.). The program covers four key areas: 1) It provides support for organizations in the social economy, especially during critical stages such as the start-up phase; 2) It creates an environment (technically and financially) that is beneficial to the social economy, for example by offering training and a regional assistance scheme; 3) It supports the emergence of social economy projects in the region via specific contractual agreements made with local authorities; 4) It established a regional skills centre that monitors *PROGRESS*, disseminates information on its implementation, and monitors the social economy (PASE 2010, pp.122-123). Remarkable programmes that are part of *PROGRESS* include the *CREACTIVES* scheme, which helps businesses in their start-up phase, and *ESIA* (solidarity economy and active insertion), a tailor-made tool that facilitates social enterprises’ access to finance (ibid., pp.125,128).

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### 4.3 Policies in the UK

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Li and Wong (2007) have pointed out that “in 2001, the Department of Trade and Industry established the Social Enterprise Unit (SEU) to co-ordinate stakeholders of the social enterprise sector and government officials to identify the main issues facing social enterprises and to make recommendations for improving the environment for starting and sustaining such enterprises. In 2002, with inputs from the social enterprise sector, the

government launched a three-year social enterprise strategy described in a policy paper, “Social Enterprise: A Strategy for Success”, to promote social enterprises. In 2006, following a review of the social enterprise strategy, the government published a new policy paper, “Social Enterprise Action Plan: Scaling New Heights”, setting out further measures to foster the development of social enterprises.” In 2013, the Public Services (Social Value) Act went live, settling the responsibility of commissioners to consider how to improve the economic, social and environmental wellbeing of the area served by them through procurement (Johnson, 2014).

Also in 2006, the government started to improve the juridical situation by providing a distinct and easily recognisable legal identity for social enterprises – the Community Interest Company (CIC) under the Companies (Audit, Investigations and Community Enterprise) Act 2004.

This legal form facilitates the pursuit of social objectives and the ability to access funding and other financial support. It contains an asset lock that prohibits the distribution of profits to members and shareholders. Additionally it makes sure that in case of a closing down of a CIC, its assets are transferred to another CIC with similar aims and purposes.

Money may be raised through shares that guarantee a fixed nominal return to the shareholder.

To be recognised as a CIC, a social enterprise has to state:

- its objectives, that have to be of interest to both the public and community
- a plan on how to meet its objectives, with annual updates in the to-be-submitted accounting reports

Any changes require the approval of the Regulator of Community Interest Companies (RCIC).

Another set of problems refers more to those who are active in the third sector, especially the volunteers. As the work is increasingly professionalised it requires more standardisation in training and qualification in order to avoid the risk of failure. Inappropriate regulations in that regard tend to alienate people from their activity. It is therefore important to balance quality of service and over-specification (Taylor, 2004)

The government identified three ways to improve the situation for social businesses:

- improve access to finance
- strengthen business support and training programs for social enterprise stakeholders
- raise awareness of social businesses (Li & Wong, 2007)

To improve access to finance, several guidelines were published, giving a practical overview of available financing options. Additionally, training schemes were established to develop the capacity for acquiring finance in the financial market. Information was also made accessible via web pages such as <https://www.gov.uk/business>.

On the other hand, the government supports the development of other finance providers like

the Community Development Finance Institutions (CDFIs – independent loan and business support tenderers), through the following steps:

- establishment of the Small Business Service, responsible for the accreditation and regulation of CDFIs
- establishment of the Community Development Finance Association in 2002, a trade association aimed to support the growth of CDFIs
- launch of the Phoenix Challenge Fund (PCF) in 1999 to provide capital, revenue and loan guarantee support to CDFIs
- launch of the Community Investment Tax Relief (CITR) scheme, which provides tax relief to investors who support businesses in disadvantaged communities by investing in accredited CDFIs. The tax relief, spread over five years, is worth up to 25% of the value of the investment in a CDFI” (Li & Wong, 2007)

Lastly, there is a close connection between the need for money and the need for business knowledge at the very outset of social business planning. That need is addressed by funds such as the Social Incubator North that makes “up to 25000 pounds interest-free loan investment with up to 80 hours of tailored one-to-one business support, peer learning, networking and access to business premises”, available to those with good ideas that are not yet planned to a level where they can be put into action.

The government has taken several steps to raise awareness of the importance and value of social business. (Cibor, 2014)

- it created a separate section for them in the 2005 Annual Small Business Survey and has since regularly collected statistical data concerning that area.
- the initiation of the Enterprising Solution Award was given support in order to bring successful social enterprises to light.

The aforementioned Public Services (Social Value) Act provides social enterprises the opportunity to present their particular approach in the pre-procurement phase and therefore raises awareness on the side of the procurement officers. As yet there has not been much time to evaluate the effects, nor the pros and cons, of that new approach, but a few ideas from parties concerned have been collected (Johnson, 2014):

#### Government

- Potential to achieve greater value for money
- Innovation in commissioning
- Lack of understanding of social value

#### Social enterprises/charities

- Opportunities to demonstrate social value and thereby win contracts
- Opportunities to partner/sub-contract
- Greater innovation means greater opportunities

- Contracts still on too large a scale
- Private sector can deliver social value as well
- Entering very competitive marketplace, quality and price still most important

#### Private Sector

- Opportunity to work in a different way with commissioners
- Can differentiate from competitors if done well
- Lack of understanding of social value
- Difficulties around measurement
- Lack of uniformity across different areas
- Potential loss of business to social enterprises/charities (Johnson, 2014)

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## 4.4 Policies in Italy

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In Italy, a legal framework for social businesses has been set up already many years ago. In 1991, two important laws were passed which recognized and regulated the two main non-profit forms. These laws were:

1. Law 266/91 on „voluntary organisations”, which acknowledged the role of organised voluntary work, regulated it, provided for enrolment on special registers, and granted some tax benefits.
2. Law 381/91 on „social co-operatives”, which defined the form of the co-operatives operating in the social services sector.

Law 381/91 recognizes two different types of social co-operatives:

- Type A co-operatives manage social-welfare and educational services
- Type B co-operatives undertake more 'traditional' agricultural, industrial or commercial activities but have to employ at least 30% of disadvantaged workers

These two laws added two further organisational forms to the two traditional organisation forms with social purposes envisaged by the Italian Civil Code (the association, the foundation). They recognized the right of private individuals to organise themselves for the benefit of third parties and of organisations other than public ones to organise the permanent provision of social services (Loss, 2004).

Afterwards further national and regional laws were passed and funding to consolidate and improve the status of the new organisational forms was initiated. The most important among them was Law 118/05 that defines requirements to be met in order to become an *Impresa Sociale*:

- having a mission of general interest
- producing goods *of social utility*
- managing the organization with a deep involvement of workers and beneficiaries

- reinvesting the revenues in the firm activity
- having to produce a financial report and a social report

Furthermore, national and regional agencies were officially allowed to contract out social services, even though a clear legal framework did not yet exist.

Social businesses often had problems to credibly apply for large-scale projects due to the fact that they are mainly micro and small enterprises. The same problem appears in several other contexts as they can neither afford training or communication activities themselves nor lobby for their interests. The solution to this problem was found in the mutual cooperation between several social enterprises in the legal form of consortia. Consortia are thus themselves legal persons that represent a group of enterprises from the same region.

To make the social economy as effective as possible, it was necessary to simplify the building and the work of such consortia as much as possible. This is why consortia can be founded by a minimum of 3 social cooperatives with an initial capital of only 516€. Additionally, “consortia can access public funding and tenders in the name and on behalf of their members. It is very important to underline that this basically means that, in applying for funding and tenders, consortia can:

- present the experiences of all their members as if they were its own (...)
- whenever they win a contract or see a project approved they can ask their members to carry out specific activities and spend funding within those contracts and project and still consider this spending their own (and not as a subcontracting)
- in financial reporting they can provide expenses borne by their members as if they were their own (Anonymous, 2014)

This practice provides several advantages for social businesses and also national and regional government:

Social Businesses gain the ability to

- complement each other's work
- reach economies of scale
- flexibilise their work
- access new markets
- share back-office type of activities
- exchange knowledge and best practices
- co-finance and use customer satisfaction and quality evaluation tools for their services
- achieve professional training for their staff
- overcome legislative barriers
- successfully apply for funding and public tenders

- get more recognition from public authorities and/or the private sector
- influence policies, especially at the regional level (Anonymous, 2014)

A less binding possibility to cooperate is provided through Network Contracts. Network Contracts allow for the creation of important links among enterprises that can aggregate themselves (even if they are based in different and distant geographical areas) to share know-how, activities and projects, (for example they can make joint investments in research, create common development strategies for internationalisation, share the cost of high-quality professional resources, etc.). Other important differences between Consortia and Network Contracts include:

- The possibility of building links with enterprises of very different kinds (e.g. not only social cooperatives) (...)
- Network Contracts primarily have a commercial aim and partners do not necessarily need to share specific values (like Consortia of social cooperatives do)

The funding has already been mentioned as one of the key problems for social enterprises. Italy has a well-developed funding system, of which a few examples should be included here.

5X1.000 Funding makes it possible for tax-payers to earmark a small percentage of their taxes to support non-profit organisations (that needn't necessarily be social enterprises). To profit from this funding, social enterprises have to actively communicate their work and positive impact.

Mutualistic Funds: "Social cooperatives contribute directly to the creation of these Mutualistic Funds by paying in 3% of their profits each year. These Funds then re-invest the funding collected with the aim of helping new and existing social cooperatives develop, supporting innovative social projects and opening up new markets to social cooperation." (Anonymous, 2014)

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## 4.5 Policies in Spain

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Until 1999 five members were required to legally form a co-operative. The number has since been reduced to three. Additionally, the government has set up more offices where consultancy services dealing with setting up a social enterprise and administrative formalities can be employed. The same is true for paper work points, where applications for setting up a social business can be handed in. Despite this, it still takes too much time for government departments to process the application for starting a social business - 47 days are required, more than twice as long as the European average of 20.3 days!

Already one year ago, the Spanish government "has implemented the "One-off Payment" scheme to encourage the growth of social economy. Under the scheme, which is managed by the National Public Employment Service, an unemployed person can apply for a one-off, lump-sum payment of unemployment benefits, and use the payment to create a social economy enterprise or invest in such an enterprise as a partner. The eligible unemployed person must have the right to the government's unemployment benefits and demonstrate to the National Public Employment Service that he or she will be a member of a co-operative,

and has not joined the scheme in the previous four years. Within one month of receiving the payment, the recipient must register with national insurance and produce a certificate from the co-operative stating that his or her job has commenced and the payment has been paid into the co-operative.” (Li & Wong, 2007)

In another move the Spanish government supports the framework conditions for social businesses. Subsidies of up to 60,000€ have been initialised for activities that improve the public understanding of social business, including research projects, training programmes, media campaigns, workshops and conferences. Co-operative associations that work on a national level can have their operational costs, such as travel expenses, rents and maintenance, funded with a sum of up to 160,000€ every year.

Also, several credit lines were created to meet the demands of social enterprises. There is a:

- micro credit line of up to 25,000€ for activities founded by unemployed people
- a small and medium-sized enterprise line to finance projects of up to €1.5 million
- a credit line for financing medium-sized enterprises' investment projects of between €1.5 million and €4 million.

Finally, to promote entrepreneurship, which is beneficial to the growth of social economy, the government has implemented the "Mini-company Creation Programme". In compulsory secondary education, strengthening of the training of teachers on entrepreneurship, improved training materials on entrepreneurship in occupational training schools, and encouragement to universities to draw up entrepreneurship programmes serve the same purpose. The government has also launched the celebration of "Entrepreneurs' Day" and the "Creating Businesses Together" campaign to raise awareness of entrepreneurship, including social economy enterprises. (Li & Wong, 2007)

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## 4.6 Policies in Sweden

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The driving force behind the Swedish social business development are the regionally established Co-operative Development Agencies (CDAs), which convert national planning on CDA missions into fitting regional and local plans and provide free advice and information about the following matters:

- Evaluation of the business idea
- Choice of legal form
- Design of internal regulations and agreements
- Calculations and budget
- Design of work organisation and management

The first CDA was established in 1984. There is now at least one CDA in each region of Sweden and a total number of 25 CDAs. CDAs have no specific legal form: Some are set up as economic associations and others are voluntary associations. Furthermore, every CDA is economically and legally independent. They receive public baseline financing to provide the necessary level of stability, but have to match the funds through contributions from local

contacts. The rule has been established to ensure that the CDA remains embedded in its region. To make sure that the CDAs are not just regionally embedded but also maintain a proper connection at national level, a voluntary national association, the FKU, has been formed, which is financed to:

- run national development projects
- provide education
- stay in touch with the government, the public and other national organisations to formulate and structure their mission

The later point is to be understood as a mixture of lobbying for the agenda of itself and its members and a handing down of the decisions made by the government. (Taylor, 2004)

More recent developments see broader political recognition of the third sector as a business sphere with considerable room for growth. The organisation of conferences and events as well as permanent committees and less formal circles within the state apparatus and between the governmental organs and the third sector are the result of that new public policy focus. What will be needed is to find a new balance between social business and state activities to counter social exclusion and improve social welfare (Olsson, Nordfeldt, Larsson, & Kendall, 2005).

This is why a permanent office for voluntary social work at the National Board of Health and Welfare was established.

A final initiative which is likely to have some impact on the development of social enterprises is the establishment of regional micro funds. Following the example of the *Mikrofonden Väst* (set up in 2006) they have been established in Sweden. They “will provide guarantees/security for bank loans when mortgaging one’s own property is not deemed adequate as security. They will also provide soft loans and contribute equity – that is, venture capital based on part ownership, or capital infusions from non-members to co-operatives. Other problems addressed by the micro funds are collateral for bank loans and leases where property owners demand guarantees for rent – for example, a newly started enterprise which does not have any assets, the personal guarantees provided are not adequate or persons on the board are in debt, etc.” (Kucinska, 2014)

## 5 Conclusions

With the double burden of 21st century adaptive challenges to the welfare state and the economic crisis, welfare states in European countries are increasingly rolling back. In doing so, governments open up the delivery of social services to the private sector, as the public sector is subject to privatization. However, for-profit companies are not necessarily best fit for delivering user-friendly services to recipients and creating innovative solutions that create social value. As an actor that combines a clear social mission with an entrepreneurial spirit, the social enterprise has been gaining recognition on the EU level and in several European countries. The social enterprise is seen as an entity that can deal with current social challenges in an innovative way and contribute to their solutions. Nonetheless, social enterprises cannot grow to a significant extent without political support. Policies that encourage them need to be implemented on all political levels. This paper has illustrated some examples on EU, national, and local levels that can be used as guidance for other governments to create enabling environments for social enterprises.

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