

DRAFT THEMATIC GUIDANCE FICHE FOR DESK OFFICERS
SOCIAL ECONOMY AND SOCIAL ENTERPRISES
VERSION 2 – 27/01/2014

Regulation	Article
CPR (1303/2013)	Article 9 (9) - Thematic objective: promoting social inclusion and combating poverty Annex I CPR: section 4.7 Annex XI Thematic ex-ante conditionalities: section 10.1
ESF Regulation (1304/2013)	Article 3: Scope of support <u>(b)</u> Promoting social inclusion and combating poverty through: (v) Promoting the social economy and social enterprises
ERDF Regulation (1301/2013)	Article 3: Scope of support (a) productive investment, which contributes to creating and safeguarding sustainable jobs, through direct aid to investment in small and medium-sized enterprises (SMEs) (e) Investment in the development of endogenous potential through fixed investment in equipment and small-scale infrastructure, including small-scale cultural and sustainable tourism infrastructure, services to enterprises, support to research and innovation bodies and investment in technology and applied research in enterprises Article 5: Investment priorities (9) promoting social inclusion and combating poverty (c) providing support for social enterprises Recitals: (15) In order to promote social inclusion and combat poverty, particularly among marginalised communities, it is necessary to improve access to social, cultural and recreational services, through the provision of small-scale infrastructure, taking account of the specific needs of the disabled and the elderly
EAFRD Regulation (1305/2013)	Article 5: Union priorities for rural development (6) promoting social inclusion poverty reduction and economic development in rural areas

This is a draft document based on the new ESIF Regulations published in OJ 347 of 20 December 2013 and on the most recent version of the relevant Commission's draft implementing and delegated acts. It may still require review to reflect the content of these draft legal acts once they are adopted.

1. Rationale for the policy and main objectives

Social enterprises can play a unique role in identifying unmet needs and in developing new types of service. According to the EU Social Business Initiative, the social economy employs over 11 million people in the EU, accounting for 6% of total employment. It covers bodies with a specific legal status (cooperatives, foundations, associations, mutual societies). The social economy and social entrepreneurship are also a tool for social inclusion. They often provide employment opportunities for people facing disadvantages or provide social services and/or goods and services to persons in risk of poverty or exclusion. They are also often involved in civil society initiatives aiming at social change and social innovation.

The **social economy** - which designs a sector different from the traditional public 'general interest serving' and the private market - embraces a range of terms used in the various Member States, such as third sector, solidarity economy, alternative economy, non-lucrative sector, non-profit sector, not-for-profit sector or voluntary sector. The social economy organisations (cooperatives, mutual societies, associations, foundations) combine formal and informal elements at the level of organization, market and nonmarket-oriented production and valorisation of goods and services, monetary and non-monetary resources at the level of funding.

Social economy and social enterprises are closely related, but not identical concepts. The Social Business Initiative¹ (SBI) deals specifically with the social enterprises, of which some are part of the social economy, others not.

There are several definitions of **social enterprises**, one that has found wide support is the following: "Social enterprise" means an undertaking, regardless of its legal form, which

- (i) in accordance with its Articles of Association, Statutes or any other statutory document establishing the business, has as its primary objective the achievement of measurable, positive social impacts rather than generating profit for its owners, members and shareholders, where the undertaking;
- (ii) provides services or goods which generate a social return and/or employs a method of production of goods or services that embodies its social objective;
- (iii) uses its profits first and foremost to achieve its primary objective and has in place predefined procedures and rules for any circumstances in which profits are distributed to shareholders and owners, in order to ensure that any distribution of profits does not undermine the primary objective;
- (iv) is managed in an entrepreneurial, accountable and transparent way, in particular by involving workers, customers and/or stakeholders affected by its business activities.²

¹ Communication on the Social Business Initiative COM(2011) 682 of 25.10.2011

² Definition agreed for the "Employment and Social Innovation" (EaSI) programme (see further below).

Thus, typically this concept applies to businesses providing social services and/ or goods and services to vulnerable persons (access to housing, health care, assistance for elderly or disabled persons, inclusion of vulnerable groups, child care, access to employment and training, dependency management, etc.). These could also be businesses with a method of production of goods or services with a social objective, e.g. social and professional integration via access to employment for people disadvantaged in particular due to insufficient qualifications or social or professional problems leading to exclusion and marginalisation. Yet, their core business activity as such may be outside the realm of the provision of social goods or services.

Social enterprises are part of the social economy, which also includes foundations, charities and cooperatives. Social enterprises are businesses trading for social purposes, within the social economy.

Social enterprises also contribute to **social innovation** which can be defined as the development and implementation of new ideas (products, services and models) to meet social needs and create new social relationships or collaborations. It represents new responses to pressing social demands, which affect the process of social interactions. It is aimed at improving human well-being. Social innovations are innovations that are social in both their ends and their means. They are innovations that are not only good for society but also enhance individuals' capacity to act.

They rely on the inventiveness of citizens, civil society organisations, local communities, businesses and public servants and services. They are an opportunity both for the public sector and for the markets, so that the products and services better satisfy individual but also collective aspirations. Stimulating innovation, entrepreneurship and the knowledge-based society is at the core of the Europe 2020 Strategy.

The term **social entrepreneurship** is used to describe the behaviours and attitudes of individuals involved in creating new ventures for social purposes, including the willingness to take risks and find creative ways of using underused assets. There are several reasons for supporting social entrepreneurship, but probably the most important in the present crisis is the fact that social entrepreneurship creates jobs. These jobs have often proved more sustainable than those in the mainstream economy³. Also, social economy and social enterprises complement public sector efforts to achieve poverty reduction, improve social inclusion and enhance skills. The multiple forms of social enterprises - cooperatives, associations, mutual societies, foundations and other forms of enterprises with social objectives – form a strong European social economy sector that represents today at least two million enterprises and employs over 11 million paid employees, which is equivalent to

³ The resilience of the cooperative model - How worker cooperatives, social cooperatives and other worker-owned enterprises respond to the crisis and its consequences. June 2012, Bruno Roelants, Diana Dovgan, Hyungsik Eum and Elisa Terrasi.

6% of the EU's entire workforce⁴. At the same time, the social economy is still underutilised in many countries in the active inclusion policies, in the provision of sustainable services that improve the living conditions of the vulnerable people and increase their activation as well as in the provision of social services of general interest.

By acknowledging the job creation capacity of social enterprises⁵ and their added value in both social and economic terms, the SBI lays down the objective to create an ecosystem conducive to the development of social businesses and to facilitate their access to funding. It provides an EU level action plan to stimulate the creation, development and growth of social enterprises. Member States and regions are encouraged to step up their efforts to promote social enterprises on the basis of an integrated strategy - and make full use of the ESF and the ERDF in implementing it.

The SBI action plan envisages three categories of measures:

- to improve access to funding for social enterprises;
- to improve the visibility and recognition of social entrepreneurship, facilitating mutual learning and capacity building;
- to improve the legal and regulatory framework, in order to ensure that social enterprises are considered on equal terms with other forms of businesses.

The Europe 2020 flagship initiative "European Platform against Poverty and Social Exclusion" underlines the importance of the social economy for fighting poverty and social exclusion. It proposes measures to improve the quality of the legal structures relating to foundations, mutual societies and cooperatives operating in a European context. The first Annual Convention of stakeholders (Krakow, October 2011) stressed that the action of the social economy was particularly important in the prevention of poverty and social exclusion, social integration through work, the training and "springboard for employment" provided by social economy enterprises. The social economy and social enterprises are also a pillar in the new EU programme "Employment and Social Innovation" (EaSI)⁶. EaSI integrates and extends the coverage of three existing programmes: PROGRESS (Programme for Employment and Social Solidarity), EURES (European Employment Services) and the European Progress Microfinance Facility. New social enterprise funding is foreseen as part of the third axis.

⁴ EP report on the Social Business Initiative – "Creating a favourable climate for social enterprises, key stakeholders in the social economy and innovation", Committee on Employment and Social Affairs, Rapporteur Heinz K. Becker, 4 October 2012

⁵ The job creation capacity of social enterprises is also underlined by the communication "Towards a job-rich recovery" - COM(2012) 173 of 18.04.2012

⁶ EaSI is part of the 2014-2020 Multiannual Financial Framework

The Social Investment Package⁷ includes a staff working document on "Social investment through the European Social Fund", showing examples of addressing country-specific recommendations through social entrepreneurship supported by the ESF.

2. How to operationalize the policy theory with regard to ESF and ERDF?

Under the thematic objective "promoting social inclusion and combating poverty", the Commission proposals for the ESF and ERDF regulations for 2014-2020 respectively contain investment priorities specifically dedicated to promoting the social economy and social enterprises.

ESF

In addition, actors in the social economy can intervene under other investment priorities of ESF in all Member States. For instance, ESF may be able to support the actions of the social economy sector in favour of:

- active and healthy aging;
- sustainable inclusion in the labour market of NEETs ("Neither in education, employment or training" - young people who do not work, do not study or do not follow training);
- access to employment for job seekers and inactive people and support for mobility;
- active inclusion, e.g. reducing the number of people at risk of poverty and exclusion by strengthening measures to enable them to return to employment or additional training (with special attention to marginalized communities) or improving the integration of immigrants and their standard of living through awareness campaigns to combat discrimination and the promotion of intercultural dialogue; etc.⁸

Social enterprises' contribution to all these objectives can be increased by policies that favour growth in the scale and efficiency of the sector. An integrated strategy policy framework combining support to social entrepreneurs, provision of business development support and access to financial instruments is necessary to create an enabling environment in which social enterprises can thrive.

Social enterprises need seamless support along the whole process of social enterprise creation, development and scaling-up. The offer of information, advice, consultancy and other forms of support has to acknowledge the social dimensions which are central to social enterprises.

⁷ Communication "Towards Social Investment for Growth and Cohesion – including implementing the European Social Fund 2014-2020", COM(2013) 83 of 20.02.2013

⁸ Examples can be found in the report "A better future. Results of the network for better future of social economy",

http://www.socialeconomy.pl/files/ekonomiaspoleczna.pl/public/MRR_Better_Future/Better_future_publication.pdf

Awareness raising and recognition of the sector is also important. Promoting positive attitudes towards social entrepreneurship can be a preliminary step towards social enterprise creation.

Finally, public authorities need to have a clear view of synergies between actions of different governmental departments and levels involved, in order to ensure the efficiency of the overall strategy policy framework.

Social entrepreneurship and social economy are not a panacea for the current social and economic challenges. However, social enterprise can contribute to meeting those challenges. Europe has a great tradition of entrepreneurship and innovation. Governments and stakeholders need to team up and communicate the value of social entrepreneurship through our education systems, through role models and success stories of businesses that have made a social impact — in order to encourage more talent to work in the social enterprise sector. The report "A Better Future" (results of BFSE - the network for Better Future of Social Economy) recommends:

- A partnership framework

These partnerships should suit the local context and include the relevant actors in the territory concerned: the public authorities, social entrepreneurs themselves (directly or through umbrella bodies) and also researchers, funders, businesses, support organisations and advisers.

- An integrated strategic approach

The policy framework should be comprehensive, ideally covering institutions, knowledge, business development, finance and assessment. Whenever possible they should be organised into thematic programmes on issues such as socially responsible public procurement. Coherence of approach should be ensured through a dedicated department or structures for interdepartmental collaboration.

ERDF

The ERDF will contribute to investment priority 9(c). by providing support for the development of social enterprises through developing new business models and innovative solutions to address societal challenges.

ERDF can be used in particular where the actions to be financed have a regional or urban development strategic focus, where the actions are part of an integrated territorial strategic approach (e.g. ITI's or sustainable urban development under ERDF article 7) or where the aim of the actions is to develop the social SMEs to develop new business models and innovative solutions to address societal challenges

(where the actions are linked to ERDF support to the development of business incubators and investment support for self-employment, micro-enterprises and business creation, including the providing of risk capital to start-ups).

The support by ERDF can be done in a number of ways similar to the ways in which it supports other types of businesses. These include finance for:

- business advice and guidance (business planning, coaching and mentoring, support with marketing);
- premises for start-up centres, incubators and single enterprise business premises;
- innovation to develop new products, services or ways of working;

In general, ESIF can help open up new markets for social enterprises by improving the commissioning and procurement process (e.g. through the inclusion of social clauses in public works and services contracts) and by supporting the development of social enterprises. For example, Member States could use the ERDF to organise the economic sector of social enterprises e.g. through quality standards, communication campaigns, etc. This would reinforce the credibility of social enterprises when they are looking for investors.

3. Good practices and examples

One of the main types of support to the social economy is specific support, with a view to the development of the social economy. For example, the Czech Republic has provided global grants for social enterprises with the aim of capitalising them. The 'Investment support for the social economy' global grant, part of the ERDF integrated operational programme, provides start-up capital for social service providers, employers and other social economy organisations. Grants range from €12,000 to €200,000. In parallel, the 'Social economy' global grant, part of the ESF Human Resources and Employment Operational Programme, supports the creation and development of new social businesses. Grants range from €4,000 to €200,000.⁹

The other main type of support is support to the delivery of employment, social inclusion, education and institutional capacity-building priorities. As service providers, social enterprises have offered an efficient way of delivering policy and created sustainable jobs at the same time. For example, in the employment field, the social enterprises can provide labour market reintegration and rehabilitation services for long-term unemployed people, referred to them by public employment services, as part of active labour market policies. They can also provide early childhood education and care for families with a disadvantaged socio-economic background (e.g. migrants, Roma, low-skilled parents) thereby improving access to education and the reduction of early school leaving. Equally, social enterprises can be active in the provision of community care to disabled people, thereby supporting the transition from institutional to community-based care.

⁹ A better future - Results of the network for better future of social economy -

http://www.socialeconomy.pl/files/ekonomiaspoleczna.pl/public/MRR_Better_Future/Better_future_publication.pdf

In Hungary, for instance, an ESF project supported the social economy with a view to strengthen the capacity of the Public Employment Service and the outreach of active labour market policies. With that aim, the labour market integration services, often provided by social enterprises, were standardised and an accreditation system was designed, so that the services are integrated in active labour market policy, which can be purchased by PES from the social enterprises.

With regard to the scaling of the sector and promoting its growth, social franchising is recommended as an approach that has proved successful in several countries/regions. Social franchising means the transfer of a social enterprise business model from one social enterprise to another (including cross-border). There are a number of examples of ESF-supported social enterprises that managed to set up franchises, e.g. Vågen ut!, a Swedish initiative to help drug addicts, the Barka Foundation in Poland, which is today present in the UK, the Netherlands and Germany or the "Dialogue in the Dark" (restaurants run by blind people) which has spread from Germany to 16 countries across the world.

4. Further reading

Social Business Initiative:

http://ec.europa.eu/internal_market/social_business/index_en.htm

EU programme "Employment and Social Innovation" (EaSI):

<http://ec.europa.eu/social/main.jsp?catId=89&langId=en&newsId=1093&furtherNews=yes>

Guide to Social Innovation (DG REGIO and DG EMPL):

http://ec.europa.eu/regional_policy/sources/docgener/presenta/social_innovation/social_innovation_2013.pdf

The guide has a specific section (§3.4) on the social economy that explains exhaustively and with concrete examples what is the social economy and social enterprises. It also presents how ERDF and ESF can invest in the sector with examples of investments.

Social Investment Package - Commission Staff Working Document - Social investment through the European Social Fund (SWD(2013) 44)

<http://ec.europa.eu/social/BlobServlet?docId=9772&langId=en>

Social innovation - Ongoing work by DG Enterprise:

<http://ec.europa.eu/enterprise/policies/innovation/policy/social-innovation/>

Study from the BEPA on **"Empowering people, driving change: Social Innovation in the European Union"**:

http://ec.europa.eu/bepa/pdf/publications_pdf/social_innovation.pdf

A better future. Results of the network for better future of social economy

<http://www.socialeconomy.pl/sites/default/files/files/BFSE%20Report.pdf>

OECD-EC Policy Brief on Social Entrepreneurship

<http://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=7552&type=2&furtherPublications=yes>

Social economy and social entrepreneurship - Social Europe guide / Volume 4

<http://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=7523&type=2&furtherPublications=yes>