

**REVIEWING OECD EXPERIENCE  
IN THE SOCIAL ENTERPRISE SECTOR**

AN OECD LEED Centre for Local Development international seminar held in  
conjunction with the Third DECIM Roundtable

**Trento, Italy, 15-18 November**

This report was prepared by Paola Babos, Emma Clarence and Antonella Noya.  
For further information please contact [antonella.noya@oecd.org](mailto:antonella.noya@oecd.org)

## TABLE OF CONTENTS

1. Introduction.....	3
2. Social enterprises .....	3
2.1. Economic elements.....	4
2.2. Social elements .....	4
3. Social enterprises and user empowerment.....	7
4. Social enterprises and social capital .....	7
5. Social enterprises in CEE and SEE.....	8
6. Towards mainstreaming the social economy concept .....	11
6.1 Social enterprise development in poorly regulated markets.....	11
6.2 Support to social enterprises vis-à-vis private sector investment in service provision .....	11
6.3 The potential threat of grant dependency .....	12
6.4 Defining social enterprise models .....	12
7. Civil Society Development 2006: Threats and opportunities.....	12
8. Sustaining CSO development in hostile political environments .....	12
8.1 The role of locally-based models and agendas.....	14
8.2 The role of well-defined instruments supporting donor exit strategies in the field of civil society development.....	14
8.3 The role of think tanks.....	14
9. DECIM: Updates since Paris 2005 .....	15
10. Improved donor co-ordination: What can we expect to accomplish? .....	17
11. Draft action papers.....	19
12. DECIM light co-ordination tools .....	19
12.1. DECIM Web portal .....	19
12.2. The Global Distance Learning Network (GDLN).....	19
12.3. TRAIN 4 DEV Initiative .....	19
13. Closing session and next steps.....	19

### Boxes

Box 1. Social enterprise in the UK and the EU .....	6
Box 2. Social enterprises in Bulgaria.....	9
Box 3. Social enterprises in Poland .....	10

## **1. Introduction**

An international seminar on “Reviewing OECD experience in the social enterprise sector” was organised in Trento (Italy) on November 15-16 2007 by the OECD LEED Trento Centre for Local Development, in co-operation with the Autonomous Province of Trento, the Trentino Federation of Co-operatives and the Institute for the Development of Non-Profit Organisations (ISSAN) of the University of Trento. The third donor roundtable meeting of the DECIM process, co-convened by the Italian Government, the World Bank and the European Commission, was held in conjunction with the OECD event.

The event brought the DECIM network of public and private donors operating in the countries of Europe and Central Asia together with the OECD LEED network of Central Eastern and Southeastern European experts and policy stakeholders in the field of social enterprises and social innovation. This allowed for a wide range of stakeholders to explore and debate the role and future of the social enterprise sector and its relationship to civil society development, while also discussing issues and instruments for improved donor co-ordination on civil society development in the Europe and Central Asia region.

## **2. Social enterprises**

Social enterprises have developed from within the social economy sector, which lies between the market and the State. They are often associated with concepts such as the ‘third sector’ and the ‘non-profit sector’.

OECD countries have witnessed the emergence of social enterprises as an endogenous development out of the interaction between civil society and the non-profit sector over the past 20 to 30 years. The demographic and fiscal pressures for welfare state reforms during the 1980s resulted in a shift from the traditional advocacy role of the non-profit sector towards the development of activities aimed at responding to new social needs through the autonomous production of social and community-driven public goods and services. Governments meanwhile sought to decentralise the provision of services in both labour and social policy areas, paving the way for outsourcing public services. The response of social enterprises to these various factors has led governments to gradually recognise the role of new forms of civic engagement paired with an entrepreneurial dynamic.

Today, social enterprises are an under but increasing utilised, policy tool which has the potential to contribute to local economic growth and to the enhanced provision of goods and services for marginalised groups and/or for community benefit. Given that potential is it important to consider what is meant by social enterprises, and to explore the wider contributions they can make.

Whilst there are important differences across countries in the way in which social enterprises are defined, it is possible to identify a set of key economic and social elements which can be utilised to understand them.

## 2.1. Economic elements

1. Social enterprises are *directly engaged in the production and/or sale of goods and services* (in contrast to the predominantly advisory or grant-giving/project implementing functions of non-profit organisations);
2. Social enterprises may receive grants and donations from public authorities or private companies. They *enjoy a high degree of autonomy*, and shareholders have the right to participate ('voice') and to leave the organisation ('exit');
3. The financial viability of social enterprises depends on the efforts of their members, who are responsible for ensuring adequate financial resources, unlike most public institutions. Social enterprises therefore involve *a significant level of economic risk*; and,
4. Activities carried out by social enterprises require a *minimum number of paid workers*, even if they may combine voluntary and paid workers.

## 2.2. Social elements

1. Social enterprises are the result of *an initiative by citizens* involving people belonging to a community or to a group that shares a certain need or aim. They must maintain this dimension in one form or another;
2. Decision making rights are shared by stakeholders, generally through the principle of 'one member, one vote'. Although capital owners in social enterprises play an important role, *decision-making power is not based on capital ownership*;
3. Social enterprises are *participatory in nature*, insofar as those affected by the activities (the users of social enterprises' services) are represented and participate in the management of activities. In many cases one of the objectives is to strengthen democracy at local level through economic activity;
4. Social enterprises include organisations that totally prohibit the distribution of profits as well as organisations such as co-operatives, which may distribute their profit only to a limited degree. Social enterprises therefore avoid profit maximising behaviour, as they involve a *limited distribution of profit*; and,
5. Social enterprises pursue *an explicit aim to benefit the community* or a specific group of people. By doing so, they directly and indirectly promote a sense of social responsibility at local level.

It is important that such criteria are not applied too rigorously, as social enterprises may not fully incorporate all such elements at all stages of their development. Social enterprises should be recognised as an innovative sector, bridging and combining different entrepreneurial traditions including traditional non-profit and co-operative approaches. They are therefore both new organisations with distinct attributes and re-engineered organisations that have responded to wider social, political and economic dynamics. What is crucial, is that compared to the traditional non-profit sector, social enterprises embody a greater willingness to take risks for on-going productive

activity, and have significant enterprise characteristics (with some 25-50% of income generated by trading or contracts) albeit accompanied by social goals.

Social enterprises typically engage in delivery of social services and work integration services for disadvantaged groups, as well as community services, including in the educational, cultural and environmental fields, in both urban and rural areas. A typology of social enterprises can be identified based on the goods and services that are provided in line with their core mission: value based goods and services (such as fair-trade); service delivery; and, the provision of employment for disadvantaged and disabled people (or a mix of all three).

OECD experience shows that the development of social enterprise models is profoundly shaped by the regulatory environment and policy frameworks that define the contribution social enterprises can make to national policy goals. In particular, cross-country differences in the institutional frameworks regulating welfare regimes, as well as in the traditional role of non-state actors such as family and church, account for distinct national features shaping social enterprise models across countries. A variety of legal structures have thus evolved, with some building on traditional organisational forms upon which to encourage social enterprise, whilst others have introduced new legal entities.

It should not be presumed, however, that social enterprises have not been passive recipients of imposed, top-down institutional reforms. Indeed, actors within the social economy have played an important role through grassroots experimentation, activism, lobbying and advocacy activities in encouraging such reforms and in seeking government recognition for innovative practices within the third sector which combine social and economic goals.

In this framework, social enterprises have emerged, to varying degrees, as a tool contributing to the delivery of public policies in two key areas of social and economic policy:

1. *Service delivery:* Social enterprises may operate in the area of providing welfare and social services to specific groups of individuals or within a spatially defined community. The participatory nature of social enterprises allows presents distinct advantages with regard to their capacity to engage stakeholders in the design and delivery of services, to contribute non-monetary resources, identify gaps in service provision and pioneer new services that can contribute to social cohesion.
2. *Social inclusion:* Social enterprises can facilitate the integration of marginalised people (e.g. long term unemployed, disabled, minorities, etc.) by combining training and skills development with temporary and/or permanent employment in a business with social dimension that trades in the market.

While service delivery and social inclusion remain the dominant rationales for supporting social enterprise development, an enabling environment for social enterprises can act as a valuable tool for consolidating civil society engagement in a range of general interest services. Thus, a third area can also be identified for social enterprise activity:

3. *Civil society development.* Social enterprises can support the financial and regulatory sustainability of civil society initiatives aimed at supporting disadvantaged groups. Social enterprises can represent a strategy by which civil society organisations can mobilise

community resources, foster active citizenship and develop partnerships for social innovation.

Accordingly, it is important to recognise that the contribution that social enterprises can make to society extend far beyond simply the responsive and effective provision of welfare and social services. Rather, they have the potential to have a profound impact upon society by fostering inclusion and encouraging and enhancing the development of civil society.

#### **Box 1. Social enterprise in the UK and the EU**

In the United Kingdom social enterprises are regarded as a lever for enhanced economic competitiveness and reducing regional growth disparities as their work fosters social cohesion, plays an effective role in disadvantaged communities, and enhances service provision by driving up service quality and efficiency. Such drivers have been accompanied by a national framework which has been supportive of the development and role of social enterprises through the creation of the Social Enterprise Unit within the Small Business Service at the Department of Trade and Industry. Recent policy efforts include, inter alia, the development of a new organisational form – the Community Interest Company (CIC) – which provides social enterprises with a new label recognising their community-driven mission. CICs will be required to provide a financial report, and also a stakeholder report which is indicative of a participatory approach, although does not necessarily guarantee one.

However, it is important to note that the number of CICs currently in the UK (as of February 2007 there are 738) does not reflect the estimated number of social enterprises, around 55,000, which exist, albeit in other legal forms.

Three key elements of the UK framework can be identified:

1. The creation of an enabling environment for social enterprises through supportive government actions such as public procurement and the provision of a positive legal and regulatory framework;
2. Making social enterprises better businesses by offering business advisory services, including start-up funds and financial advice;
3. Establishing the values of social enterprises through adequate evaluation tools recognising both their economic and social value and building trust.

In a separate account, the EU view of social enterprises was detailed. Social enterprises, broadly conceived to include co-operatives, mutuals, associations and foundations, play an important role in meeting the challenges which the changes that are taking place within Europe presents, including assisting the integration of the economies of candidate countries. The EU argues that social enterprises can contribute to efficient competition, have the potential to create employment opportunities and the stimulation of entrepreneurship, encourage citizen participation, and enhance solidarity and social cohesion. They are also seen as addressing areas where traditional enterprise structures may not be effective.

In 1989 a Social Economy Unit was established and situated within the DG Enterprise. Initially focused upon assisting social economies within the internal market, it was expanded in order to address issues around job creation and competitiveness, and has, since 2000, been primarily concentrated upon the 'enterprise aspects' of the social economy. In 1998 the European Commission highlighted the role of social enterprises in contributing to employment growth and urged Member States to utilise social enterprises to address those activities which the market was not yet satisfying. At a practical level, the European Commission has made specific provision for the participation of social enterprise organisations, such as in the allocation of Structural Funds and the ear-marking of one per cent of the European Social Fund for a Local Social Capital Fund exclusively for non-profits.

Whilst it is evident that the EU has played an important role in the development of an environment conducive to social enterprises, there are also potential threats. Such threats include grant dependency amongst social enterprises and their long-term financial sustainability. The development of new social enterprises is also threatened, as there is evidence to suggest a narrow funding focus upon specific areas for social enterprises which may stifle their general development.

Whilst the emergence of social enterprises has brought important benefits, it has not been without risks, particularly with the need to find a balance between the commercialisation of services and the need to fulfil the social mission of social enterprises. The definition of governance models and property rules governing the functioning of social enterprises plays a key role in safeguarding against potential risks and abuses, and needs to be carefully considered in promoting the development and consolidation of the sector across national experiences.

### **3. Social enterprises and user empowerment**

Social enterprise activities focusing on the design and delivery of services for marginalised groups raise important issues about the extent to which social enterprises are well placed to empower users and deliver on goals of combating social exclusion. Research conducted on the empowerment capacity of social enterprises in two Italian regions (Emilia-Romagna and Lombardia) focused on two levels of user empowerment: ‘consumer empowerment’ and ‘deep empowerment’. The first, ‘consumer empowerment’, is a relatively ‘light’ level of empowerment, which focuses on users as service beneficiaries, and taps capacity to foster personal autonomy and reduce key informational and institutional barriers to social integration. Some key indicators include: the diversity of services offered, the customisation of services, and user input into service delivery. The second level, that of ‘deep empowerment’, focuses on service users as marginalised citizens and seeks to tap capacity to foster collective competency and overcome key cultural and psychological barriers to social integration. Key indicators of deep empowerment include user participation and advocacy activities, pointing to a dual role for social enterprises in both providing services as well as fulfilling an advocacy role to assist service users to overcome their marginalisation.

The analysis of the two Italian regions, with relatively high levels of social enterprise activity, highlighted that there is little ‘deep empowerment’ taking place, with social enterprises focused on service delivery and with only moderate levels of user capacity building. This apparent inability to act as a lever for deep user empowerment is a result of a number of different factors, the most important of which is the dependency of social enterprises on public administrators for contracts and funding, in an environment where spending is down and social enterprises are under-funded. From this perspective, public governance structures can play a critical role in providing the right incentives for deep empowerment. Factors such as partnership approaches to service design, evaluation and monitoring tools, regulatory frameworks that increase user accountability, and access to market finance to avoid grant dependency can help build a deeper user empowerment capacity of social enterprises.

### **4. Social enterprises and social capital**

Research on the role of social capital in local development, with particular reference to data from Italy highlights the role of social enterprises and voluntary organisations in developing informal ties of friendships and families, as well as membership of voluntary organisations. Social enterprises were found to have a positive influence on the dimension of social capital which, in turn, enhanced the quality of economic development because of the way in which they assisted in the creation of new networks and emphasised the effectiveness of collective action.

## 5. Social enterprises in CEE and SEE

During the pre-Communist era, there had been a long tradition of ‘third sector’ organisations functioning in many societies; however, during the Communist era such organisations became incorporated into the public infrastructure, even becoming quasi-public bodies. Thus, the emergence of social enterprises in the transition economies of Central East (CEE) and Southeast Europe (SEE) must be seen against the legacy of state capture of traditional ‘third sector’ organisations during the Communist era. It is for such reasons that there is evident hostility towards the economic activities of ‘third sector’ organisations, such as co-operatives, in some parts of the region, and that such hostility may act as an obstacle to the effective development of social enterprises.

However, the obstacles that social enterprises confront are not only due to such hostility. For example, the ‘transition myths’ which emphasised the dominant role of the free market and negated the important contribution which the social economy could make to economic development have hindered the development of the social economy in CEE and SEE countries. Accompanying this has been, in some countries, a lack of legal frameworks which would aid the development of the social economy, although this is now being addressed in many countries with the passage of appropriate legislation. Fragile institutional frameworks have also hindered the development of social enterprises, as have difficulties in accessing finance.

Furthermore, in the region the potential role which social enterprises can play within society has also not always been fully understood and this has contributed to the institutional weaknesses identified and a lack of wider social support. Indeed, arguably one of the most critical obstacles has been the absence of the necessary trust and solidarity within civil society upon which social enterprises are built.

Despite these obstacles, the development of social enterprises in post-Communist states has not been completely stifled. As a result of the encouragement of western donors, and as an effect of the promotion of neo-liberal economic policies, social enterprises have emerged with the main drivers of development focused upon gaps in social service provision, high rates of unemployment amongst particular segments of society, and sustained high levels of poverty.

Foreign donors are critical to sustaining the re-emergence of the ‘third sector’ in the region through the provision of funds and training. Donor policies in early transition countries have played a significant role in building civil society potential, strengthening the capacity of third sector organisations to act as alternative providers of goods and services in the face of a lack of government capacity coupled with high unemployment and sustained levels of poverty.

Most recently, with the process of EU accession, new member states have benefited from EU funds facilitating wide experimentation across the third sector, supporting partnership and networking activities and allowing for the progressive development of social enterprise models based on good practice dissemination and analysis.

Whilst such donor funding plays a crucial role in sustaining the re-emergence of ‘third sector’ organisations such activity should not be seen as being unproblematic, both in the way such provision is executed, nor the wider impact of such provision. A number of problems can be identified including:

- The tendency to focus largely on advocacy based organisations against the need for start-up support for productive activities.
- A short-term, project-based approach to funding.
- A need to take into account of country specific social and cultural traditions in the non-profit sector.
- A need to develop funding tools that foster the development of self-sustainability strategies at the very early stage of development.

### **Box 2. Social enterprises in Bulgaria**

As across much of the region, co-operatives have been stigmatised in the post-Communist era, and have decreased in number in Bulgaria. The dominant role of co-operatives in agriculture, and in the provision of services to disabled people, has declined as a result of their failure to cope with the changes that have taken place within Bulgaria and the new context in which co-operatives must operate. Indeed, those co-operatives targeting disabled people are widely seen as ineffective and a legacy of the old system, although it should be noted that these organisations were greatly weakened by a lack of state support during the first decade of the transition process.

However, such negative perceptions have not completely stifled the development of social enterprises in Bulgaria. Significant piloting of non-profit initiatives in the field of service provision has taken place as a result of the recent decentralisation trends in service provision, accompanied by increased consultation between civil society organisations (CSO) and state actors, and improved relationships with local authorities, all of which have acted to enhance the role of social enterprises. Furthermore, social enterprises are not integrated into the fabric of policy making, and this lack of integration, given their growing importance in service provision, is an important factor to be considered in their development.

EU accession has represented an important driver in the development of markets for the provision of social, health, education and employment services, and in the subsequent piloting of community based initiatives which focus upon local problems. A number of Operational Programmes have come to emphasise the importance of social inclusion, recognising the role that social economy organisations and social innovation can play in seeking to address the issue.

While this has been accompanied by some positive reforms in the regulatory environment for social enterprises, a clear definition of social entrepreneurship tools is lacking in the policy framework, further hindering the development of the sector and allowing room for continued bias towards 'for-profit' against 'not-for-profit' models (the stigma effect). Social enterprises would therefore benefit from an improved policy framework recognising their value in socio-economic development and providing adequate support tools, including financial and business support services, and the acceptance of social enterprise as a developmental model.

Whilst general trends can be identified in the development of social enterprises in the region, it is worth noting the impact of national actions and differences which are apparent in the region. For example, the Czech Republic quickly passed legislation which helped stimulate the development of a range of third sector organisations. Furthermore, the government actually established an advisory body whose role it was to co-ordinate policies and set up a system by which privatisation earnings were provided to foundations. Subsequent legislation specifically on social enterprises has not continued the prompt support evidenced in the early stages of the transition period. The law on public benefit companies (introduced in 1995 and amended in 2002 and 2003) is highly prescriptive as to the internal organisation of such companies, and also fails to

define the public benefit element clearly enough, leaving the way open for the structure to be misused.

### **Box 3. Social enterprises in Poland**

The emergence of social enterprises in Poland came as a response to the human costs associated with transition, specifically high levels of unemployment, poverty and social exclusion, as well as with decreasing public welfare expenditure. Accompanying this, the EU was a driving force behind the decentralisation of service provision from central to local government actors (and the resulting evolution in the role of local leadership) and also highlighting the importance of social enterprises more generally. At the same time, social enterprises came to be recognised as being more flexible and cheaper providers than the public sector and/or private, 'for-profit' actors, and were also aided by the development of a conducive political environment.

Currently, limited evidence of support for social enterprises can be found at the international (via donors) and national levels. In Poland citizens can designate one per cent of their tax to be spent on socially useful causes and two public funds have been established which offer support for social enterprises and the third sector generally. At the local level, support for social enterprise is more indirect, through the delegation and/or contracting out of public services to social enterprises.

Such support is countered, however, by other factors which are hindering the development of social enterprises, including the lack of medium and long term strategic planning around their role as a result of a fragile political system. Training to improve managerial skills is also needed, as social enterprises confront difficulties in developing the necessary strategies to address the political and social changes which have taken place. As in many countries, funding and its provision is an important issue; structural funds have played an important role in driving the development of social enterprises, however, there is only limited access to such funds for grass roots initiatives. Furthermore, structural funds have been focused almost exclusively on labour market programmes, thereby hindering the development of social enterprises in social and community services.

Accordingly, whilst social enterprises have come to play an important role in Poland, the sector's potential remains largely untapped, with a marked tendency for those social enterprises involved in the provision of sporting activities being favoured above those in the fields of health, education and social activities. There is also disagreement within Poland as to whether or not social enterprises should be encouraged by further legal and institutional reform. In addition, both fiscal and business related support, along the lines of that which is available to small and medium sized enterprises in Poland, is missing for the social enterprise sector.

Other states have proved less committed to providing an environment conducive to the development of third sector organisations. In Lithuania, although third sector organisations have been legally recognised, by-laws prevent them from being as entrepreneurial as they potentially could be, effectively hampering the development of social enterprises. In theory, public service can be contracted out and provided by third sector associations; however this has not yet been done due to the failure to provide the appropriate licensing framework.

Financing is a general issue for the effective development of social enterprises. Support for social enterprises can be affirmed through mechanisms such as the tax regime. It is evident that some countries in the region have tax regimes which may hinder the development of social enterprises. In Serbia, those social enterprises which do develop, despite a weak legal framework, pay tax at similar rates to SMEs, whilst in Macedonia they pay the single profit tax. Sympathetic tax regimes can play an important part in assisting the development of social enterprises, although it raises questions, explored below, as to the impact of social enterprises on the development of the private sector.

There is no single path to the development of social enterprises, however given their significant potential as a policy-tool, national differences which hinder and stifle their development need to be reconsidered.

A number of case studies on social enterprises from Spain, Scotland and Ukraine were also presented, highlighting the key drivers, opportunities and obstacles for the sector's development potential in the national contexts. The case study presentations, along with other seminar materials, can be accessed at: [www.oecd.org/cfe/leed](http://www.oecd.org/cfe/leed).

## **6. Towards mainstreaming the social economy concept**

The growing importance of the social economy in OECD countries, and their significant potential within society, highlights the need to mainstream the concept in both OECD and non-OECD countries. The relationship between social enterprises and commercial activity was one that was returned to repeatedly throughout the seminar, raising a set of key issues that go to the heart of the debate around the role of social enterprises both within a society, and within an economy. Four main key issues can be identified:

### ***6.1 Social enterprise development in poorly regulated markets***

Whilst stimulating the development of social enterprise, the provision of fiscal incentives in countries with poorly regulated markets may prove attractive for the establishment of organisations that utilise fiscal incentives but lack real social dimensions in their activity. Highlighting the important role of effective self-regulation within the sector, the development of a solid social enterprise sector requires basic regulatory infrastructure, the rule of law, and transparent policymaking, following the establishment of the basic conditions for the successful development of the broader private sector in transition countries, are all required. Similarly, restrictive state regulation may be equally counterproductive, hampering social innovation capacity at grassroots level.

### ***6.2 Support to social enterprises vis-à-vis private sector investment in service provision***

The extent to which social enterprises may crowd out private sector investment is an important issue. This partially emanates from the transition myths identified earlier. However, it can be argued that the dichotomy between profit and non-profit or social enterprise provision results from a fundamental misconception based on a static view of the market. Rather, institutional economics takes a dynamic view emphasising the role of new institutional forms in providing market incentives that meet the complex social and economic needs of modern economies. From this perspective, social enterprises can be usefully viewed as private institutions grounded in civic initiatives that adopt market tools to operate between the state and the market in providing goods and services of general interest. Their key value arises from the governance models and property rules they adopt to ensure that economic activities are not driven by profit maximisation for shareholders, but by re-investment of profits towards the achievement of their social mission.

### ***6.3 The potential threat of grant dependency***

Whilst donors have played a crucial role in stimulating social enterprise initiatives, both by the provision of grants for start-ups as well as for training and business advisory services, the issue of the transition from grant-dependency to financial self-sustainability remains pressing. The importance of EU funding as a motor behind social enterprise development across both old and new member states is widely acknowledged, but the sector's readiness to be self-sustaining is not yet certain, particularly in those states where social enterprise activities are still nebulous or in their early stages. Assisting social enterprises to develop that sustainability should therefore be an element within the funding which is provided by donors. For example, donors could disburse a portion of their funding via grants which, coupled with market based mechanisms of financial assistance and accompanied by adequate support services, could contribute to the search for financial sustainability and therefore the long-term viability of social enterprises.

### ***6.4 Defining social enterprise models***

Defining social enterprises in early transition countries is not without difficulties. For example, are CSOs that engage in economic activity not linked to their social mission but aimed at raising funds for their core social/advocacy activity to be considered to be social enterprises? As OECD experience demonstrates, the emergence of social enterprises is the result of a slow process of institutional development within the non-profit sector. Clearly the adoption of different strategies by CSOs in the transition phase must be understood with a view to experimentation in a sometimes adverse enabling framework (in terms of opportunities for service delivery and other key conditions in terms of enabling frameworks). As a result social enterprises must be understood within a broad continuum of experiences in the NGO/non-profit sector that allow initiatives to progressively define entrepreneurial activities in accordance with their social goals.

This point returns to the one of the issues identified earlier, notably the potential for organisations to utilise any incentives available for social enterprises but which effectively lack a social dimension. Accordingly, whilst it is important that attempts to define social enterprise models are not overly restrictive, it is also necessary to ensure the potential of social enterprises is not compromised by organisations which seek to utilise the 'label' but which do not incorporate social elements.

## **7. Civil Society Development 2006: Threats and opportunities**

Following the social enterprise seminar, a roundtable on the threats and opportunities for civil society development introduced different perspectives and policy issues facing donor strategies in support of CSO development. The discussion confirmed the strong need and rationale for improved donor co-ordination, especially in those countries that present renewed challenges for the development of civil society. The debate usefully informed the subsequent discussion on the DECIM framework and the tools developed for improved donor coordination since the Paris 2005 meeting and the Vienna 2006 workshop.

## **8. Sustaining CSO development in hostile political environments**

Important results have been achieved in terms of a large CSO sector in some countries, with increased capacity and professional skills, including an improved presence beyond urban areas. In

contrast to such improved trends, 2006 has however witnessed a backlash from several governments in the region after the colour revolutions in Georgia, Ukraine and Kyrgyzstan. Examples include the introduction of restrictive legislation to prevent ‘meddling’ in internal affairs, notably in Russia and Uzbekistan, forcing CSOs to go underground.

This has been accompanied with the parallel emergence of government owned non-governmental organisations (GONGOs) and ‘loyal’ groups serving a growing authoritarianism and an emerging concept of managed and/or sovereign democracy where autonomous civil society expansion is seen as a neo-colonialist practice against sovereignty of the country. The broader ‘securitisation of aid’ and allegations of double standards in the war on terrorism (the ‘Iraq effect’) have posed additional challenges for donor efforts promoting civil society development and raise some important questions for donors:

- What tools can be effective in convincing governments of the benefits of dialogue with civil society? In contexts where government partners are hard to find, can civil society represent an alternative partner? Can they be considered trustworthy partners in this respect? What monitoring and evaluation tools exist to measure civil society capacity and sustainability?
- How to move from procedural to substantive democracy, that is where citizens are truly empowered? There is a need to include organisations with alternative approaches.
- Top down and bottom up approaches need to be equally fostered. Should local foundations and/or diaspora organisations be supported if these have controversial agendas?
- A focus on regional and global integration and communication such as that taken by the European Neighbourhood Policy approach can play an important role in promoting linkages between local/national and global civil society through trans-national advocacy networks; actions bridging the digital divide; and those promoting a dialogue reflecting the principle of equal partnerships without main dominant roles based on funding sources.
- Community efforts and social capital development are crucial in countries where governments have been shown to be not trustworthy partners.
- To address the government clampdown on CSOs some donors, such as USAID, have developed rapid response mechanisms to track changes in CSO legislation, provide technical assistance to effectively comply with new legislation, whilst collecting information on the clampdown on CSOs and addressing such issues in political negotiations.
- The importance of working with GONGOs where windows of opportunity exist was seen as necessary in such restrictive environments.

### ***8.1 The role of locally-based models and agendas***

In countries where the development of civil society is viewed as increasingly beneficial by governments, donor involvement continues to face a number of challenges that should help inform instruments and approaches. For example:

- The CSO sector is often divided, with infighting sometimes exacerbated by donor policies stimulating competition within the sector.
- CSOs often lack strong ties to local constituencies, calling for more donor involvement in the development of social enterprises, community funds, and/or community foundations.
- The resurgence of nationalism sentiments/ethnic divisions such as the looming impact of the Kosovo status issue on neighbouring countries begs the question of the role (if any) that civil society can play in bridging such divisions and how donors can best support it?

The role of donors is clearly important, and discussion focused on the need for donors to lay the groundwork for a smooth transition in the process of EU integration, thereby aligning assistance with EU accession principles, including the role of local policies contributing to the EU policy agenda of jobs and growth. Sustainable donor programmes should therefore be grounded in local involvement which is capable of stimulating local economic development and local partnerships. To this end donor programming must increasingly go beyond a sector based approach, and should instead focus on establishing an enabling environment for sustainable partnerships at local level. This will help to ensure that civil society is capable of accessing EU funding. At the same time, it is important that partners, where possible and practicable, assist in the development of the financial sustainability of organisations, rather than promote continued grant dependency.

### ***8.2 The role of well-defined instruments supporting donor exit strategies in the field of civil society development***

The use of indicators tracking civil society scores under the USAID Sustainability Index or the Freedom House/Nations in Transit index was briefly presented as a useful tool informing donor strategies, and helping determine donor exit decisions. Supporting and consolidating umbrella organisations (such as the National Foundation for Civil Society Development in Croatia, the Resource Centre for Public Participation and the Romanian Association for Community Development) was seen as a crucial legacy tool capable of moving the CSO agenda forward in the national context once donors have left the country. In addition, regional civil society programmes with grant making mechanisms can act as an important tool for continued support for good governance and civil society development once donors have closed down country operations.

### ***8.3 The role of think tanks***

The experience of think tanks in fostering effective policy making processes in new member states was highlighted to point to a set of open questions and challenges:

- There appears to be a clear need for CSOs to communicate the real costs of their operations to beneficiaries – such as in the case of Estonia where ministries are often largely unaware of the funding needs of think tanks that they appreciate and work with.
- There appears to be a general difficulty in raising private sector funds for think tanks. Foreign companies that invest in corporate social responsibility (CSR) at home appear to be reluctant to engage in CSR activities in countries of operation outside their home base (this in spite of the fact that profit in the country of operation may be higher than in their home base).
- The policy agendas of think tanks have been largely influenced by strong donor projects, resulting in exported/‘cloned’ agendas. This highlights the need to increase the relevance of policy agendas to the actual needs of local communities.
- The recent case of Transparency International closing its local chapter in Macedonia raises the important issue of what minimum levels of internal capacity, professional conduct, and transparency that CSOs should be adhered to in order to be supported.

Donors should be aware that donor-led agendas and a focus on urban areas can be counterproductive as transition involves losers, who gradually oppose the more progressive donor-funded think tanks and CSOs. It is however extremely difficult for donors to work in the more remote/rural areas. However, unless donors actively seek to work in such areas, there is a potential risk that donor programmes will actually build on existing resentments and divides, rather than seeking to overcome them.

Recent events in Hungary are a case in point, which also highlights the extent to which CSOs represent the wider population: in fact, data on the one per cent law (the ability of Hungarians to earmark one per cent of their taxes for CSOs) shows that only 35% of Hungarians are giving to the non-profit sector even though 90% of them know about it.

## **9. DECIM: Updates since Paris 2005**

The importance and relevance of DECIM as a voluntary co-ordination process to support civil society as a key actor in the development process was reaffirmed at the start of the Third Round Table. The value of DECIM as a model for donor co-operation was also highlighted. To this end, part of the donor funding made available by the European Commission will be devoted to an external evaluation which will examine donor co-ordination both at Headquarters and at the field level. As a multi-actor, multi-stakeholder network, gathering multilateral and bilateral donors and foundations, DECIM seeks to develop and consolidate a community of practice capable of bringing about concrete results that directly benefit CS development in key testing ground areas. The relevance of transition experiences marshalled so far towards successful EU integration should help inform the development of strategies in other countries.

An update on DECIM work throughout 2005 and 2006, was provided, together with an overview of the DECIM concept, its origins, principles, objectives and themes. It was pointed out that the Trento Roundtable (the third in a series of events convened by the Bank and the EC) had been held at a critical time where all organisations associated with the process could still contribute to the conceptual development of DECIM and to determining the best use of the

resources available. The three guiding concepts that safeguard DECIM involvement in CSO against potential pitfalls were then outlined:

1. DECIM has taken a broad definition of the term *donor*. It includes both public and private resource-holding organisations (foundations, including indigenous foundations, bilateral and multilateral intergovernmental organisations, etc.) present in the region and whose activities impact upon the development of civil society.
2. *Co-ordination* stands for information sharing and the pro-active search for synergies between activities, as well as opportunities for joint action. It is a horizontal, voluntary process, based on the Paris Declaration and is a move towards applying joint indicators and reaching better results. It is not about imposing any new rules or setting up a superstructure that would manage the process in a top-down fashion.
3. It is critical, however, that all DECIM partners support the same concept of *civil society development*: it is about working on empowerment, making citizens act as empowered, informed, voting, engaged citizens. DECIM is about supporting civil society development defined in such a way. It is not about improved management of the relationship between the donor community and the CSO sector. The CSO sector is a partner to civil society development.

Participants were reminded that these concepts emerged during the previous donor roundtables (Brussels 2004 and Paris 2005) and as a result of numerous bilateral meetings the World Bank and the European Commission, held with a wide spectrum of donor agencies who act at the implementing level. An important cornerstone of the consultation process took place in June 2005 when the European Commission, the UNDP, and the World Bank Europe and Central Asia region convened a joint feedback gathering session on DECIM from their Country Office-based staff. The event, convened with the support of the Austrian Development Agency, took place in Vienna, during the Austrian presidency of the EU. During the discussions in Vienna, the participants voiced strong support for improved donor co-ordination, stressing the need to engage in this process both at the Headquarters of respective donor agencies as well as at the country level, that is, with the relevant staff members of the donor agencies involved in supporting the development of civil society.

Participants were also reminded that the adoption of the Paris Declaration (including a set of indicators) was subscribed to by OECD Development Assistance Committee member states and agencies, representatives of which were also present in Trento. DECIM is a practical exercise that corresponds to, and complements, the emerging trend of more efficient aid delivery (whereby all donors agree to increasingly work together) but in a specific area of intervention: the development of civil societies in the countries selected for this exercise.

With regard to the substantive coverage of the DECIM initiative, five priority themes have been identified with CSO representatives:

1. CSO legal frameworks.
2. Public advocacy, policy dialogue and governance.
3. Delivery of social services and creation of social capital.
4. CSO financial sustainability.
5. CSO capacity building, knowledge sharing and networking.

Furthermore, a number of agencies raised three additional themes: (a) public participation and consultations (incl. donor environmental and social safeguard policies); (b) donor rapid response capacity in countries where civil society development faces a window of opportunity or the risk of a setback; and, (c) the issue of e-civil society.

During the preparatory discussions, five key messages emerged:

1. *Improved donor coordination in the area of civil society development is needed and will benefit civil society.*
2. *However, do not overinstitutionalise it. It should be a light co-ordination – a voluntary mechanism to share information and promote policy and program synergies (not additional financial pledges).*
3. *Start with co-ordination among headquarters but engage also in piloting at the recipient country level.*
4. *It's our concept, not yours or theirs – maintain the consultative consensus-building process, keep it flexible and respond to a demand-driven agenda.*
5. *Dialogue between public donors and foundations is important – even though foundations may operate in a different “orbit” with specific agendas.*

The next steps in this process were highlighted as follows:

- An external evaluation of the co-ordination process will be commissioned in January/February 2007, and a second one is planned in three years. An advisory board will be set up to safeguard this process.
- Each of the five themes identified will require draft action plans that highlight key priorities for donor involvement. Two draft action papers have already been prepared on CSO legal frameworks and on public advocacy; donors willing to take the lead on the other three themes are most welcome.
- A need to develop coordination tools, including a password-protected DECIM web portal developed with the support of the Canadian International Development Agency (CIDA). The Train 4 Dev initiative led by the European Commission can be made available to DECIM together with the World Bank GDLN services for facilitated donor interaction.
- A need to plan the next annual donor meeting, possibly in conjunction with a government event showcasing the benefits brought by a vibrant civil society to governmental action through improved government-civil society dialogue. This theme was seen as an urgent priority.

## **10. Improved donor co-ordination: What can we expect to accomplish?**

Following this, donors identified a set of key principles and priorities for donor coordination activities in the DECIM framework:

- At the national level, increased dialogue among donors should help identify key problems and share solutions/strategies (especially given low per capita funding). Donor solidarity has a key role in presenting a unified front at both national and regional level to urge national governments to address certain issues. In Central Asia, for example, civil society is an issue in and by itself, together with the media, rule of law, labour migration, etc. Public donors and diplomatic missions can usefully complement the actions of other actors by sustaining the lack of political capital of private donors working in the field.
- Indicators can be a useful tool for measuring progress and providing benchmarks for civil society development, helping ensure that donor co-ordination goes beyond information sharing and towards shared planning at country level.
- Co-ordination should remain a priority beyond the so-called “golden age” of donor involvement during the early transition to address consolidation issues through improved CSO engagement in all sectors of society and across the urban/rural divide.
- Donors should ensure that co-ordination does not result in further concentration of resources to a small set of CSOs. In this respect, outreach and work at community level are key prerequisites to strengthen capacity of CSOs in the periphery.
- The need for more coherent regional and local initiatives in development projects that are intensive in terms of technical assistance. This allows building effective partnerships with local government, and represents the best chance to generate positive results and increase trust with local/regional stakeholders.
- Partnerships between public and private actors and donors provide an invaluable approach in convincing other stakeholders of the value of initiatives.
- Donor co-ordination should go beyond short term project frameworks to address longer term visions and strategies for financial sustainability of local organisations and initiatives.
- Parliaments and the media should be involved to help bring the agenda forward.
- Should the donor community push governments to better co-ordinate aid going to CSOs? Or should CSOs identify key priorities and be better involved in policy-formation processes?
- It is crucial that donor co-ordination be transparent, with clearly visible outputs and results.
- Donor co-ordination is a difficult, but achievable task. It can help efficient aid delivery, but it needs to be more than just wishes and intentions. Donors operate with different political aims and ideologies, so it is crucial that donors reflect on and identify the key benefits of donor co-ordination from different perspectives. To this end, co-ordination should not be burdensome, but it does have to be clear, practical, feasible and with the aim of improving the lives of poor people.
- Thematic co-ordination is relevant to allow for cross-country dissemination and review of experience. Thematic seminars in conjunction with DECIM meetings are inspiring and useful and can be further supported through donor partnerships at country level.

## **11. Draft action papers**

Two draft action papers were presented, illustrating priorities for donor coordination in the areas of: (i) CSO legal framework (led by Nilda Bullain of European Centre for Not-for-Profit Law); and (ii) public advocacy and the role of think tanks (led by Jeff Lovitt of PASOS and Olga Shumylo of the International Centre for Policy Studies, Ukraine).

The draft action papers have been developed based on specific donor expertise in DECIM's thematic components with the aim of identifying key themes and developing strategic priorities and entry points for donor coordination.

## **12. DECIM light co-ordination tools**

### ***12.1. DECIM Web portal***

The DECIM web portal developed by CIDA seeks to facilitate donor coordination through easy access to programming and analytical documents voluntarily uploaded by donors. While more input from donors is required to refine the prototype to address donor needs, delegates welcomed the information sharing that the tool provides in creating a community of practice among donor agencies engaged in civil society development. It was agreed that the portal would have restricted access and contain also directories of relevant representatives of CSOs, foundations and donor agencies (based at headquarters as well as in field offices).

### ***12.2. The Global Distance Learning Network (GDLN)***

The GDLN was presented as a possible tool to support improved interaction among DECIM members to support cross-country dialogue between CSO policy stakeholders through an advanced technological facility. Some examples of how the GDLN could contribute to DECIM goals include: developing a community of practice on think tanks or CSO financial sustainability; initiating consultations on specific policy documents; and, developing a common voice for donors in a difficult environment.

### ***12.3. TRAIN 4 DEV Initiative***

The Train 4 Dev Initiative was presented as a network based on the joint training programme model developed some four years ago by the European Commission together with a number of other donors. The model allows building on synergies in training development based on the identification of common needs and leveraging of relevant donor expertise in specific training models. The presentation emphasised the role of joint learning/training programmes in sharing experiences and building a common ground among donor approaches.

## **13. Closing session and next steps**

It is critical that DECIM remains a multi-agency participatory process. It was felt that the elaborate process of consultations with public donors, briefing sessions for foundations and a joint EC/UNDP/World Bank feedback gathering session on DECIM played a critical role in ensuring adequate level of participation of key stakeholders. In this context, it was also stressed that the

implementation of the DECIM program will benefit from a strategic guidance by the DECIM Advisory Group, comprising a broad spectrum of representatives of donor agencies and CSOs.

The implementation of the DECIM program will have two manifestations. One, it will serve as a vehicle for communication between donors and for the co-ordination of donor policies and programs in the area of civil society development amongst a broad group of partners based in the headquarters of the respective agencies. The second is improved co-ordination at the level of a single recipient country. In this context, it was recommended that the DECIM approach be applied in a limited number of pilot countries, particularly those with the strong presence of donor agencies, or countries where donor support is being phased out and the need for adequate *exit* strategies has emerged.

The participants broadly endorsed the format of donor roundtables by supporting the idea of combining each roundtable with a thematic workshop. In this context, the group praised the organisation of the seminar on social economy and stressed the fact that the program of the seminar gave them a rich exposure to the concept of social economy as an important vehicle in promoting social inclusion and social cohesion.

It was felt, however, that with the DECIM program entering its implementation stage, future roundtables should last a full day (rather than half a day as was the case in Paris in 2005 and in Trento). It was also recommended that the dates of the next roundtable be determined and announced as soon as possible in order to enable all partners to plan for their attendance well in advance.

The participants also welcomed the presence of newly emerging public donors: governments of the new EU member states that are progressively assuming the role of international donors under the OECD DAC framework. It was stressed that this group can make a significant contribution to DECIM in sharing its experiences in supporting the development of civil society in their own countries with their eastern and southern neighbours. At the same time, the newly emerging public donors can benefit from other agencies' approaches to including civil society dimension in designing their development assistance programs.

It was also stated that while DECIM will facilitate dialogue among donor agencies working in the area of civil society development, the program should also help recipient countries' governments develop their understanding of civil society development and strengthen their capacity in this area.

It was recommended that the participation of the Japan International Cooperation Agency and the Asian Development Bank in DECIM be encouraged (given the challenges faced by civil society in the Central Asia sub-region).