

Social Enterprises and Distressed Urban Areas

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Distressed Urban Areas**
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A few starting points . . .

- Renewed Private Sector interest in new markets for service delivery, investment & lending
- New government interest and expanded public resources/investment
- New initiative and entrepreneurship within the communities
- Opportunity to achieve new scale and mass

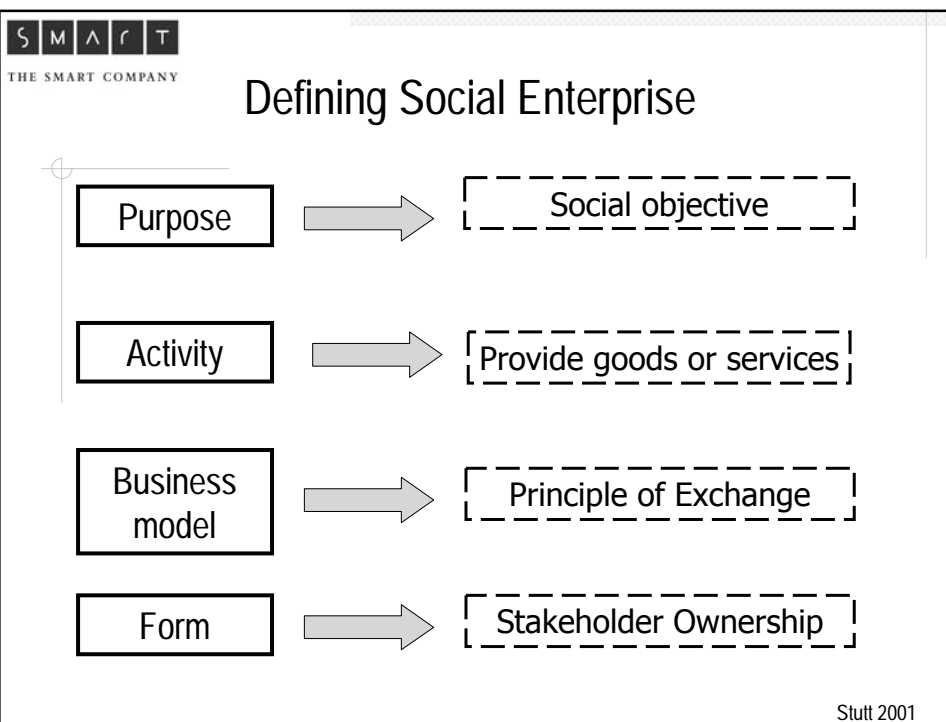
Perspectives on Social Enterprise

- Employment and social inclusion are hot issues in the EU
 - Rising unemployment and labour market exclusion
 - Fragmenting social and community fabric
 - Maintaining economic competitiveness and social cohesion
- Revisiting the 'Mixed Economy of Welfare'
 - Mixed provision of service delivery – state, private and third sectors
- Driving renewed interest in social enterprises
 - more than alternative service delivery vehicles
 - New entrepreneurial capacity
- Strongest voices from countries with tradition of co-operative and solidarity based enterprises – Italy

Theoretical Context

- Social Enterprise is politically contested ground
- Principles and values used by all political ideologies
 - enterprise, self-help, autonomy, democracy
- Different schools of thought:
 - Anglo-Saxon neo-liberalism vs European Social Democracy
 - US not-for-profit model vs EU social economy approach
 - US/UK debate more focused on tackling urban deprivation
- Ideology determines preferred action and support
- Social Enterprise agenda as a 'Chaotic Conception'
 - Uncertainty of meaning, values and activities
 - Lack of rigour in defining social gain and economic value

Characteristics of Social Enterprises



Social Enterprises across Europe

- No internationally accepted definition for social enterprises across EU
- EU definition: co-operatives, mutuals, associations and foundations
- Provide a wide and varied range of services and a major source of employment – approx. 9 million in EU
- Strength and diversity reflects each country's history of welfare provision and support for local community activity – Sweden, Italy, Spain
- Public Interest is a common defining aspect
- Many receive tax relief, VAT exemptions, low interest rates, etc.
- Regulatory changes – legal and financial – have resulted in recent growth – Italy social co-operatives 1990s, Germany, UK
- Number of governments now consulting on appropriate company structures for social enterprises – Sweden, UK, Australia

Competitive Advantages of Social Enterprises

- Address complex multiple objectives
- Adopt a variety of alternative forms of work organisation
- Combine forms of subsidy; mutual support; volunteers, philanthropic giving; revenue receipts from trading
- Offset their factor costs through 'solidarity inputs'
 - sweating assets more effectively
- Build legitimacy through direct involvement with the communities they serve
- Act as a source of innovation and creativity – finding new ways of doing things that normal markets and public services cannot
- Tap sources of excluded entrepreneurial talent (culture, gender, age, ethnicity, geography)
- Give specific attention to disadvantaged people and to progressive causes and mobilise support in finding solutions

Borgoza 1999; Lloyd 2001

Where do Social Enterprises operate?

As a result of special characteristics SEs tend to be active in the following areas:

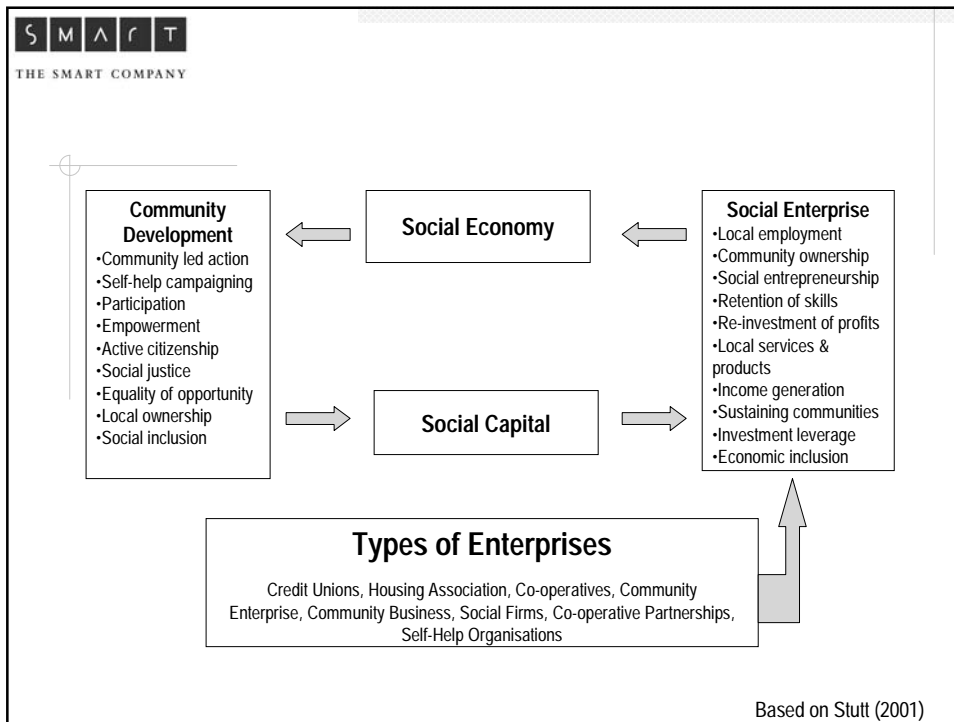
- Social, environmental and community care
 - services that can be measured by quality, sensitivity, flexibility and trustworthiness
- Innovations in social service delivery
 - finding ways to fill service gaps for disadvantaged people or deprived neighbourhoods
- Service delivery for public authorities
 - offering the best available balance of sensitive service quality and cost
- Work integration services
 - ability to access and support hard-to-reach unemployed

Campbell 1999; Lloyd 2001

Combining Local Development and Service Delivery

- Social Enterprises have major roles to play in the employment and local development agenda through:
 - Generating employment in a range of existing and new fields of employment
 - Responding to evolving demand and supply dynamics and connecting to the changing needs of society
 - Enhancing the employability of those currently, or at risk of, labour market exclusion
- Social Enterprises add value to the process of local development in a range of other ways:
 - Builds local social capital, enhancing trust relations, and civic engagement through wider participation in communities.
 - Helps to stimulate greater social cohesion and community confidence by reconnecting many 'outside the loop' of local development.
 - Widens the structure of local economies in terms of organisational form and economic structure.

Campbell 1999



Policies for Supporting Social Enterprise

Problems developing Social Enterprises

- Issues of scale, skills and capacity loom large
- Diverse and complex skills-set needed to manage SEs
- Transforming needs into markets
- Pervasive culture of grants and dependency
- Complex operating and regulatory environment
- Shortage of entrepreneurialism, replication and experimentation
- SEs viewed as transitional – a 'stepping stone' to the 'real' economy
- Narrow set of financial instruments and poor access to finance
- Displacement or substitution by SEs from other enterprises – jobs, services
- Lack of access to mainstream business support systems
- Problems developing an ethic of sharing and co-operating

Policy Re-orientation

- Move beyond the 'neighbourhood economy'
 - Engage communities of interest and place
 - Understand and respond to growth markets and sectors
- Create and build new markets
 - Turn community needs and deficits into markets and opportunities
 - Identify and maximise hidden untapped assets
- Develop new forms of finance and investment
 - Assets and strong balance sheets are important prerequisites for growth
- Promote plurality of models for supporting social enterprises in distressed areas
 - Key to developing a stakeholder economy
- Engage black and minority ethnic communities
 - Cultural diversity and immigrant population are major assets
- Better match of solutions to problems
 - Clarity on aims and objectives of intervention – jobs, services, wealth creation
- Recognise the role of social entrepreneurs
 - Attract and retain sector leaders

Segmentation of Social Enterprises

- Appropriate support requires more sophisticated understanding of the different types of social enterprises operating in different contexts
- Why does distinction matter?
 - Enables more effective tailored support to each segment
- Social Enterprise as a generic framework
- Set of working distinctions below this:
 - Social businesses – market-based, managed for trading and contract service delivery, surpluses for community benefit
 - Community enterprises – locally-based, small scale orientated towards addressing community needs, partial cost recovery
 - Mixed format social enterprises – multi-functional with several subsidiaries, combining elements of other approaches

Lloyd 2001

Growing the Sector: How?

- Responding to new social enterprise dynamic
 - Requires 'structures to help a process in motion' work itself out
- Specialist Regional Intermediary Support Organisations
 - Specialised service providers in SE marketplace
 - Linked to existing business support networks and provision
- Focus on robust understanding what works and why
 - Beyond best practice and gap analysis methods
- Key components
 - Entrepreneurialism
 - Experimentation
 - Replication
 - Sharing and exchange
 - Cost recovery
- Mergers and joint ventures promoted as viable business options
- Build connections and relationships with private sector
 - Important lessons, tools and methods for growing the sector
- Create a framework for collaboration between SEs and other sectors

Strategic Approach

- Accurate baseline of social enterprise activity in the region
- New connections for new products, cross-cutting needs, priorities and linkage to existing support systems
- Appropriate approaches:
 - Sub-regional and area based strategies – UK, Netherlands, Ireland
 - Spatial analysis and focused on making connections between growth areas and distressed neighbourhoods
 - Sectoral approach – Sweden, Italy, Germany
 - Sectors of potential, providing new opportunities – ICT, Childcare, Environment
 - Strong sectors needing specific intervention – Retail, Finance, Leisure
 - Weak sectors needing urgent attention – Social Care, Youth Services
 - Sectors under threat, is intervention justified? – rural transport, Manufacturing
 - Immediate priorities and actions – Germany, France
 - Responding to crises or opportunities that arise – welfare state restructuring
 - Supporting other policies
 - urban development policies, local sourcing to reduce leakages from disadvantaged communities

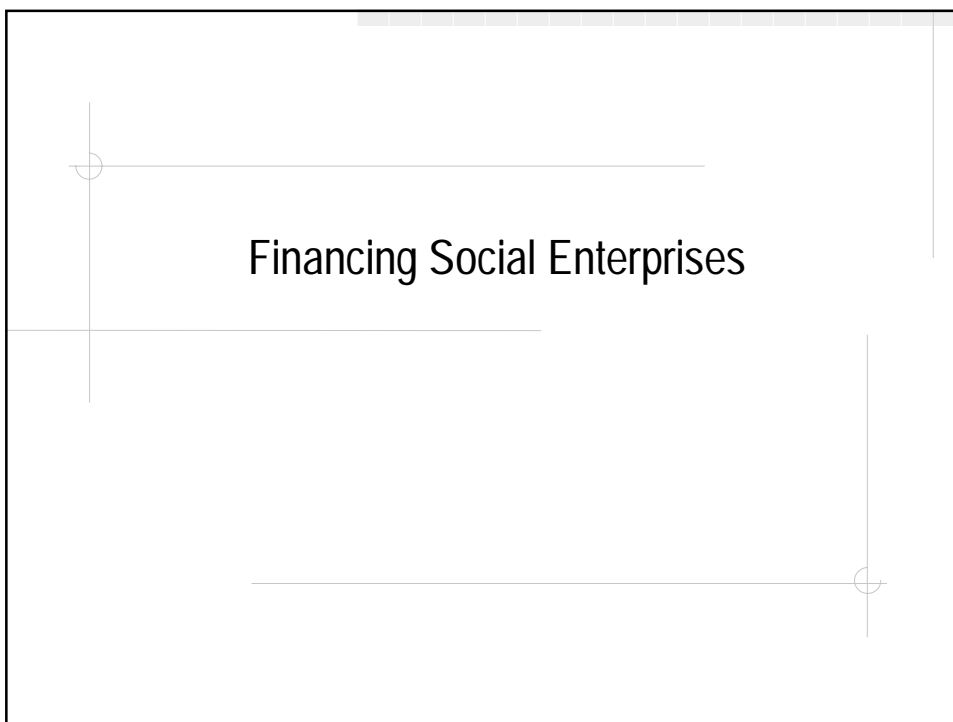
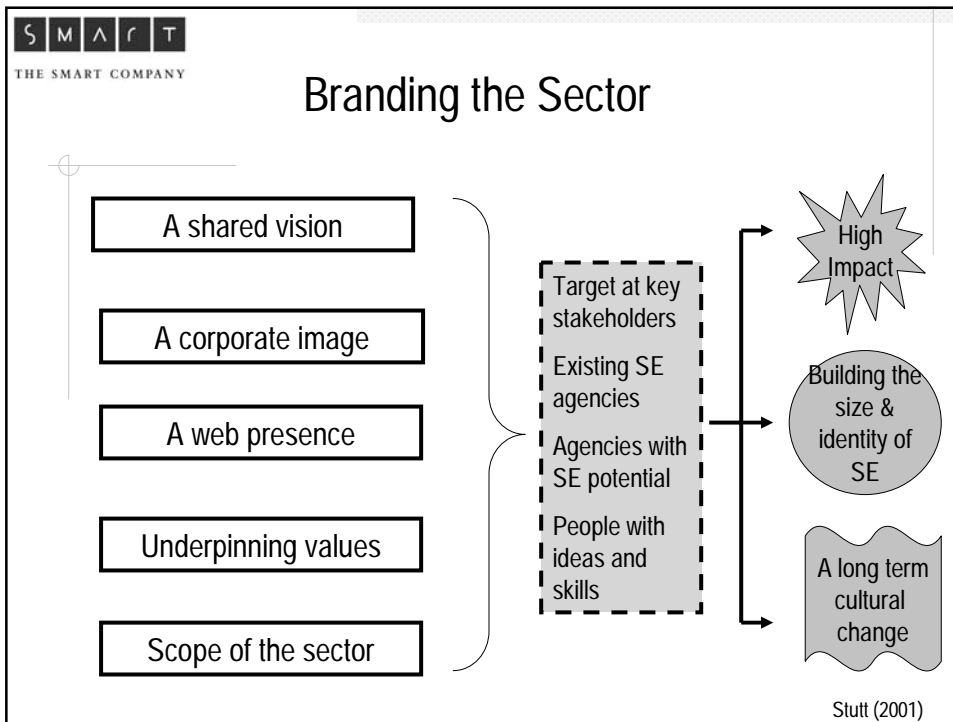
adapted from Stutt (2001)

Building Blocks of Support

- Enterprising Communities Programme
- Steps to Social Investment
- Engaging the Private Sector
- Creating long-term Assets
- Developing Leadership & Management Expertise
- Introducing New Players
- Encouraging Risk & Experimentation
- Greater Coherence to Development & Support Systems
- Measuring Performance and Impact

Actions required by:

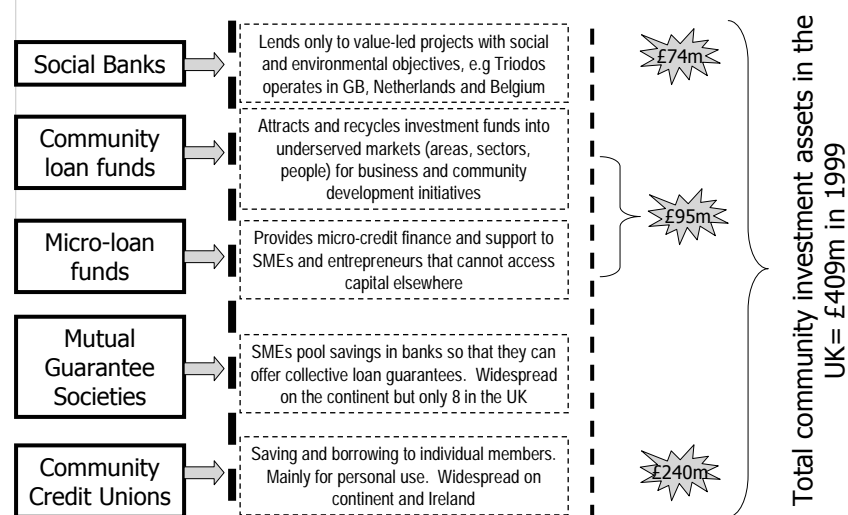
- Public sector
 - International
 - National
 - Regional
 - Local
- Social Enterprise Sector
- Private Sector
- Joint Actions



Financing Social Enterprises: Common Problems

- Reliance of grants/undercapitalised assets
- High transaction costs/lots of small deals
- Low prioritisation/better returns elsewhere
- Poor information flow/lots of wasted effort
- Lack of critical mass/lots of bits and pieces
- Burdensome bureaucratic procedures
- Few proven financial vehicles & instruments
- Weak incentive structures

Some UK Examples



Emerging Financial Instruments

- **Venture Philanthropy**
 - Foundation-led
 - Combination of grant and management
- **Community Development Venture Capital**
 - Environmentally and socially useful products
 - Minority owned businesses
 - Distressed geographical areas
 - Disadvantaged individuals/groups
- **Social Economy Loan Models**
 - Often combining funds with technical assistance
 - Focus on supply and demand aspects
- **Socially Responsible Investment**
 - Mainstream ethically-led fund management companies

Community Development Venture Capital

- **Italy** →

The first specific law in Europe for social enterprises helped establish the Banca Popolare Etica in 1998. The bank provides innovative financing for social and ecological ventures
- **France** →

Club Cigales is encouraged by a national tax credit to target micro-social business (less than 10). It operates a business angel approach to provide risk capital along with management and marketing expertise
- **Ireland** →

The CREDO fund capitalised initially by several religious orders has been deploying social venture capital for growth projects in the social economy
- **USA** →

CANDO offers a rolling 10 year loan facility automatically extended each year as a loan product but in the form of long term patient capital
- **UK** →

Bridges Community Ventures invests equity into businesses operating in England's 20% most deprived neighbourhoods. The £40m Fund is a partnership between the Govt and private sector investors.

adapted from Conaty, Mayo, and Sattar (2000)

Beyond Project Funding: Creating a Framework for Investment

- Establishes incentive structures for financial institutions
- Stimulates propositions from communities and entrepreneurs
- Creates demand for specialist intermediation
- Encourages focus on monitoring, evaluation and impact assessment

Basic conditions for a growing market

Framework Implications and Impacts

- Scale brings choice, drives up quality, reduces costs and increases knowledge and confidence
- Collaboration between financial institutions (sharing costs and risks) and other agencies
- Financial intermediation skills are more widespread and larger infrastructure is in place
- Lessons are learned and 'track records' are created
- Long term perspective about being in the market and building it

Final Reflections

- Focus on neighbourhoods, varied forms of service delivery, entrepreneurship and investment has created an interesting dynamic that provides opportunities for social enterprises across EU
- Opportunity to achieve new scale and mass in the sector
- Branding & promotion of the Sector is crucial
 - 'Complicated and constantly changing' is not a helpful policy message
- Need to move from grand theory and rhetoric to empirical demonstration and analysis
- Important to recognise and value the nature of the beast and of its distinctive contribution
 - not to kill its distinctiveness either by regulation or by over-development in the short term
- Social enterprises have a distinctive contribution, but it also needs a distinctive approach to support & development
 - Segmentation is key
- All policies and strategies need to have a fundamental focus on sustainability