ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

# SOCIAL ENTERPRISES



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# Social Enterprises

This report on "social enterprises" is the fruit of work carried out in 1998 and 1999 by the Secretariat of the Local Economic and Employment Development (LEED) Programme, in association with countries participating in the Directing Committee of the OECD LEED Programme, and in close co-operation with the European Commission, Directorate-General for Employment and Social Affairs, Social Fund and Local Development Unit.

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This publication was written by consultant Antonella Noya and by Geneviève Lecamp, who is Head of the "Social Cohesion and Economic Well-being" unit of the OECD LEED Programme.



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# Introduction/Note to Readers

Literature on the "third sector" – the producer of wealth and human and social capital on the borderline between public and private – abounds in libraries but is a rarity in bookstores. And yet this vast sector, which goes by different names depending on the country and the school of thought, is of relevance to all people in their own lives and/or in their work, whether they be policy-makers, wage-earners or unemployed.

Our purpose here is not to analyse all the organised forms of civil society that have opted to promote economic and social well-being and rally to the defence of the most widely divergent causes in the service of man and mankind.

From the multitude of initiatives that over the years – and indeed the centuries – have been generated by a changing society which is quick to invent new economic systems, a number of fundamental concepts have emerged. Reconciliation of the economic and the social is one, as is alternative entrepreneurship and the promotion of new forms of social cohesion.

For an overview of non-profit – some might call it "collective" or "community" – entrepreneurship, see the OECD publication entitled *Fostering Entrepreneurship* (OECD, 1998), which devotes a chapter to not-for-profit entrepreneurs.

The aim of this study is limited to a presentation of organisations in fifteen OECD Member countries that take men and women who are in danger of long-term exclusion and reintegrate them in the labour market, while at the same time producing goods and services that generate income. In some cases, organisations like this have been operating for nearly thirty years. This aspect of the "social economy" – another term for the "third sector" – is not always very well known to the general public, despite the fact that it combines proven innovation with a capacity to forge productive ties with players in the competitive economy and/or in government.

In spite of the difficulties that "social enterprises" encounter in trying to survive and develop – difficulties that are mentioned herein – such bodies have come into their own with the reform of the Welfare State, gaining recognition and credibility.

Destined, in fact, to be instrumental in driving social and employment policy, these social enterprises have generally found their place in local mechanisms to combat exclusion. Some have become SMEs like "Rubicon Bakery" – a non-profit



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enterprise in Richmond, California. Others have opted for co-operative status in order to have a solid management base and devote themselves to such activities as organic food production.

It is important at this juncture to make it clear that the concept of a "social enterprise" does not always mean the same thing in the OECD countries, owing to legislative, administrative and socio-cultural disparities. As used in this report, the term is taken from one of the first works ever to be published on the subject, in 1994, at the initiative of the King Baudouin Foundation. In it, the expression "social enterprises" referred to undertakings all of which involved an entrepreneurial dynamic, harnessing both market and non-market resources to get low-skilled workers back to work. Since then, the meaning has expanded to encompass organisations that pursue a social aim but do not necessarily employ hard-to-place workers.

This publication makes a number of references to that work, echoing the research community's lively discussions of the issues involved. Lastly, it should be pointed out that the OECD's work on the social economy being carried out at the instigation of the LEED Programme of the Territorial Development Service involves co-operation with the European Commission's Directorate General for Employment and Social Affairs. The potential of social enterprises is far from being fully harnessed, which is why a large number of research institutes, federations of co-operatives and social economy organisations, working together in Europe under the "Digestus" umbrella, are looking into providing these enterprises with a suitable framework in legislative, financial and tax terms. It is a long-term effort – one to which the OECD would like to contribute, taking pains not to relegate the social economy to one of back-to-work alone.

## How to be or become a social enterprise

### *In short*

The past few years have witnessed the emergence and expansion of social enterprises (SE). This new type of enterprise and its political, economic and financial importance can no longer be underestimated.

Before proceeding with an analysis of social enterprises, we needed to define the concept. We sought to reach a "common denominator" on the basis of available data from a number of countries.

The result was the following tentative definition: social enterprises are organisations which take different legal forms in different countries, which are organised in an entrepreneurial spirit and which pursue both social and economic goals. This study focuses on training and re-integration of disadvantaged groups into local and regional labour markets and revitalisation of deprived areas through the provision of new products and services. The distinguishing feature of social enterprises is their capac-



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ity to find innovative, dynamic solutions to the problems of unemployment and social exclusion and to contribute to the type of economic development that enhances social cohesion, which is one of the facets of sustainable development.

Social enterprises have developed in that sector of the economy that lies between the market and the State. These enterprises seek to reconcile market and non-market forces within a plural economy (OECD, 1996).

Several research papers on social enterprises have been produced in the past few years. They confirm that social enterprises are an emerging concept in OECD countries and refer to enterprises with the following common concerns: the re-integration of disadvantaged groups into the labour market through the provision of goods and services to cater to unmet social needs. Some experts, particularly those in the EMES – a platform set up to facilitate dialogue with European institutions – consider that the concept also includes private not-for-profit organisations that provide social services or act in the common good through a traditional entrepreneurial approach. The debate over terminology has not yet been settled. For this reason, this second type of organisation will be referred to as social-purpose enterprises, as defined by a recent Belgian law on *entreprises à finalité sociale*. Other countries are looking into new types of socially-oriented enterprises. In this regard, the French Ministry for Employment and Solidarity recently commissioned Alain Lipietz to explore the possibilities.

**Problems with definitions**

There is no universal, commonly accepted definition of social enterprises.

We shall attempt to present the general features of this new concept, which has not yet been widely institutionalised in OECD countries. All the international studies to date stress the difficulty of giving a legal definition to social enterprises and consequently of making comparisons to measure their impact on maintaining and creating employment.

The international studies indicate that, while the forms of social enterprises are highly diverse – as they arise spontaneously within civil society in response to current changes to the Welfare State – they all have a similar practical implementation and ethical approach (CNEI, 1997). The positioning of social enterprises makes them an effective instrument for combating social exclusion, a vehicle for social cohesion and a place of socialisation. In addition to their social purpose, they emphasise production of goods and services and participation in the life of the enterprise by all its stakeholders – volunteers, employees, managers, users, representatives of public and private bodies – which is by no means an easy task.

A definition of social enterprises is being investigated at European Union level on the initiative of several directorates-general (see below). As part of its Targeted Socio-Economic Research (TSER) programme, the DG XII of the European Commis-

sion has supported the implementation of a thematic network, called EMES, on the emergence of social enterprises as an innovative response to social exclusion in Europe. The network, which was formed in 1996, spent its first year formulating a definition of social enterprises that was acceptable to all participants.[1] It was agreed that the term social enterprise covered entities with different names in different countries, but with the common features of an entrepreneurial strategy and a social purpose. More specifically, social enterprises were defined as seeking a certain degree of self-financing through the production of goods and services as a complement to (variable) public subsidies, with the primary goal of assisting victims of social exclusion rather than generating profit for shareholders – any profit generated being reinvested for this purpose.

The basic differences between social enterprises and traditional non-profit organisations were found to be: an entrepreneurial outlook, a degree of autonomy from the State and the provision of innovative services to respond to needs not met by the State and by the market (Maiello, 1997).

The EMES network is continuing its analysis and has already refined its initial definition, with a more precise description of the entrepreneurial side: a *continuous* activity producing goods and services; a *high* degree of autonomy; economic risk-taking; a certain minimum of paid work.

The EMES network intends to produce a more detailed definition of social enterprises on the basis of these elements and of the following five additional "social indicators": an initiative undertaken by a group of citizens; power not based on capital ownership; participation involving the people affected by the activity; limited profit distribution; an explicit aim to benefit the community. Social enterprises studied so far by the network in European countries can be divided into two categories: enterprises working to re-integrate unemployed people and to redevelop deprived areas and enterprises offering goods and services to the wider community both in traditional fields (home help, care for the elderly, etc.) and in fields that respond to new demands, such as remedial education, literacy classes and security on housing estates.

Since the concept of social enterprise does not correspond to a precise legal form, definitions tend to describe the functions of social enterprises. The functional approach seems to be an appropriate analytical tool, given the wide variety of legal forms in different countries covered by the concept.

The expression "social enterprise" in this report refers to any private activity conducted in the public interest, organised with an entrepreneurial strategy but whose main purpose is not the maximisation of profit but the attainment of certain economic and social goals, and which has a capacity for bringing innovative solutions to the problems of social exclusion and unemployment.



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### Box 1. Social enterprises

**Key words:**

- different legal forms in different countries (co-operatives, associations, etc.);
- entrepreneurial organisation of activities;
- profit not distributed, but re-invested to achieve the enterprise's social goals;
- stakeholders rather than stockholders: democratic participation and organisation of the enterprise;
- economic and social objectives;
- economic and social innovation;
- observance of market rules;
- economic viability;
- mixed financing, with a high degree of self-financing;
  - main activities:
  - re-integration of disadvantaged categories of workers into the labour market through on-the-job training;
- response to unmet community needs through the production of goods and services (traditional activities – community care services – and new activities to meet new social demands)
- labour-intensive activities.

**Problems:**

- lack of a widely accepted definition;
- difficulty of obtaining statistical information about social enterprises both nationally and internationally;
- rapidly developing field, about which research is only beginning;
- lack of appropriate legal forms for this new type of enterprise;
- vague or changing public subsidisation policies; need to redesign a public support framework, after a detailed assessment;
- little interaction to date with the private sector.

Social enterprises are intended to be economically viable businesses, *i.e.* to balance their budgets by successfully combining market resources, non-market resources, non-monetary resources (voluntary work) and private grants. It will be assumed that non-market resources are those attributed by government according to a principle of redistribution (CERISIS, 1998). Because they play a valuable role in the



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community and serve the public interest, social enterprises are usually eligible for financial support from the State and/or local authorities. However, they are expected to maintain a high degree of autonomy and emphasise productive activities.

**The origin of social enterprises**

The emergence and development of social enterprises is closely linked to the rapid growth of the social economy sector, particularly as it tends towards engagement in productive activities.[2]

A study of the non-profit sector in 13 countries[3] was carried out recently by Johns Hopkins University in Baltimore. The results of this study stress the growing importance and weight of this sector and its component entities, including social enterprises (Salomon, Anheier, 1997).

The emergence of this sector is widely perceived as a response to needs that are not met by either the market or the Welfare State. However, some researchers criticise this explanation as lacking a historical perspective, since the Welfare State is a largely twentieth-century creation. According to these researchers, the social economy performs a corrective function in relation to the shortcomings of the market (requirement for activities to be profitable) and of the State (whose increasingly limited financial resources are reducing its capacity for action). The social economy is thus seen to be situated at the meeting point between market forces that promote economic efficiency and State intervention that promotes social justice. For this reason, it has also been called the "third" sector.[4]

Other experts prefer to refine the analysis, speaking of market failures – especially in terms of asymmetrical information and externalities, even the market's inability to take fairness and redistributive justice into consideration. The State's failings stem from other limitations, apart from budgetary constraints, arising from bureaucracy, lack of flexibility and difficulty with disclosing preferences and meeting disparate needs. However, the decentralisation of government bodies has tended to reduce such problems.

Some experts perceive the Welfare State and the social economy sector as substitutes for each other, whereby the more operational the Welfare State, the less developed the social economy sector. Others (Archambault, 1997) prefer to emphasise the non-profit sector's original vision of society and the economy, which give it a legitimacy and function in its own right, above and beyond the residual role usually attributed to it. By aiming to revitalise economic and social life by effectively implementing new mechanisms based on a spirit of solidarity and sharing, the social economy offers alternative forms of management, power-sharing, transmission of knowledge and even evaluation of the results of projects that it runs or to which it contributes.



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These reasons explain the emergence of the third sector; its development depends largely on the economic and social environment, and the legal and political framework in each country.

In France, where the public authorities have traditionally been opposed to organisations emanating from civil society (Archambault, 1997), the development of associations (a specific legal status under French law) and the third sector in general has lagged behind that in other countries, such as the United States, the United Kingdom and Canada, where the formation of intermediate organisations has generally been encouraged. In Germany, strict application of the principle of subsidiarity, which requires the State to delegate the delivery of social services firstly to charitable organisations, appears to have hindered the emergence of mixed markets (Borzaga, Santuari, 1998).

The studies seem to suggest that the creation of non-profit organisations tends to be facilitated in common-law countries (UK, US, etc.) and hindered in civil-code countries.[5]

The development of this type of organisation is also more likely to flourish under decentralised government than in centralised States (CGM, 1997).

Box 2. **The growth of social enterprises**

**The growth of this sector has been prompted by:**

- changes to the Welfare State;
- market failures in certain activities;
- new incentive schemes for employment and co-operation between economic and social players;
- increasing demand for social and community services.

**And may develop further:**

- The third sector can respond to this new situation by strengthening the links between the economy and social objectives
- Its development is partly conditioned by the legal system, socio-economic situation and government policy in each country.

**Problems:**

- Need to assess the advantages and disadvantages of the "plural economy".
- Need to encourage partnerships with the market sector and public bodies.

### The players in social enterprises

The increasing interest in social enterprises, as defined above, is reflected in the growing number of studies and conferences on this subject organised by universities and the public and private sectors. Social enterprises involve a variety of players both directly and indirectly and thus create chains of complementarity (Zandonai, 1997).

The manager is naturally a central figure in social enterprises. But volunteers may also be important.[6]

Some studies (Cheroutre, 1997; Fondation Roi Baudouin, 1994) describe the typical social entrepreneur.

The founders of social enterprises generally come from geographical areas with specific welfare needs where their projects have matured. They often belong to local groups or networks, have a close knowledge of local social needs and are keen to participate in implementing a community project (Fondation Roi Baudouin, 1994). However, particularly in North America and Italy, the ranks of social entrepreneurs also include former private-sector employees, who can help open the labour markets of the social economy and facilitate public/private co-operation. The personality of the social entrepreneur is fundamental to the success of the enterprise. Social entrepreneurs are generally willing to forgo profit for the sake of implementing effective welfare and solidarity action (Marocchi, 1997).

Managers of social enterprises typically come from one or the other of the following professional backgrounds: psychology or social work, which enables them to handle the social dimension of the enterprise; or management studies and employment in conventional enterprises, which theoretically equips them for managing the "economic side" (Mannila, 1997).

However, the twofold nature of social enterprises means that managers must acquire both skills. They must be able to ensure the economic viability of the enterprise, which is essential for achieving its social purpose. The trend of social enterprises towards increasingly diversified productive activities is reflected in a tendency to hire managers from the productive economy and not only from the sphere of social work.

The tables below show the educational and employment background of managers of French social enterprises operating in the intermediate labour market (*entreprises d'insertion*).

### The contribution of volunteers

Volunteers, whether retired or working people, contribute a knowledge of the "field", which they have acquired through their involvement in local networks or through their regular occupation. They are often responsible for initially publicising/advocacy of unmet needs and are in the best position to assess the economic

Table 1. **Educational background of managers of French social enterprises operating in the intermediate labour market**

| Initial qualification | Number | as % | Further training |
|---|---|---|---|
| Special education, community work, social work, counselling, psychology, job training | 60 | 38.5 | 30 (50%) underwent further training:<br>28: accounting/management<br>2: technical |
| Commerce, management, economics, finance, accounting | 35 | 23 | 5 (14%) underwent further training:<br>4: social work<br>1: technical |
| Technical qualification, manual trade (carpentry, electricity, engineering) | 44 | 29 | 20 (45%) underwent further training:<br>7: social work<br>13: management/accounting |
| Other (architecture, languages, humanities, secretarial, law) | 14 | 9.5 | |
| Total | 153 | 100 | 55 (36%) |

*Source*: Source: CNEI (Comité National des Entreprises d'Insertion). État des lieux des entreprises d'insertion 1997.

Table 2. **Employment background of managers of work integration SEs in France**

| Previous employment of managers of French social enterprises operating in the intermediate labour market | Number | as % |
|---|---|---|
| Health and social sector (social worker, job-trainer, special education teacher, manager of a welfare organisation, etc.) | 72 | 47.6 |
| Company director, manager, marketing executive | 46 | 30.5 |
| Technical trade (manual worker, technician, site foreman, engineer) | 19 | 12.6 |
| Other (artist, insurance agent, consultant, planner) | 14 | 9.3 |
| Total | 151 | 100 |

*Source*: CNEI (Comité National des Entreprises d'Insertion). État des lieux des entreprises d'insertion 1997.

value and social utility of the planned or existing enterprise. By using volunteers, non-profit organisations are able to make savings,[7] principally by reducing the total volume of wages paid in exchange for professional services.[8] However, the contribution of volunteers is more than purely financial: their participation in the enterprise as advisers or administrators is a good guarantee of the enterprise's non-profit, social purpose and helps to build and consolidate relationships of trust with the State and consumers (Consorzio Gino Mattarelli, 1997).[9]

### Training initiatives for social entrepreneurs

In May 1997, a conference, organised jointly by the International Association of Investors in the Social Economy (INAISE), the Danish Entrepreneurs Association and Bank Merkur, was held on the financing of social enterprises and included a workshop

on training for social entrepreneurs. The conclusions from the discussions stressed the fact that having access to expert advice and information throughout the life of the enterprise was as important as finding financing and markets. For this purpose, specific training initiatives for this type of enterprise are being organised in different countries. In Belgium, the government of the Walloon region, aware that the implementation and management of a social enterprise requires an increasingly wide range of skills, has designed two courses: a post-graduate diploma in management of an *entreprise d'économie sociale* and a shorter course aimed at validating the on-the-job experience of staff of *entreprises d'économie sociale*. Belgian *agences-conseil pour l'économie sociale* also provide training modules for social entrepreneurs. In France, some universities[10] and other tertiary institutions[11] have started courses for future managers of social enterprises and information on the need for specialised training for social entrepreneurs is beginning to develop.

In Italy, the supply of training and information is increasing at the initiative of training bodies and universities. A number of these bodies have promoted social enterprises: some were set up for that purpose, while others already existed. One example is the *Società per l'imprenditorialità giovanile* (IG), a State agency for youth entrepreneurship, which for some years has enabled useful collaboration with third sector operators, in particular managers of social enterprises. IG has made its knowledge and networks available in order to encourage those wishing to set up and develop this type of enterprise.

In the East End of London, a school for social entrepreneurs was launched recently to provide training for young people in management of non-profit enterprises. The course combines theory and practice: a two-month course of lectures is followed by a nine-month placement in a non-profit organisation (Bradshaw, 1997).

In the United States, the Harvard Business School offers an "Initiative on Social Enterprise" course in order to set up a dynamic dialogue between social and traditional enterprises, whereas Harvard's Kennedy School of Government gives a management course for present and future administrators. There is increasing demand for the skills needed to manage social enterprises and, more generally, bodies in the non-profit sector, and also for closer links with the market.

The selected examples above do not purport to be an exhaustive or qualitative list. There has been no comparative assessment to date of the training courses available.

### Forms of organisation of social enterprises: presentation by country

There are many forms of social enterprise. As pointed out by international studies currently available, social enterprises have different legal forms, depending on the type of activity involved, the legislation in force and the most common forms of organisation in each country. As well as variations between countries, there are often several

Box 3. **Training of social entrepreneurs**

**The social entrepreneur needs to be doubly skilled:**

- to manage the economic side of the enterprise;
- to manage the social side of the enterprise;

There is an increase in the number of training courses for social entrepreneurs.

**Problems:**

- how to professionalise the various players in social enterprises (managers, employees, volunteers);
- cost of training ,who pays?;
- the large number of partners with different requirements can make it difficult to co-ordinate the economic and social objectives of social enterprises.

models of social enterprise within each country, which makes it difficult to give a clear definition and establish transparent rules of conduct for existing and potential new operators.

### *Belgium*

However, some OECD countries have introduced new legal forms that better reflect the purpose of the enterprise. In Belgium, for example, the label *société à finalité sociale* (social-purpose enterprise) was institutionalised in 1995, with the twin aim of encouraging associations *sans but lucratif* (non-profit associations) to adopt stricter financial management practices and of reassuring financiers, in particular public agencies, as to the integrity of these organisations' objectives. The law is intended primarily for associations, whose priority is solidarity rather than profit, some of which may conduct market activities. However, the interesting feature of this legislation is that the *société à finalité sociale* is not a separate category from other forms of company organisation (Napoli, 1997). In fact, any existing commercial enterprise may adopt the status of *société à finalité sociale* as long as it fulfils certain requirements, and thereby avoids any problem of competition in the market.

Since the passage of the 1995 law, social enterprises in Belgium may choose between the status of *association à but non lucratif* (ASBL) and that of *société à finalité sociale*. The latter seems more advantageous for SEs, since certain government subsidies are granted exclusively to commercial enterprises. But other government subsidies are available only to ASBLs, and the 1921 law that governs such entities was amended by Parliament on 22 April 1999.

Box 4. **The Belgian law of 1995 on *entreprises à finalité sociale***

The law of 13 April 1995, which came into force on 1 July 1996, stipulates that any commercial enterprise may adopt the status of *société à finalité sociale* as long as it meets certain conditions, notably that:

1. the partners agree not to seek profit or to seek only limited profit;
2. the enterprise defines a precise social goal or goals, whose purpose may not be to procure indirect profit for the partners;
3. the enterprise's policy of allocating profits and building reserves must reflect its social goals;
4. the enterprise must produce a special annual report indicating how it went about achieving its welfare goals, including information on investment spending, operating costs and remuneration of staff;
5. any member of staff must be allowed to become a partner after a year of commitment to the enterprise;
6. any member of staff who terminates a work contract loses their status as a partner;
7. in the event of liquidation, any surplus, after all liabilities have been met and the partners have been reimbursed for their outlay, is allocated in keeping with the enterprise's welfare goal (in practice, by being given to another *société à finalité sociale* or *association à but non lucratif*) (Delespesse, 1997).

There are different types of social enterprise in each region of Belgium. In the Walloon region, there are *entreprises de formation par le travail* (training-through-work enterprises),[12] similar in nature and operation to the *entreprises d'insertion* in France, which offer transitional training-through-work schemes; and *entreprises insérantes* (work integration social enterprises), which aim to re-integrate unemployed people into the labour market by providing permanent employment contracts.

To finance their activities, the *entreprises de formation par le travail* raise market resources (sale of goods and services) and non-market resources (government subsidies).

The government of the Walloon region supports the formation and development of *entreprises insérantes*. In July 1995, it set up the *Société wallonne d'économie sociale marchande*, a subsidiary of the *Société régionale d'investissement de la Wallonie* – the holding company for public industrial policy – with an initial grant of 300 million Belgian francs and a capital guarantee fund of 150 million Belgian francs. In this regard, it should be pointed out that the distinction and separation between the market and non-market social economy is hotly debated in both Belgium and other European countries. From a tax standpoint, it matters.



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A decree on the approval and subsidisation of *entreprises d'insertion* was adopted by the Walloon parliament in July 1998. The law would bring subsidies to these enterprises in line with those envisaged by a federal law of July 1993, which provided for exemptions from payroll taxes for employers who hire low-skilled workers. An order of 1995 laid down the terms of exemption from payroll taxes for *entreprises insérantes*: 100 per cent the first year, 75 per cent the second year, 50 per cent the third year and 25 per cent the fourth year. To benefit from these reductions, the *entreprises insérantes* must be approved by the Walloon regional government. To qualify for approval, they must meet certain conditions. They must either be founded as *sociétés à finalité sociale* or, if they already exist as ASBL or commercial enterprises, adopt the status of *société à finalité sociale*; and they must make an undertaking to hire at least 30 per cent of their workforce from among particularly disadvantaged categories of unemployed workers during the year following notification of the approval, 40 per cent the following year and 50 per cent after that. To support the start-up of the business, a subsidy is granted to approved *entreprises insérantes*, which is intended to cover part of the entrepreneur's salary.[13] In addition, a bonus[14] is granted to approved *entreprises insérantes* for each particularly disadvantaged worker actually hired.

In Flanders, political debate on the social economy recently took a great leap forward with a new definition of the sector proposed by a Flemish forum on the social economy, V*laams overleg sociale economie* (VOSEC). This definition should be seen alongside the one previously formulated by the C*onseil wallon de l'économie*, which puts more emphasis on ethical principles (CERISIS, 1998, footnote on page 9).

Box 5. **The definition of social economy in Flanders (Belgium)**

According to VOSEC's definition, "the social economy comprises a diverse range of enterprises and initiatives that stress among their objectives the realisation of certain social gains and that apply the following principles: priority of jobs over profit, democratic decision-making process, social involvement, transparency, quality and sustainability. Special attention is paid to the quality of internal and external relationships. These organisations offer goods and services in the market and allocate their economic resources efficiently so as to ensure their continuity and viability" (Mertens, Simon, 1997).

In the future, organisations of the social economy will be able to extend their area of competence. Currently, there are two forms of organisation in Flanders: *sociale werkplaatsen* (social workshops), created in 1980 but only recognised in 1994, and *invoegbedrijven* (work integration enterprises), introduced in 1993.

### Box 6. *Terre*, a Belgian work integration social enterprise

The *Terre* experience began in 1942 in Vivegnis. What began as the salvaging and recycling effort of about 60 volunteers, is now a major work integration enterprise comprising the following six different companies:

*Terre asbl* (1960): selective collection of old clothes, old papers and non-ferrous metals; sorting, recycling and bundling of old paper and fabric; second-hand clothes shops; socio-cultural rehabilitation in deprived districts;

*Emmaüs Comtravis asbl* (1949): training for marginalised people and people on job-training schemes;

*Terre Tiers-Monde et Information asbl* (1982): technical, industrial and agricultural development projects in developing countries; awareness-raising activities in Belgium;

*Co-Terre* (1982): co-operative company that manufactures and installs partitions, false ceilings and soundproofing and carries out renovation work using *Pan-Terre* panels; soldering and welding work;

*Pan-Terre* (1985): joint-stock company that manufactures *Pan-Terre* soundproofing and insulation panels, recognised by the EEC as an energy-saving project;

*Terre*-engineering (1985): joint-stock company for research and standardisation, testing and quality control, management of patents, sales of licences and Pan-Terre expertise; technologies adapted to developing countries.

With its experience in developing countries, *Terre* is well-equipped for working with victims of social exclusion in Belgium, within the framework of the *projet Wallonie* regional development plan. It has shown that everyone is capable of making a new start and developing their capacities through work. *Terre* is also proof that it is possible to create an enterprise that is competitive on the market while achieving social goals and retaining financial independence.

In 1985, *Terre* began to hire paid staff, while continuing to use volunteers on its various committees. Job creation is *Terre's* principal concern and is only limited by space and the economic viability of the enterprise. Of the 280 jobs created by *Terre*, 70 per cent are taken by people from disadvantaged categories. Thanks to *Terre*, they now have real jobs with real wages and are no longer dependent on welfare. While Terre receives annual subsidies totalling over 40 million Belgian francs for hiring marginalised people, its economic impact is nevertheless considerable. In 1992, its contribution to government revenue, through taxes and social security contributions, was estimated at over 71 million Belgian francs (Mortier, 1996). *Terre* also saves the government money by employing people who would otherwise receive welfare. And, by salvaging and recycling fabric and old paper, *Terre* helps reduce municipal spending on the collection and processing of household rubbish.

The *Terre* group has not only created many new jobs in the last 15 years, it is an innovative company operating in the environment sector. The *Pan-Terre* panel, which the company of the same name invented and manufactures from old paper and straw, has won several awards, including the European Better Environment Award for Industry under the patronage of the European Commission.

The *sociale werkplaatsen* (SW) provide lasting employment to the most precarious categories of unemployed workers through economic activity in a sheltered environment, where the type of work is adapted to each worker's capacities and where social and psychological support is provided. The decree of 14 July 1998 on *sociale werkplaatsen* defines the hard-to-place unemployed as those individuals who through a combination of personal and environmental factors cannot acquire a job in the regular labour circuit, but who, with support, can carry out specific tasks. These organisations generally offer community services that can generate income but receive a government subsidy for each job occupied by a particularly disadvantaged job-seeker. SWs usually have the status of non-profit associations. Currently, there are about 60, providing work to some 900 very hard-to-place workers. They should not be confused with sheltered workshops.

The *invoegbedrijven* are commercial enterprises whose goal is to create lasting employment for disadvantaged groups in labour-intensive socially beneficial activities. I*nvoegberdrijven* must achieve total financial autonomy within three years, including covering the wages of the re-integrating workers employed. During the experimental phase, financial support has been planned in the form of wage subsidies to compensate the high costs of integration and the loss of productivity because of the categories of workers employed. The subsidy is a decreasing proportion of the wages paid: It starts at 100 per cent in the first year, goes down to 70 per cent in the second year and to 30 per cent in the third year.

To ensure the solvency of the activities of certain service-providing social enterprises, the Belgian federal government has launched a pilot project of service vouchers (O*bservatoire de l'emploi*, 1997).

Among social enterprises and social-purpose enterprises in Belgium is the model work integration enterprise Terre, a holding company that comprises organisations with various legal forms.

### Italy

In Italy, the concept of social enterprise can be summarised as a concern to combine production of goods for the common good with forms of management that reflect the social purpose of the business (Maiello, Borzaga, 1994).

As explained in a recent report (CGM, 1997), the legal form the most frequently adopted by Italian social enterprises is that of *cooperativa sociale* (social co-operative). The number of *cooperative sociali* is increasing, as are their turnover and volume of services, to the benefit of the people being re-integrated, mostly in the north and centre of the country.

Two major reports on *cooperative sociali* were published in 1994 and 1997 by the Consortium Gino Mattarelli. (These were valuable sources for the preparation for this document.)

### Box 7. The Italian law of 1991 on social co-operatives

Law No. 381/1991 on *cooperative sociali* provided the legislative framework for a well-developed existing phenomenon. It recognises the objective of these co-operatives as bringing "benefit for the community through human promotion and social integration of citizens" and distinguishes between two types of *cooperativa sociale*: "A-type co-operatives", which manage social, health and educational services; and "B-type co-operatives", which aim to re-integrate disadvantaged groups into the workforce through various activities.

Some B-type co-operatives provide stable employment for disadvantaged workers, whereas others try to integrate disadvantaged workers into the open labour market after a period of on-the-job training.

A-type co-operatives offer a wide range of services to very different population groups: the elderly, minors, the disabled, drug addicts, the homeless and immigrants from outside the European Union.

B-type co-operatives are required by the law to hire at least 30 per cent of their staff from among disadvantaged categories of workers. In exchange, their social security contributions are tax-deductible and they may receive government subsidies.

Almost all the regions of Italy have brought their legislation into line with the national law No. 381/1991. A detailed study of the laws on *cooperative sociali* has just been published at the initiative of the labour ministry, the national league of co-operatives and mutuals and the Friuli region.

In Italy today, 3 800 *cooperative sociali* (1 000 of which are B-type co-operatives) generate a total sales volume of 2 500 billion lire, employ 75 000 people (11 000 of whom are from disadvantaged categories), and involve over 9 000 volunteers and 100 000 partners (CGM, 1997).

Table 3. **B-type social co-operatives in Italy**
1993-96 (in absolute values unless otherwise indicated)

| | 1993 | 1994 | 1995 | 1996* |
|---|---|---|---|---|
| Co-operatives | 287 | 518 | 705 | 754 |
| Rate of growth (%) | – | 80.5 | 36.1 | 6.9 |
| Total employment | 4 501 | 7 115 | 9 837 | 11 165 |
| Rate of growth (%) | | 58.1 | 38.3 | 13.5 |
| Disadvantaged workers | 1 675 | 3 204 | 4 686 | 5 414 |
| Rate of growth (%) | – | 91.3 | 46.2 | 15.5 |
| Employees per co-operative (average) | 15.7 | 13.7 | 13.9 | 14.8 |
| Disadvantaged workers per co-operative (%) | 5.8 | 6.2 | 6.6 | 7.2 |
| Disadvantaged workers in total workers (%) | 37.2 | 45.0 | 47.6 | 48.5 |

* Period: January-October.
*Source*: INPS (Istituto Nazionale della Previdenza Sociale) data elaborated by the University of Trento.[15]

The *cooperative sociali*, excluding pensions (which represented 8.36 per cent of GDP in 1996), represent a modest share of Italian public spending, but the current boom of social enterprises suggests that welfare will be overhauled and that the co-operative sector will play a major role in the provision of services in co-operation with the State at every level of government (CGM, 1997).

The growing importance of social enterprises and their potential for creating jobs spurred the S*ocietà per l'imprenditorialità giovanile* (IG) mentioned above, to become involved in the non-profit sector by promoting forms of enterprise that combine entrepreneurship with social action.[16]

### Box 8. Noncello, an Italian social co-operative

Noncello, now the largest *cooperativa sociale* in Italy, began in Pordenone in 1982 at the initiative of three psychiatrists and six patients from the psychiatric hospital, after these institutions were closed down by Italian law. After relatively difficult beginnings offering non-professional household cleaning services, the co-operative built itself up over the years and now generates turnover of 10 billion lire in the cleaning sector. It has contracts to clean the university of Udine and the operating theatres at Pordenone hospital.

The paid employees of the co-operative have become specialised in care for the elderly, children and people suffering from Alzheimer's disease and psychiatric illnesses.

With a contract to clean up roadsides, the co-operative expanded into the environment sector. The environmental activities now generate 3 billion lire.

Total turnover for 1998 comes to 35 billion lire, making Noncello the third largest enterprise in the Friuli region after the industrial group Zanussi-Electrolux (household appliances) and Pordenone hospital.

The co-operative purchased a modern laser and now cuts components for Zanussi and is participating in the restoration of the pavement of the Kremlin in Moscow and the Fenice theatre in Venice.

In 1996, the co-operative began salvaging refrigerators to prevent the gases contained in the circuits and panels from leaking into the environment and now has its own industrial line in dismantling white goods. The project has 12 platforms, each of which dismantles 250 000 parts that would otherwise have been dumped.

33 employees (long-term unemployed, mentally ill, former drug addicts) are currently being trained to recycle and process white goods. The group is already planning recycling and processing of brown goods (computers and television sets), an activity which could lead to the formation of other social co-operatives in the sector and the involvement of Noncello or the Group in mixed economy companies.

In the last few years, the emergence of new welfare needs has seen a huge increase in the number of associations and foundations adopting an entrepreneurial strategy and creating and managing services, whereas before they tended to be restricted to advisory and advocacy activities. The growth of their productive role sparked a review of the legislative framework governing their operation. The first decree on the taxation of *organizzazioni non lucrative di utilità sociale*, which also served to define this new type of entity, was enacted in December 1997.[17]

The Italian government has paid special attention to the social economy sector and, in its 1996 agreement on employment, provided for the creation of a national agency for the implementation and development of activities in the social economy sector that would act as a driving and co-ordinating force for local projects. This provision has just been concretised with the start-up of Italia Lavoro, which is expected to receive other missions.

The example below symbolises the fusion between social enterprise and social-purpose enterprise: the two concepts are closely linked here.

### *Finland*

In Finland, the term social enterprise is rarely used, and the English expression can be confused with social firm (Mannila, 1997). The debate on new solutions for unemployment and ways of meeting new collective needs has begun, but rarely addresses this issue. Finland has no specific legislation for this type of enterprise; the only legal forms adopted for the social economy are those referring to associations and co-operatives. Finnish co-operatives are generally involved in market activities with little participation by volunteers, whereas associations mainly depend on them.

In Finland, a social firm is a non-profit organisation whose profits are not distributed among members but reinvested in the enterprise so that it can pursue its social purpose. The enterprise must be viable within three years of starting, which means that it must sell goods or services (Pattiniemi, 1997).

Most Finnish social firms are local associations (Pattiniemi, 1997), under a national association that provides organisational assistance. It is not always easy to know whether these associations use entrepreneurial criteria: some, particularly the major national associations, are run like private enterprises (training centres, holiday centres, etc.) so as to finance their activities. Local authorities pay the associations for their services.

A trend is beginning to emerge of social enterprises run as co-operatives in the welfare and health fields. Experts expect them to increase in size and number. The co-operatives finance their activities by selling services to private individuals, or sign agreements with local authorities (Simonen, 1995).

As in other countries in Europe, the main activities of social enterprises are to do with the integration of disadvantaged groups and the supply of welfare services. The enterprises involved in work integration (which are required by law to hire at least 30 per cent disadvantaged employees) operate more like Belgian-type work integration social enterprises than French-type ones: they have to hire workers on permanent contracts.

Social enterprises in Finland are as yet few in number, but there is a rapid increase in projects to create social enterprises and in training courses for this sector (Pattiniemi, 1998).

The fields where social enterprises may develop more easily are community care services, particularly for the old and children, and in rural areas, providing infrastructure or services for individuals and local authorities. The social economy sector raises great expectations in terms of sustainable development for towns and villages.

Box 9. **The importance of skills**

With regard to services that involve child-minding or assistance to the elderly, it is important to stress the need for skills, both relational and technical or professional. The potential for creating social enterprises in these sectors would seem to go hand in hand with substantial training requirements. The experience of Belgium and France tends to confirm that there is an urgent need for professionalisation and to restore the "well-known, community social ties that can be provided by neither private-sector employees in insecure jobs nor local government workers".

*Source:* Alain Lipietz, *Rapport d'étape*, 1999.

### *France*

In France, the term social enterprise is beginning to be more widely used as a result of debate at the European level. Here there are two broad types of social enterprise: those involved in the integration process, such as work integration social enterprises, intermediate associations and local district associations, and social-purpose enterprises, which supply collective services in such a way as to provide more people with access to them. The latter are usually associations or co-operatives.

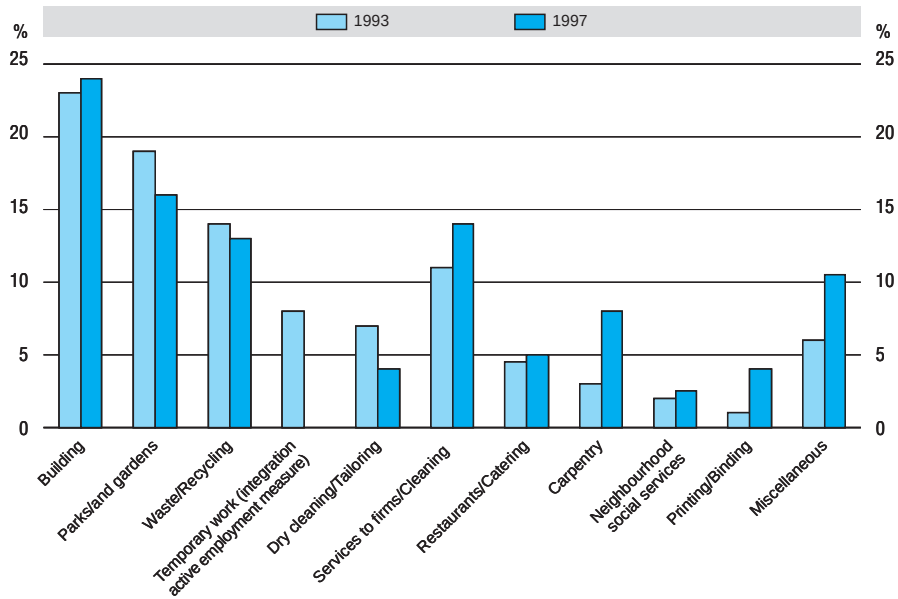
Local district associations (*régies de quartier*) began in the 1980s, and are by nature instruments of urban management. Their job is maintaining the town. These associations employ the long-term unemployed and join work integration social enterprises in bringing back into employment people who have difficulties in re-entering the labour market. Some local district associations opt to become work integration social

enterprises. With that status they receive financing from central government and sometimes regional or local authorities to fund integration and tutoring positions.

Work integration social enterprises (*entreprises d'insertion*: EI) are governed by the law of 31 March 1989, which stipulates that they must take on for a temporary period of no more than two years unemployed persons faced with particular difficulties in integration, such as those under 26 and the long-term unemployed. Some social entrepreneurs are developing the concept of businesses that create long-term jobs for people who are especially hard to employ. One such example is GIEPP in Lille, which in this regard forged close ties with the Trinijove Foundation in Barcelona, thanks to Employment, a Community Initiative project financed by the European Social Fund and the government (Libert, 1999). They operate in a number of sectors: building, public works, especially finishing work, the environment, recycling, waste disposal, and parks and gardens.

Since the interministerial circular of 29 December 1993, relating to "additional criteria" and the following one of 14 December 1995, public calls for tender often

Graph 1 . **Work integration social enterprises in France, sectors of activity, 1993-97**




*Source:* CNEI (Comité National des Entreprises d'Insertion). Status report on work integration social enterprises 1997.

contain new criteria ("integration clause" or "employment clause") for judging tenders from enterprises for public contracts (see Box 10).

The introduction of these clauses, left entirely at the discretion of the customer, has caused a major change in the legal status of work integration social enterprises (which are now required to take on the status of commercial enterprises to tender for public contracts) and encouraged closer links between traditional enterprises (small firms, especially in construction) and work integration social enterprises.

In Normandy, for example, the work integration social enterprise ASPIC-ABBEI has formed a partnership with a number of public and private limited companies to obtain new contracts.

### Box 10. Integration clauses

At the heart of the debate over clauses that bring social aspects into selection criteria is whether or not the additional criteria are relevant to the purpose of a tender contract. It should be borne in mind that French public procurement law imposes two major obligations: first, equal opportunity and equal treatment for all applicants; and second, competitive bidding.

Despite the chaotic legal aftermath of the circular of 29 December 1993 instituting social criteria, and of the Ministry of Equipment's circular of 14 December 1995, the clause has led to many steps forward in this area. SEs, which derive a large part of their business from government procurement (at least a third for all industries combined, with a higher proportion, of course, in building, maintenance and parks and gardens), have flocked to contracts with such clauses, either on their own or in partnership with conventional enterprises, which acknowledge that social enterprises have the know-how and capability they lack in getting people back to work. In Upper Normandy, the regional building trades federation has drafted a regional model agreement that lays down demanding and favourable terms for the application of integration clauses by its members. Local authorities have also joined in, which in some cases has been conducive to highly beneficial arrangements. One symbolic example is the town of Saint-Denis, when the Stade de France was being built. The consortium that won the contract to construct the stadium had to recruit 170 people locally, including 90 long-term unemployed – a target that was exceeded. Drawing on the town's previous experience with integration clauses, a mechanism for introducing young people to the building trades was set up with the National Association for Adult Occupational Training (AFPA), enabling those interested to train and be offered jobs. Such contracts abound with examples of "good practices". Similar clauses are spreading in Spain (especially Catalonia), the United Kingdom and Ireland. Watch this space.

*Source*: CNEI, 1999.



OECD 1999

Box 11. **Charter of work integration social enterprises in France**

A work integration social enterprise is defined in terms of:

– the type of group employed;

– its social purpose;

– its operating conditions;

– its support for the Charter of Work Integration Social Enterprises.

The work integration social enterprise is one that "employs disadvantaged people (young or mature) who have faced repeated failures and an accumulation of difficulties. They are usually in a precarious situation or totally excluded."

The aim of the enterprise "expressed in a temporary work contract and appropriate training, is to bring these people into the labour market or a training course; enable them to function as citizens; and alert political, economic and social partners to the problems of integration." The activity of work integration social enterprises "must be identifiable so that it can be evaluated for its social and economic performance".

"The work integration social enterprise produces goods and services, and its activities are carried out according to the same rules, rights and professionalism as any enterprise in market conditions. Its status may be public or private limited company, non-profit association, co-operative or other." "The income of the work integration social enterprise are based on sales related to the production and marketing of goods or services. Remuneration of its mission to integrate by economic means shall be negotiated at local, regional, national or European level, from private bodies to finance:

– the low productivity of the people employed

– the increased supervision required for the groups employed

– high turnover in employees

– professional and social training."

*Source*: (CNEI, 1997).

The Charter of Work Integration Social Enterprises in France, adopted in 1992 by the National Council of Work Integration Social Enterprises (to which 55 per cent of the current 850 work integration social enterprises belong), illustrates the nature and operation of these enterprises (Box 11).

In 58 per cent of the cases, work integration social enterprises have the status of associations; 33 per cent are commercial companies (public or private limited) and 1 per cent are co-operatives (CNEI, 1998). It may be supposed that in future more work integration social enterprises will adopt the status of commercial com-

pany more suitable to market requirements. This is the trend that has been observed for enterprises set up since 30 June 1997: Some 60 per cent are commercial companies (CNEI, 1998).

### Box 12. ENVIE, a flexible type of work integration social enterprise

ENVIE is a work integration social enterprise that operates in a number of regions in France, recycling used domestic appliances (at 31 December 1997, there were 550 employees in all, of which 400 had integration difficulties, in 25 enterprises in the ENVIE network throughout France). Old domestic appliances are sorted and repaired by the employees.

The ENVIE enterprises have developed a market for guaranteed second-hand appliances, which did not exist before and is intended to meet a new demand from the underprivileged. The first unit was set up in Strasbourg in 1985 at the initiative of social workers and officials of the E*mmaüs* community. In 1986 the idea arose of spreading across France, and in 1988 an ENVIE unit opened in Marseilles, following a proposal from D*arty P*r*ovence* (selling electrical and electronic consumer goods and household appliances) to supply it with old appliances. Later units were set up in Tours and Saint-Etienne.

In 1989, ENVIE D*éveloppement* was born to ensure that the social purpose and quality of training and integration was maintained in the network units (340 unpaid administrators support the development of the network). This structure, based in Paris, engages in strategic forward planning, and provides leadership, assistance and training for the permanent staff and common services of the ENVIE network.

In 1993, the public limited company SAGE (S*ociété anonyme du groupe* ENVIE) was formed to strengthen the network, find new activities to extend the openings for integration with the help of firm partnerships with leading companies in various sectors, and to buy shares in new enterprises working to combat social exclusion. These enterprises will operate as a priority on small unoccupied niches in the second-hand and low-cost market. Some will specialise in the disposal of electrical and electronic appliances at the end of their useful life.

ENVIE is now the main network of work integration social enterprises in France. Roughly half the employees at ENVIE find a job when they leave.

The ENVIE D*éveloppement* association has just signed the framework-agreement "New Services, New Jobs" instituted by the Jospin government, and is committed to creating jobs for the under-26 in new or innovative service activities. The agreement stipulates that newly developed activities must move towards solvency and not compete with activities now exercised in the competitive sector or provided by public services.

In 1997, nearly 220 000 used appliances were collected, the revenue of 65 million French francs had increased by 13 per cent, and the overall budget was in excess of 100 million French francs. In twelve years more than 1 600 disadvantaged people have begun a process of work integration with ENVIE.

Work integration social enterprises receive public financing to cover increased supervision expenses and the lower productivity of the disadvantaged workers they recruit, and for supporting them. This financing is at present roughly 50 000 French francs per position per year, including the subsidy allotted by the social affairs budget for the integration of people in great difficulty.[18]

The rate of self-financing of work integration social enterprises is roughly 80 per cent. They are required to provide guarantees of economic viability.

Intermediate associations, set up in January 1987, express the French government's desire to combat unemployment and undeclared employment, following the example of local actions developed some years earlier. Their function is to supply the services of disadvantaged people to paying employers. The regulations governing intermediate associations have recently been revised in Article L. 322-4-16-3 of the Labour Code (applicable from 1 January or 1 July 1999), which removes the stipulation that intermediate associations could only exercise activities not provided by private initiative or local authorities.

### *Spain*

In Spain, the term social enterprise is not greatly used, but a number of economic initiatives do correspond to the concept of social enterprise. Active policies to combat unemployment are based mainly on the social economy and its structures. The legal status a social enterprise may adopt can be an associated labour co-operative, jointly managed stock company, foundation, association, stock company, public limited labour company (*sociedad anonima laborale*), labour company (*sociedad laborale*), private limited labour company (*sociedad laborale limitado*) (Vidal, 1997). The common denominator is their non-profit purpose.

In the 1980s, new entities like work integration social enterprises emerged as a response from civil society to the problems of unemployment and exclusion. There are at present some 300 of them, members of the Spanish network for socio-professional advancement and integration (REPRIS), the network for the alternative economy of solidarity (REAS) and the Spanish association for promoters of the welfare and solidarity economy (AERESS).[19]

In the field of integration by economic activity, the legal forms of production co-operative and private limited company are the most frequently adopted.

Among work integration social enterprises, the distinction should be made between those that aim to integrate the long-term unemployed, and those that aim to integrate the physically and mentally handicapped. The latter enjoy extensive recognition from the authorities, while the former tend to be neglected.

To help disadvantaged workers to integrate in a stable manner in the labour market, the work integration social enterprises support the creation of small co-operatives

### Box 13. Environment protection and job creation

AERESS, *Asociación Española de Recuperadores de la Economía Social y Solidaria* is a federation which represents 22 enterprises devoted to the integration, in terms of employment, of persons with low employability. They have no institutional recognition as enterprises of social integration through employment. The main trading activity of AERESS enterprises is concentrated on the selective collection of solid urban waste (paper, glass, clothing, tins and cans, bulky items and batteries), its selection, recovery and subsequent sale. In 1997, 20 of the 22 enterprises were providing employment to 500 people who, through their work, made possible a turnover in excess of 1,000 million pesetas.

A brief presentation of four AERESS enterprises follows:

- *Fundación Engrunes* (1982) - *Cooperativas Miques* (1992). This concern is located in Esplugas de Llobregat, in the province of Barcelona. It is the Catalonian leader in social integration through employment of persons with social disabilities. It carries out a trading activity based on the selective collection of urban waste, construction and clothes manufacturing.
- *Fundación Deixalles* (1986). This body operates in the Balearic Islands, chiefly in Majorca and Minorca. It is a foundation devoted to the re-integration into society and into the world of work of people excluded from the labour market: the poor, alcoholics, drug addicts, young people, convicts, people from ethnic minorities, foreigners, etc. Its activities focus on the selective collection of solid urban waste (paper, glass, clothing, tins and cans, bulky items and batteries), its selection, recovery and subsequent sale.
- *Traperos de Emaus San Sebastian* (1980). Its geographical field of operation is the Basque Country. Its objective is the fight against poverty through the reception, normalisation and integration into society and the world of work of those groups of people who in one way or another find themselves socially and economically excluded. The activities they carry out involve the provision of services such as accommodation, support, health care and clothing, work guidance, training and work experience, and occupational orientation and workplace integration.
- *Traperos de Emaus Nafarroa*. Its geographical field of action comprises the autonomous community of Navarra. It is involved in the selective collection of solid urban waste on the basis of which it carries out a trading activity. It works with marginal groups with exclusion problems.

*Source*: Vidal Isabelle (1998) *Inserción social por el trabajo, una visión internacional*, Barcelona, CIES.

and various types of self-employment. Each year the work integration social enterprises that belong to the above networks help to set up two or three co-operatives with four or five workers, which are now estimated to employ some 1 000 people (Vidal, 1998).

The work integration social enterprises provide the initial tools, training and capital required to start an entrepreneurial business. Social work integration social enterprises and other similar entities work mainly in recycling, the environment, etc. They have both employees and volunteers. Most of their resources come from the sale of goods and services to private individuals or public administrations.

Service-providing enterprises often have the status of social initiative enterprises: their work is aimed at the old, children and other groups such as disadvantaged women, the homeless, and drug addicts. In 1995, the Spanish national institute for statistics counted 75 776 of these.

The "multi-year programme for employment in the Kingdom of Spain", presented in September 1997 for the following four years included as priorities the strengthening and promotion in quantitative and qualitative terms of the social economy as a way of creating and maintaining employment, particularly in co-operatives and labour companies. The part of the programme devoted to "development of the social economy" covers action to support initiatives in the financing of new enterprises and to encourage their dissemination throughout Spain. The "multi-year programme" lays great stress on the tertiary sector because of its high potential for creating new activities (welfare services, home services for the old, children, etc.). The aim is to promote community care services by creating the conditions for welfare services to be sold on the free market by virtue of economic efficiency. Promotion measures comprise financial support for non-profit entities to increase their staff, giving priority to hiring the unemployed with professional experience, and the extension of financing to activities of public interest for social integration.

### *Germany*

The third sector in Germany (for which the definition is still being prepared by a multi-disciplinary research group at the Berlin Technical University) is fairly amorphous: it includes a wide variety of entities such as non-profit organisations, the jobless movement, volunteers, various forms of social enterprises or enterprises with social purposes, and integration companies.

Enterprises described as social in the German third sector do not aim to make a profit; they reinvest any surplus in the enterprise and set themselves the target of creating jobs and covering unmet public needs, and they operate within the framework of a local community or community of interest.

Since the 1970s, these enterprises have developed in a number of ways, leading to the use of different terms: first "alternative enterprises" then "work integration social enterprises", and since the late 1980s, "local community enterprises" (Hesse, 1998).

Alternative enterprises intended to provide mutual support formed the alternative sector, which in the 1980s covered some 40 000 projects, 100 000 salaried jobs and 300 000 unpaid jobs.

Work integration social enterprises (BQGs) appeared in the late 1970s, with the aim of reintegrating the unemployed in the primary labour market; they receive public subsidies to help pay salaries. Since 1990, other types of enterprise have been formed, known as "*Arbeitsförderung- Beschäftigungs- und Strukturentwicklungsgesellschaften*" (ABS) to cope with problems arising from German reunification and the imperatives of the market economy. Some of these enterprises devise innovative projects and seek to free themselves from State financing, despite the difficulties they encounter in publicising and justifying their approach to major influential groups.

Social enterprises have different names in the various *Länder*, which does not make identification any easier. Lower Saxony and Thuringia have set up a model that is used as an example by other *Länder*. In this model, social enterprises (*soziale Betriebe*) attempt to reintegrate disadvantaged people, the long-term unemployed and other disadvantaged clients into the regular labour market in a stable fashion. They receive subsidies for five years and must then become financially independent.

The ultimate aim is not the long-term establishment of social enterprises but their transformation into small firms working for the market, or the reintegration of the unemployed into the market. The sectors of activity for work integration social enterprises are usually those that the State and the market have developed less: "community care services", the environment and ecology, management of public services, etc.

Social enterprises thus provide services that would not exist on the market without them; they employ disadvantaged people who would cost society more in unemployment payments and social, or even medical, assistance, according to the *Institut für Arbeitsmarkt- und Berufsforschung* in Nuremberg (Hesse, 1998).

Recent industrial and social developments are confronting employment policy with new requirements. The social enterprise, or enterprise with a social purpose, used not to feature in public debate; now it still has to construct its own future.

### *Portugal*

In Portugal, social enterprises take various legal forms: co-operatives, associations, foundations and private institutions for social solidarity.

In July 1996, the Portuguese government set up the "social employment market", which extended the application of measures for integration by economic activity, and was intended to increase and encourage the economic viability of social enterprises. Work integration social enterprises operate mainly in the fields of the

environment, national heritage, healthcare and tourism. They are now a tool of active employment policy and receive support from the Institute for Employment and Professional Training (IEPF). Work integration enterprises, although placed within the framework of the "social employment market", enjoy a special status that allows them to receive technical and financial aid for their creation and development. Workers recruited by a work integration social enterprise are given individual coaching. This is followed up by a detailed account of the various stages of their progress in socio-professional integration and any support they have received in the past or may receive in the future.

The work integration social enterprise must apply for approval from the IEPF, which evaluates the project's technical and financial viability, and from the Commission for the Social Employment Market. Work integration social enterprises must also have support teams to facilitate the process of social integration; these may comprise sociologists, psychologists, and social workers. The Commission for the Social Employment Market also makes an evaluation report each year to the Ministry of Labour and Solidarity (*Observatoire de l'emploi*, 1998). Lastly, an amendment of 15 January 1998 instituted "social solidarity co-operatives".

### *Ireland*

Unlike other countries, Ireland has not adopted a legal definition of social enterprises, but includes in this concept commercial companies, co-operatives and associations according to their purposes and the actions they take.

However, most social enterprises and social-purpose enterprises are associations or community associations (O'Hara, 1998).

The enterprises may be classified according to the type of activity exercised and the manner of execution; they comprise community businesses, deficient demand social enterprises, and enterprises based on public sector contracts. All these enterprises have similar purposes, but they operate in different social and economic contexts (CWC, the Community Workers'Co-operative, 1998). Community businesses are closely involved in local development, while social enterprises attempt to achieve solvent demand for goods and services within the local community, as in the case of Travellers' communities.[20]

Enterprises contracted by the public authorities to provide services may also involve themselves in the design and supply of services in the public interest.

The Irish government has for some fifteen years encouraged the emergence of social enterprises via various community programmes, particularly LEADER in rural areas. It also included in the 1990 Community Development Programme of the Ministry of Health measures to encourage the creation of social enterprises.

A number of government bodies help to finance the social economy sector. The biggest spender is the Ministry of Health, followed by the Enterprise and Employment Ministry, via the FAS (Training and Employment Authority).

### *United Kingdom*

In the United Kingdom, integrating disadvantaged people into the labour market is one of the main aims of non-profit organisations. This is essential for achieving success in the recent Welfare to Work policies of the Blair government.

As in other European Union countries, social enterprises are independent structures with a social purpose that sell their goods and services on the market, or contract to supply services for the State (Spear, 1997). British social enterprises are not covered by any specific legislation or tax concessions, which means that they have a variety of legal forms. They may be voluntary organisations, community businesses, trusts, or intermediate labour markets.

Co-operatives, which may be associations, comprise entities such as social co-operatives and community service co-operatives.

Social co-operatives are of two types: those that provide social services and those that provide jobs for disadvantaged groups, which are often given wage support by the State. The two types become one when the former employ disadvantaged people.

Community service co-operatives, which are now expanding, specialise in the supply of services for local communities.

Community businesses developed in Scotland in the early 1970s, especially in the Highlands, to optimise transport and help shops to survive. They are similar to the co-operative movement. In 1995 there were some 400 of them, employing 3 500 people (including trainees).

Voluntary organisations cover a wide range of activities, with a current trend towards integration and job creation. Also worthy of note are the development trusts, which might be defined as social-purpose enterprises actively involved in revitalising a local area and ensuring that the local community is the main beneficiary of the investment (Spear, 1998). They work in partnership with the public, private and community sectors to develop their programmes.

There are also settlements, traditional charities intended to combat exclusion and poverty by training and work experience.

Recently intermediate labour market organisations have emerged, proposing paid full-time and part-time jobs for the unemployed for a set period, and also training. They are intended to enable workers to return to the primary labour market and at the same time they supply a response to unmet public needs. These

organisations are mainly set up in urban areas that are being revitalised with the involvement of the residents.

The following case illustrates the basic features of these new intermediate structures.

### Box 14. Glasgow Works, a model development agency

Glasgow Works operates as a central and local partnership between a number of players. It was set up in 1994 to help the long-term unemployed (over 12 months) to return to professional activity. It proposes one-year contracts in activities developed for the city of Glasgow: child supervision after school, appliance recycling, flag-making, training of young people, construction and environment work, etc. The paid beneficiaries are recruited after an interview and receive training and support so as to successfully reintegrate into the labour market when their contract ends. It is a sort of sandwich course consisting of three-fifths work, one-fifth training and one-fifth personal development. The activities undertaken by Glasgow Works are designed to become market activities that will generate permanent jobs. Glasgow Works is financed by a variety of sources: European funds (35%), unemployment benefit (20%), national training programme (15%), local public agencies (15%), public and private income (15%).

From 1994 to January 1997, 800 people were taken on at Glasgow Works. Of those who completed the one-year contract, 62 per cent then found a stable job. Over 53 per cent of the very long-term unemployed (over three years) found work. The jobs found were 84 per cent full-time, and 82 per cent permanent.

The experience of bodies like Glasgow Works and CREATE in Liverpool, the successful transfer of the French ENVIE to Britain, is now being extended to other cities, as is that of the Wise Group, a Scottish business described in "Fostering Entrepreneurship" (OECD, 1998).

Following the intermediate organisations, the Centre for Local Economic Strategy (CLES) and the Centre for Social Inclusion (CSI) have recently suggested setting up Job Pools of a type already existing in other European Union countries such as the Netherlands. The idea of the two centres is that the Job Pools would work with local authorities, TECs (Technical and Enterprise Councils), voluntary organisations, and employment agencies to identify unmet needs in a given area and co-ordinate programmes to finance temporary jobs, including training for the long-term unemployed. These intermediate jobs would be in the public sector, major companies, small firms, the non-profit sector, and micro-enterprises.

The proposal is being tried out in Birmingham under the name of Managed Labour Market, where a co-ordinated group of local agencies manages a stock of

jobs in order to meet the labour needs of local employers and the requirements of the unemployed, and help create new jobs in districts moving towards economic and social revitalisation.

In November 1998, the British government specified the final part of the Welfare to Work programme, together with a preliminary report of action taken with the non-profit and private sectors (*Observatoire de l'emploi*, 1998).

### *Sweden*

Sweden does not use the terms "social economy" or non-profit sector, but prefers to describe social enterprises collectively as a *folkröelse* (popular movement). The entities in this sector, made up of types of organisation that are significantly different from those in other industrialised countries, are traditional co-operatives, the popular movement, non-profit organisations, and new co-operatives working mainly in welfare services (Stryjan, Wijkström, 1998). Organisations in the first three categories often adopt the status of voluntary organisation (*ideell*).[21]

For reasons to do with the economic and socio-administrative features of Sweden, it has not been easy for the third sector to assert itself in creating jobs, because the roles of the State (facilitator) and the private sector (job creator) did not leave much room. Worsening unemployment changed this situation in the 1980s and 1990s, and local co-operative development agencies (LKU) emerged to encourage the expansion of the third sector. Each independent LKU includes local organisations (co-operatives for consumers, farmers, accommodation, insurance, political organisations, trade unions, voluntary organisations, etc.) and its main scope of action is the development of urban and rural communities, and projects focusing on particular groups (long-term unemployed, mentally and physically handicapped).

### *Austria*

Austria has social enterprises or social-purpose enterprises in the form of associations (Verein), co-operatives (*Genossenschaft*), and non-profit community enterprises (*gemeinnützige Gesellschaft mb*H).

The entities in the non-profit sector, particularly associations and community enterprises, co-operate with the government programme *Aktion* 8000, set up in 1983, and which since 1996 has been divided into two sub-programmes: "Employment in non-profit organisations" and "Employment projects in the third sector".

*Aktion* 8000 has enabled some 45 000 disadvantaged people to receive training and a temporary job that has provided half of them with the chance of finding a permanent job (Federal Ministry of Labour and Social Affairs, 1994). The programme is mainly financed by the State with support from local authorities. The "employment projects in the third sector" sub-programme is intended for people with considerable difficulties (former drug addicts, the homeless, ex-prisoners).

Box 15. **The Falken project, Jämtland**

This very recent project aims to reintegrate into society and the labour market people suffering from mental problems, with the support of all the bodies they have dealings with. The idea is to empower the clients in their progress towards reintegration.

The clients involved are between 20 and 55, most of whom are long-term unemployed but considered to be re-employable after a one-year training and integration course. The course takes place in an enterprise which is responsible for tutoring and organising training and appropriate involvement in its business activities.

A number of public bodies help with this system: the employment agency, social security services. Costs are covered mainly by the ministries of labour and health and social security, via a specially created fund. It is estimated that the annual cost per head is the same as for the integration and training of other target groups.

### *European Commission*

A new pilot scheme "Third system and employment" was launched in 1997 by the European Commission. A budget of 10 million ECU was allocated to implement the pilot action, and an equivalent sum was granted for 1998. The pilot scheme is planned to end in 1999.

The pilot scheme aims to investigate and exploit the job potential of the third system: it focuses on the creation of new jobs arising from the identification of unmet needs in:

– welfare services/community care services for individuals;

– quality of life/environment;

– arts/leisure activities.

The term "third system" refers to the fields of activity of co-operatives, mutual associations, foundations, voluntary organisations and any job creation initiatives at local level, intended to meet needs not covered by public authorities or the private sector.

After a first call for tender, 52 projects were selected.

In September 1998, the European Parliament and the European Commission presented in Brussels a preliminary report on this pilot scheme (European Commission DG V-A/4, 1998).

Observation of current projects reveals trends to be validated in the final evaluation.

Organisations in the third system:

- aim to instil into development the ideas of solidarity and sustainability;
- contribute to the conservation of the environment and the improvement of the quality of life in a manner favourable to development;
- undertake actions of integration in favour of the most vulnerable individuals;
- aim to promote new forms of organisation and promotion of employment.

*Durability of the third system*

A number of conditions are necessary for organisations in the third systems to be able to contribute effectively to the development of local employment:

- encourage the representation of organisations in the third system in new sectors of strategic development. Often these organisations are marginalised because of their real or supposed lack of business or management skills;
- facilitate the introduction of quality standards to reduce the reluctance of some organisations in the public sector to entrust the management of services to organisations in the third system;
- ensure proper synergy with the users of the goods and services provided;
- improve liaison with banks;
- enable the jobs created to be consolidated and viable;
- create a climate favourable to initiatives with professional connected support networks;
- stress the importance of circulating information in the proper way.

**United States**

The notion of non-profit sector is very familiar in the culture of the United States, and covers a wide field of rapidly changing organisations.

US legislation recognises the existence of private non-profit organisations for the public good (Salomon, Anheier, 1997) which are regulated in various ways in the separate States.

Organisations in the non-profit sector may form unincorporated associations, corporations, or trusts. A trust is rather like a foundation, with clearly defined purposes to which the members commit themselves personally, while corporations give board members only limited responsibility.

From a tax point of view there are two types of organisation; bodies created primarily to meet the needs of their own members, and bodies that meet the needs of society at large or particular communities. While both enjoy tax exemptions, only those organisations with a public purpose may apply for other advantages that make them more attractive (*e.g.*, tax deductions for donors). Using this division there



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is a total of 1 130 000 bodies, of which 300 000 provide services for their own members and 740 000 have a public purpose[22] (Salomon, Anheier, 1997).

The impact of the non-profit sector on the economy appears to be greater in the United States than in Europe, according to the research of Lester Salomon of the Institute for Policy Studies of Johns Hopkins University. Another study carried out by Independent Sector, a non-profit teaching and consultancy organisation, also shows that the non-profit sector in the United States employs more than six million people. The sector is now changing again with the Welfare to Work programme launched effectively last year in a decentralised form based on close co-operation between public, private and non-profit players. It involves three types of initiative:

– integration into the labour market of the unemployed and welfare recipients;

– local development in disadvantaged urban and rural areas;

– care for the elderly and new services for the "new poor".

In order to gain greater financial independence and escape from public "supervision", some non-profit organisations have developed partnerships with enterprises, while others have tried selling their goods and services. Others control small firms and use part of the profits to pay for their social activities.

Of the many new social movements with an entrepreneurial approach, two are worthy of particular note:

The Non-Profit Management Education Movement has programmes run by universities and higher education establishments at national and regional level (over sixty).

The Social Enterprise Leadership Movement offers study programmes for acquiring the necessary skills for managing social enterprises.

Social enterprises in the United States are rooted in the history of community development conceived in the 1970s as a means of revitalising areas threatened by exclusion.[23] The community approach has attracted increasing attention: in 1995, a number of foundations, including the Annie E. Casey and Rockefeller Foundations, and the Department of Housing and Urban Development put together a project to improve the understanding and dissemination of the community approach with a large place given to social capital.

The term social enterprise in the United States usually applies to commercial social-purpose enterprises (Social Purpose Businesses, Community-Based Businesses, Community Wealth Enterprises) run by non-profit organisations seeking to use the profits of the commercial enterprises to finance their non-profit activities. A number of networks have been formed across the country to support social entrepreneurship.

Share Our Strength is an organisation that combats hunger, known for its partnership with American Express, which has begun to assemble the managers of Community Wealth Enterprises.



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Box 16. **The Rubicon Program "bakes" a difference in Richmond**

In the last 26 years Rubicon Programs has pioneered innovative service delivery to people who are disabled, homeless or otherwise economically disadvantaged. Program participants have a wide variety of needs, and Rubicon's many services are designed to respond to these diverse challenges and enable participants to become self-sufficient and live a stable lifestyle.

Rubicon Programs Inc. secured 540 jobs last year for the disabled, homeless, unemployed and economically disadvantaged. A $11.5 million non-profit organisation, it provides jobs, training, housing, mental health services and counselling. Rubicon is based in Richmond, an area of high unemployment. In North Richmond the unemployment rate is 48 per cent. It has three businesses which generate half of its operating revenue: landscaping, home care and the bakery. The other half comes from government agencies, foundations (especially the Roberts foundation) and corporations.

The jewel in Rubicon's crown of social entrepreneurism is its four-year old for-profit bakery. The lead supplier of artistically handcrafted cakes, tarts and tortes to retailers like Andronico's Markets, the bakery cleared $1 million in revenues last year, up 70 percent. The goal for'99 is to double that, pump up volume and service large chain accounts. Currently, the tight knit team churns out about 500 units a day. Many of the eight trainees working alongside 20 pros have no previous experience; 90 percent of the full-time, green T-shirted employees came through the Rubicon program.

The bakery moved from a cramped 2,000 square-foot building to a cheery 28,000 square-foot space last October. "We were in a non-profit building before", said Portis, 32, Director of Enterprise Development with an MBA from Stanford University, "But it's important for people to understand this is a real business, not a goof-off job. We're not doing a service to anyone if we're coddling."

*Source*: Rubicon Bakery, 1999, Internet site: www.rubicon.pgms.org

The Stanford Graduate School of Business held a seminar in March 1998 on social entrepreneurship so as to use the findings in a training programme.

The National Center for Social Entrepreneurs has worked for over ten years with non-profit organisations to help them set up commercial enterprises.

A massive study by the Roberts Foundation recently examined social enterprises and social entrepreneurs (Emerson, Twersky, 1996) with the aim of circulating information about this relatively new type of experiment and identifying the factors of success or failure in social enterprises.

### Box 17. Participants' experiences

Following are statements from two of Rubicon Bakery's program participants. Both of them went through the training and skills program and are now employees of the bakery where they continue to learn, earn a good living and take on greater responsibilities. Their lives have been transformed by their Rubicon experiences and they are active and productive citizens in their communities.

**Frank's Story**

I came to Rubicon in 1998 through a referral from the Department of Rehabilitation. I had been on General Assistance for five years and had been doing workfare. I was getting excellent write-ups and I was really encouraged to get off GA and do something more with myself. I didn't have many working skills but I liked to cook. I started here as a trainee for six months. At that time we operated small cafes in the community and I worked myself up to being a grill cook. Now I do the deliveries for the bakery and help make the desserts.

I feel great about being in the work force and earning my own money. I'm also able to help other people. I see trainees come in who have problems like mine, some even worse and I can help to get them back on track. We get a lot of people who have had a lot of hard times. I let them know it is never too late. It feels good.

I really appreciate the people I've worked with who have helped me become a stronger person. It only works though if you want to help yourself.

Rubicon has taught me working skills, punctuality, how to better myself, and how to work with people.

**Robert's Story**

I found Rubicon three years ago when I was having some hard times. I was having difficulties getting a job, and things got worse. When I came to Rubicon I began the bakery-training program where I learned more cooking and baking techniques. I soon began supervising the baking crew, and now I'm a full time bakery-trainee supervisor. In addition, I give job counselling and visit employees that we've placed outside of Rubicon with other food service employers. I make sure things are working out for them, and help them when they need it.

The part I really like about Rubicon is helping the trainees. I help them figure out what they're good at. When they're having a hard time I can talk to them about it. They trust me because they know I've been there too.

It's a pleasure coming here everyday. I get along with everybody and they get along with me. They're happy to see me and that really makes me feel good! Rubicon has changed my life.

*Source*: Except from a file on the Rubicon Bakery, Richmond, California (August 1999).

Other organisations, such as the Affirmative Business Alliance of North America,[24] set up in 1989 and with 40 members, believe that it is perfectly possible to successfully run an enterprise employing disadvantaged people, as long as an aim of economic viability is included, over and above the social purpose. The factors for success are basically two: not to underestimate the workers, and to be resolutely market-driven. If these conditions are observed, co-operation with private enterprises can be achieved in various ways: contracts, subsidies (granted to social enterprises for their ability to work for social cohesion), secondment or availability of senior managers.

However the dividing line between commercial and non-profit enterprise is the subject of debate within the community movement, which fears it will lose its identity (Emerson, Twersky, 1996; Boschee, 1995; Dees, 1998).

Box 18. **The Clarkson Center, Buffalo, New York**

The Clarkson Center for the Human Services, founded in 1970, is a non-profit organisation involved in aid to disadvantaged people and at risk, including children and the elderly. The centre offers a wide range of services for various target groups. The Clarkson Center organises job training courses and internships for disadvantaged young people and adults, and in 1995 started in social entrepreneurship, setting up a commercial catering enterprise to finance its training courses in catering for the unemployed and disadvantaged people. Clarkson Food Service provides receptions for companies and supplies a large number of hotels and healthcare centres. The Clarkson Center also runs commercial enterprises in other sectors.

Since 1975, 12 500 people, including 6 000 welfare recipients, have attended the centre's training courses and found jobs. Of the interns and employees trained, 78 per cent are African Americans. The centre reinvests some 92 per cent of its profits in social and educational activities.

### *Canada*

In Canada, the term "social enterprise" is rarely used. In Quebec, the preferred expression is *entreprise de l'économie sociale* (enterprise of the social economy). This has been defined by a working group as having the following goals: service to members or to the community, autonomous management, a democratic decision-making process, primacy of people over capital and consultation with the local environment and users, so as to create permanent jobs.

The social economy is made up of the co-operative, community and community economic development movements.

Social economy organisations have pursued different goals at different times. In the mid-1960s, they were movements that advocated an improved living environment by calling for more publicly-funded infrastructure and services to meet the needs of local communities. In the early 1970s, they took the form of groups of citizens and professionals offering alternatives to the services delivered by the public sector. Since the mid-1980s, they have pursued the following objectives: empowerment, local development and community economic development.

The "Quebec model" (Lévesque, Ninacs, 1997) is closer to the US concept of community economic development than to the French pattern of local economic development.

The co-operative movement in Quebec is highly developed: in 1995 it comprised 3 438 enterprises, 66 000 paid workers and 30 000 volunteers (d'Amours, 1996). It includes financial co-operatives (credit unions known as *Caisses Populaires et d'Économie*[25] and mutual insurance companies) and production co-operatives (farming, housing, food, work and learning co-operatives).

The rich and diverse community movement is particularly active in the fields of health, social services, child care, care for the elderly, housing, leisure, culture and education.[26] In all these sectors, funding is a mixture of public and private contributions and non-monetary resources.

The community economic development movement[27] operates through a large number of consultative and organisational support bodies, whose aim is to boost economic and social recovery in areas in decline.

Social economy organisations mostly develop economic and social revitalisation initiatives and social integration through an economic activity or combine their efforts to generate diversified sources of financing for local development. The different types of organisation are: *corporations de développement économique communautaire* (community economic development corporations),[28] *sociétés d'aide au développement des collectivités* (community development assistance associations),[29] *corporations de développement communautaire* (community development corporations)[30] and *coopératives de développement régional* (regional development co-operatives).

The community economic development corporations and community development corporations act mainly as levers for existing initiatives, for start-up projects and for groups seeking new solutions (Favreau, Lévesque, 1996). Their action often stimulates other projects and sets off a virtuous circle of social transformation in an area (Favreau, Lévesque, 1996).

Some organisations focus on social integration through economic activity. This is the case of *entreprises d'insertion* (work integration enterprises) which, for this purpose, produce goods or services (both in the market and non-market spheres) and offer training, often in co-operation with community economic development

corporations and community development corporations. These initiatives respond to unmet needs. The financing of work integration enterprises is derived from the public sector, from the sale of goods and services, from donations and from fund-raising. There are some 40 enterprises of this type in Quebec. Their record is good, according to estimates that 80 per cent of the workers who completed a transition period in these enterprises subsequently found a job in the open labour market.

Box 19. **A work integration enterprise in Quebec, *Buffet Insère-jeunes***

*Buffet Insère-jeunes* is a work integration enterprise established in Montreal in 1992 on the initiative of a youth association called Par la Grande Porte. The association chose the catering sector after setting up a service to help school drop-outs to find work. The goal of *Buffet Insère-jeunes* is to give young people aged between 16 and 25 genuine work experience with an approved employer in a legal enterprise. The enterprise provides lunches for schools and child care centres and caters on request.

The social and work integration programme lasts for six months and includes practical training, personalised counselling (budgeting, problem-solving) and a dynamic method for seeking employment and guidance.

In 1992-1993, 13 young people completed the integration programme. 61.5 per cent of them subsequently found a job, 15.4 per cent went back to school and 23.1 per cent were still looking for a job at the date of the survey.

As part of the activity associated with the Economic and Employment Summit in Quebec in 1996, attended by partners from government, employers, trade unions and, for the first time, the community sector, a working commission on the social economy was established to present concrete projects for creating permanent jobs and to produce a consensus definition of the social economy. At the Summit, the partners recognised the social economy as a component part of Quebec's socio-economic structure, adopted the Quebec model of social economy enterprises, and planned its practical application in twenty or so sectors, so as to create 13 000 jobs in three years. The working commission is supervised by a steering committee, composed of various representatives of the social economy – co-operative, community and local development movements – and is enriched by close regional relations. Regional committees on the social economy have been formed. In 1997 the policy of support for local and regional development mandated the regional and local consultations bodies (regional development councils and local development centres) to contribute to the development of the social economy.

Various funds for the development of the social economy have been set up, often on the initiative of trade unions, private enterprises, or the State, to provide capital for social economy enterprises (see *Micro-financing and Local developement*, OECD, IFDEC, Human Resources Canada, 1998). Special attention is given to the training of social entrepreneurs, particularly in management.

### Box 20. Three social enterprises in New Zealand

**Community Business and Environment Centre, Kaitaia**

The Kaitaia Community Business and Environment Centre (CBEC) was set up as a community group in 1991 to seek solutions to local employment and environmental problems. The CBEC now manages a garden centre and has negotiated contracts for reforestation projects with the public sector in northern New Zealand. Since 1995, the centre has employed 28 full-time employees and 90 seasonal workers. The enterprise is divided into several sections: plant nursery, reforestation, youth development, business advice and leasing of work space.

**Buller Community Development Company**

The Buller Community Development Company was started in 1989 following the closure of a number of large companies on the west coast. It provides training courses in enterprise management and advice for new entrepreneurs seeking to take advantage of unexplored market niches. In the past five years, the Buller Community Development Company has set up a fertiliser factory that uses residues from a local cement factory and a plant nursery geared towards export. The Buller Community Development Company also provides services for the Department of Social Welfare and gives advice and technical support to local enterprises experiencing difficulties.

**Aotearoa Mature Employment Service (AMES), Timaru**

The Aotearoa Mature Employment Service, like many others of its type, aims to assist unemployed people over 45, who worked for the same employer for many years, to find new jobs. The service provides psychological support and teaches people to turn their skills and experience to advantage using proven techniques. Like other community groups, AMES has developed commercial activities to increase its resources. It has set up an accounting firm, a craft shop, a marketing company, a placement agency and an events enterprise. For tax reasons, the group does not receive the profits from these companies, but a percentage of turnover, which is considered by the tax authorities as a management cost and is therefore not taxable. With this income, the group has been able to refuse government subsidies for the first time, because it has become completely self-sufficient.

### *New Zealand*

In New Zealand, the Community Employment Group (CEG), which used to be part of the Ministry of Labour, is now an autonomous unit of Work and Income New Zealand. CEG works with communities and groups within communities on enterprise development and job creation. It focuses its activities on four priority groups: Maoris, rural and urban disadvantaged communities, Pacific Islands people and women.

In five regions of New Zealand, panels of experts assist communities to implement job-creation projects. One of CEG's goals is to promote financial self-sufficiency. Several organisations have followed the US model by selling a part of their activities to finance their social goals. However, only a small number are established to date as social enterprises.

### *Mexico*

In Mexico, the term "social enterprise" is used to designate co-operative-type projects, established on the initiative of groups of indigenous people, farmers or residents of extremely disadvantaged areas, and assisted by the F*ondo* N*acional para las* E*mpresas de Solidaridad*- FONAES (National Fund for Social Enterprises).

FONAES was set up by the Mexican government in 1992 and its action has been extended in the last three years to financing active employment measures. The fund supports unemployed entrepreneurs and social co-operatives, but also financial, social and training organisations, which in turn support other projects (venture capital organisations, solidarity funds, investment and reinvestment funds and institutes that offer training in entrepreneurship).

At the beginning of 1998:

– 2 100 enterprises in 31 states of Mexico had received support worth a total of 704 million pesos;

– 830 enterprises had benefited from venture capital and 1 277 from loans.

Since 1995, FONAES has made it possible to create or maintain 36 000 jobs by providing venture capital. Another 380 000 jobs were created in social enterprises. Their activity is concentrated in the agriculture, agrifood, forestry and fishing sectors.

The Mexican government is committed to developing social enterprises in the poorest regions of the country and to supporting their diversification.

### Box 21. Mexico – A Social Solidarity Company

**Identification**

*Name of the company*: Indígenas de la Sierra Madre de Potozintla "San Isidro Labrador", S.S.S (ISMAM).

*State*: Chiapas.

*Coverage*: Soconusco, Sierra, Centro and Zelva zones in Chiapas. The members of this company are distributed into 176 organised communities within 52 zones divided into two major regions (Centro and Costa); these communities are important in 17 Chiapas municipalities.

*Number of members*: 1 500 partners.

*Main activity*: Production, industrialisation and commercialisation of certified high quality-organic coffee.

**Company background**

In 1985, the Catholic Archdiocese of the city of Tapachula, in the state of Chiapas, decided to collaborate with indigenous communities in the region. It undertook an analysis of producers'problems and discovered that they were not making a profit due to the following facts:

- The production cost of coffee per hectare, using agricultural chemicals, represented more than 60 per cent of their total income.
- Despite the use of agricultural chemicals, the average production per hectare was 13 sacks of pulped coffee, still in its thin husk.
- Coffee's market price was below its production cost.
- Inflation was above product price increase and chemical prices were at par value.
- The commercialisation system was unfair as, on the whole, small-scale producers supplied raw materials directly to big warehouses in the area and only the intermediaries benefited from export.
- The use of chemicals had already degraded the soil, impoverishing the peasants by the huge investment required and the low price of their products.
- Discounts for inferior quality or weight at sale were excessive.
- Peasants became accustomed to not working as they could carry over credit to the following year.
- Peasants abandoned the land and did not look after it.

By the end of that year, the *Comisión de Cooperativas de la Sierra* (Co-operatives Commission) asked the indigenous peasant to analyse and reflect on the region's problems. They thus decided to create co-operatives in order to solve the problems, with a view to fighting hunger and racism, extreme poverty, illiteracy, marginalisation, illness, inequality and mistreatment. This "fight" took the form of being granted a plot of land to work, conserving it and making it productive without

Box 21. **Mexico – A Social Solidarity Company** (*cont.*)

damage or contamination, with the aim of fostering organised work as a means of acquiring development and preserving culture, religion, custom and traditions.

In 1986, the ISMAM did not export one single coffee bean, since its goal was to legalise the group according to the aims it had set itself, and to prove the partners'conviction to work according to the principles established. One of those principles was: service not business. With this in mind, an organic methodology was implemented to improve production while guaranteeing the product's quality and health.

**Legal organisation**

The *Indígenas de la Sierra Madre de Motozintla "San Isidro Labrador"* association was constituted as a Social Solidarity Company and is called ISMAM, S.S.S.

**Production features**

Twelve years after its creation, ISMAM's high-quality coffee production has been made possible, by the strict use of organic methods, on a plantation of 4 000 hectares, already producing coffee beans, and an area of 500 hectares situated on volcanic soil, bathed by the Pacific Ocean's sea breezes.

High quality Arabic coffee is being produced for national consumption and export. Independent certifying organisations, such as OCIA (United States) and NATURLAND (Germany), have guaranteed this type of coffee as an organic product from the moment of its cultivation to its shipment to the target market.

**General organisation**

This company has a 99-year life span and its management is based on a General Assembly of Partners, who delegate a series of functions to a General Assembly of 48 Representatives (zone delegates). This Assembly is in charge of assessing and managing the Executive Committee's functions. The company has maintained links with the Catholic Archdiocese of Tapachula, through the multi-disciplinary team of the *Pastoral de la Tierra*.

**Number of generated jobs or beneficiaries**

There are 1 500 partners with permanent employees and 4 000 temporary day labourers during the harvesting season.

**Training and technical assistance**

- Training and integral technical assistance are permanent.
- Three agriculturists work on the specialised management and control of plagues. A team of six technicians also assist 75 community promoters in fostering the appropriate use of basic elements such as sun, water, soil, animals and vegetables, in harmony with nature.



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Box 21. **Mexico – A Social Solidarity Company** (*cont.*)

– The result of this intensive organic technology, involving families' total integration into the productive process, guarantees a healthy, high-quality and an exquisitely-flavoured coffee for the consumer. ISMAM's social responsibility, apparent in all stages of production, gives an added value to its coffee.

**The financing of social enterprises and social-purpose enterprises**

Research conducted in OECD countries shows that one of the fundamental characteristics of social enterprises is that their activities are financed by a combination of different types of market resources (resulting from the sale of goods and services), non-market resources (government subsidies and private donations) and non-monetary resources (volunteer work). To remain viable and stand up to heightened competition from traditional enterprises – which in some countries are moving into the same market niches, where demand has become solvent – social enterprises need to be able to rely on core and specific support. The ability to attract financing from different sources and develop new financial tools resides in the very nature of social enterprises, which, although increasingly subject to the rules of the marketplace and competition like other enterprises, are recognised as having social utility and as fostering the expression (and construction) of social links.

On what grounds is public financial support justified? The social utility of social enterprises that focus on the integration of disadvantaged groups is relatively easy to identify. The entry or re-entry into the (paid or unpaid) labour market of unemployed people is both socially and financially beneficial for the community. Assisting unemployed people into employment enhances social cohesion and enables beneficiaries to recover their economic independence after a period of retraining.[31]

The social utility of social-purpose enterprises that bring new responses to unmet social needs can be measured as the provision of new goods and services that are complementary to those delivered by the public and private sectors and accessible to a greater number of citizens because of their low cost.

Public financial support for social and social-purpose enterprises nevertheless remains controversial. Why should some of these activities be encouraged? Some economists, following the lead of B.A. Weisbrod and H. Hansmann, believe that public intervention is justified when the production of certain goods and services generates greater collective satisfaction than would have been generated by market forces alone in the absence of financing by taxation, because of the existence of impure public goods or because of externalities or asymmetric information – in

other words, because of market failures. Subsidising impure public goods would appear to be preferable to purely public production, because demand is heterogeneous and a standardised response, based on an exclusively public-sector decision, could fail to cater to some consumers. Complementary financing, in contrast, would make it possible to satisfy minority demands. Decentralisation or devolution of public subsidies is also more likely to ensure that supply is tailored to needs and to empower the beneficiaries. Where there is asymmetric information, it would be preferable to direct subsidies or contractual agreements towards developing the activities of not-for-profit organisations rather than to support for-profit organisations or exclusively public goods and services. The third sector is likely to prove more efficient than the public or private sector because of its capacity to mobilise donations and volunteer work, enabling it to charge lower prices. In certain cases, not-for-profit organisations could have an advantage over private enterprises in the provision of services, for example when trust relationships are a necessary condition for the activity.

"If we consider that there is a category of situations in which the market has failed and where public intervention is required, the public power is justified (even if this is not the only means of action at its disposal) in encouraging the supply of goods and services by not-for-profit organisations through subsidisation and special tax treatment, exempting such organisations from the principles of competition, which are in any case inefficient because of market failures. In this way, public support is not a hindrance to fair competition, but is based on a concern for sound management of public funds. We can even consider that, where the information gap is considerable, the public power has an interest in supporting not-for-profit supply rather than delivering supply itself or outsourcing to a for-profit enterprise. While the development of a not-for-profit sector is desirable for reasons other than economic – particularly its contribution to democracy and social cohesion – it is interesting to note that it is justified on grounds of economic theory alone" (Enjolras, 1997). Apart from the efficiency considerations outlined above, the State can intervene in resource allocation for the sake of principles of fairness and social justice as society defines them. "To clarify this notion of social justice, a branch of economic theory (welfare economics) has attempted to formulate a social welfare function… A just society is one that maximises this social welfare" (CERISIS, 1998, p. 21).

**Access to credit**

In most OECD countries, social enterprises have difficulty obtaining access to credit. Traditional financial institutions generally refuse to lend to them, citing several reasons: the managers of social enterprises do not meet their established client criteria; the logic of social enterprises and of social economy organisations in general does not reflect the requirements of economic viability; and the social and economic structures behind the projects do not offer sufficient guarantees.

Box 22. **Different financing situations of social and social-purpose enterprises**

There is a range of financing situations in OECD countries: entities whose financial structure is almost entirely publicly-funded; entities that benefit from considerable public financing (tax exemptions, new jobs tax credits), forming most of their resources; and social enterprises operating in the market economy that receive subsidies to reduce their real labour costs for a specified period so as to allow for the integration of job-seekers with great employment difficulties and associated low productivity and supervision requirements, such as work integration enterprises in France, B-type work integration social co-operatives in Italy and training-through-work enterprises in Belgium.

Other forms of financing are related to the number of new jobs created (as for work integration enterprises in Belgium).

The types of financial support vary according to the legal framework in each country. They include new jobs tax credits for each worker hired, tax deductions and reduced social contributions, contribution to wage costs by secondment of staff, lump sums per year and per reintegrated worker, etc.

This situation often places social enterprises in a difficult position. Consequently, they must seek new financial partners or reduce their development ambitions. Difficulties drawing up budgets, and the lack of available funds, are obstacles that social enterprises must overcome to realise their social and economic goals. Some social enterprises group together to mutualise their available funds or to approach banking institutions collectively. Others turn to new community or social financial institutions, which collect funds from individuals and institutions and make loans to social and social-purpose enterprises on favourable terms. In Europe, most of these institutions belong to the International Association of Investors in the Social Economy (INAISE), a network that currently comprises around 40 organisations.

**Examples of social enterprise financing**

In Belgium, in 1984, a group of individuals and associations founded CREDAL (C*rédit* A*lternatif*), whose clients are mainly non-profit associations and co-operatives of the social economy with projects aimed at creating jobs and alleviating social exclusion. CREDAL offers investment credits and bridging loans.

H*efboom vzw*, was started in 1995, with the same motivations that inspired CREDAL. It provides loans and bridging loans and makes equity investments in

Box 23. **The mixed financing of social and social-purpose enterprises**

- Positioning in the market: social enterprises are subject to the same market constraints as other enterprises;
- Need to be economically viable to ensure the sustainability and efficiency of their objective of (re) integration through the production of goods and services;
- Capacity of social enterprises to mobilise different types of resources;
- Mixed financing:
  - market resources (sale of goods and services);
  - non-market resources (public subsidies when contracting is performed without an open call for tenders);
  - non-monetary resources (volunteer work);
  - other resources (private donations).
- Social utility, the basis for public financial intervention:
  - integration of disadvantaged groups into the primary or secondary labour market ⇒ shift from passive to active employment measures, reduction of welfare budgets, etc;
  - production of goods and services in the public (community) interest ⇒ ability to reach new groups, affected by isolation, lack of resources, etc.
  - financing tied to services rendered (*e.g.* in the area of child-minding, generally in connection with social policy).
- Revitalisation of the local economy and social cohesion, creating an improved climate of confidence between local players (also called collective externalities);
- Problems:
  - how to evaluate the economic and social performance of social enterprises?
  - effect on employment: how to compare job creation subsidies in the market and non-market sectors – cost/benefit ratio;
  - need to construct indicators to measure the qualitative effects of the action of social and social-purpose enterprises on beneficiaries and the local environment.

non-profit associations. Its objective is to attract funds and to finance social enterprises which create quality jobs and which care for the environment.

The *Société Wallonne d'Économie Sociale Marchande* (SOWECSOM) is a state-owned company whose purpose is to promote the development of the market social economy by providing loans, guarantees and making equity investments.



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In Denmark, *Merkur*, founded in 1992, lends only to enterprises pursuing social, alternative or environmental objectives.

In the Netherlands and also now in Belgium and the United Kingdom, Triodos Bank, founded in 1980, is particularly active in the promotion of projects with a social dimension: integration of the long-term unemployed into work, community housing, child care, etc.

In Spain, *Ecos Capital Riesgo* has been financing co-operatives in their start-up or expansion phases since 1993 and is the only venture capital organisation specialised in the social economy.

In France, the *Fonds France Active* which incorporates the *Caisse des Dépôts et Consignations* (investment arm of the French State), the mutual savings banks *Crédit Coopératif* and *Crédit Mutuel*, the *Fondation Macif* and the *Fondation de France*, set up regional and local funds in 1990 to support work integration enterprises through bank guarantees, loans, repayable advances, equity investments, financial advice and evaluation. The funds are financed by regional and local government bodies, private contributions from banks and collection of deposits for solidarity. The financial guarantee offered to social entrepreneurs makes it easier for them to apply for loans from banking institutions.

The *Société d'investissement France Active*-SIFA was set up in 1991 by the *Caisse des Dépôts et Consignations* (60 per cent), the *Fondation de France*, the *Association France Active* and other organisations, with the aim of strengthening the equity capital of work integration enterprises that have adopted the status of commercial enterprises. SIFA has set itself the task of facilitating negotiations between banks and these enterprises and to increase their economic potential so they can create new jobs for tomorrow. It acquires minority stakes in enterprises and makes contributions to their current accounts. It has invested to date in 57 enterprises and its capital is 12 million francs. SIFA is now undertaking a strategic review of its positioning and sources of income and is planning, after putting its activities on hold, to re-enter the market in 2000.

EFICEA – *Épargne de proximité pour la création d'entreprises* is an association established in 1994 to promote community savings for the establishment, development and recovery of small businesses. Its mission is to direct entrepreneurs towards appropriate financing structures.

In the United States, there are several financial institutions serving community development organisations. Community Development Financial Institutions (CDFIs) cater to private organisations whose objective is to promote community development for target groups and provide services for development and loans. The Community Reinvestment Act of 1977 was passed to encourage and increase the involvement of financial institutions in responding to needs of deprived communities. The Community Development Banking and Financial Institutions Act of 1994 laid down guidelines for the financial tools at the basis of community development financial institutions.

Two examples:

– Community Loan Funds are non-profit financing companies which provide loans on favourable terms to non-profit organisations that implement community economic development projects. These companies offer training and act as levers for other sources of financing.

– Community Development Credit Unions are savings and credit co-operatives that channel local savings into the development of the communities from where the savings are raised.

Most non-profit initiatives are financed by the private sector, via foundations and private donations.

In the United Kingdom, the Charities Aid Foundation-CAF set up an independent organisation in 1996 called Investors in Society, whose objective is to increase the resources available for charitable organisations, mainly through improved co-operation and understanding between charities and the conventional banking system.

The Scottish Community Enterprise Investment Fund (Scotland) founded in 1989 lends exclusively to community enterprises unable to obtain financing from traditional banking networks.

The Industrial Common Ownership Finance (Northampton) operates a loan fund for co-operative enterprises, which has been open to community enterprises since 1994. It promotes economic initiatives for the common good.

In Italy, the *Compagnia Sviluppo Imprese Sociali*-COSIS S.*p.a* was founded in 1995 by a banking foundation which is the majority shareholder (95 per cent). COSIS functions like a development finance institution: it finances social enterprise projects which are socially valuable and economically feasible. It also supports the formation of consortia and groups of associations. In 1997, the *Banca di Roma* issued a first payment of 30 billion lire of a "solidarity and employment" debenture loan, designed to consolidate the financial base of COSIS.

The *Mutua Auto Gestione*-MAG co-operatives operate as alternative organisations to promote a social and co-operative economy. The MAG are self-financing, as funds are contributed by the members of the financial co-operative. Members pay a joining fee, which provides a stable financial base for the co-operative. Savings are deposited in a bank account and used to finance the activities of the MAG. Members receive interest, the rate of which varies according to the term of the deposit, but they can choose a lower rate of interest to encourage the activities of the MAG. The rates of interest for loans to clients are preferential, compared with those proposed by traditional financial institutions.

Another response to the problem of access to credit for social enterprises, has been the establishment, in some OECD countries, of ethical banks, whose goal is to finance enterprises of the social economy at lower rates of interest than market rates.

However, although these new banks have had some success, they are far from changing the attitudes of conventional banking institutions, particularly the larger banks. Some local funds and regional credit and savings unions seem to be more receptive and lend to social enterprises while benefiting from government programmes and municipal initiatives executed by the non-profit sector. The *Crédit Mutuel de Provence Côte d'Azur-Languedoc-Roussillon* in France is one example.

**Examples of ethical banks**

In the United States, the South Shore Bank of Chicago is the best known community development financial institution. It began investing in an area of Chicago with a majority black population and subsequently extended its action to other communities. It promotes development in the central districts of the city by concentrating its activity on renovation of housing and development of small businesses, particularly those providing local market services. The bank has spearheaded a network of public, private and community organisations. It has implemented a range of tools that have enabled it to forge close links with so-called "risky" clients and has proved its profitability over the years.

In France, the *Caisse Solidaire*, a mutual financial company, was inaugurated in October 1997 in Roubaix, in the Nord-Pas-de-Calais region. This is the first credit institution launched on the initiative of a regional government in France with the aim of alleviating unemployment and social exclusion by financing projects overlooked by conventional financing circuits. The fund targets three groups: micro-enterprises in their start-up or initial expansion phases; young farmers developing new activities that will promote development in rural areas; and non-profit associations that provide active solutions to socio-professional exclusion. The regional government holds the largest stake in the organisation, with 33 per cent of the total capital of 15 billion francs. Other shareholders are the *Caisse des Dépôts et Consignations*, *the Crédit Coopératif*, the *coopérative Autonomie et Solidarité* and about 15 other organisations. The deposits collected receive a low rate of interest (maximum 2.5 per cent) and may not be withdrawn for two years (unless the depositors forfeit their interest). Depositors can decide on the use to which their capital is put by choosing one of three options – service and industrial enterprises, rural development or not-for-profit associations – or by leaving the choice up to the bank. They are informed every two months about the use made of their money. The fund offers loans of 30 000 to 150 000 francs at a rate of 8 per cent to projects supported by government-approved enterprise development networks. Two-year assistance is provided for projects encountering the most difficulties. The loan applicant must provide joint surety by a group of 5 to 10 people.

In the first quarter of 1999, the "first universal ethical bank in Italy" opened its first branch in Padua. With a capital of 6.5 million euros from depositors and other banks, it will finance cultural, environmental and social solidarity projects that rarely receive

support from the banking system. Its longer term goal is to change depositor behaviour. It will offer debentures and certificates of deposit (in euros). Next year, it will launch current accounts. Based on the MAG, the *Banca Etica* has won the support of four mutual banks and 136 municipalities. By offering a rate of interest one percentage point lower than the market rate, it should be able to generate enough margin to lend to associations, social co-operatives, environmental projects and "the 25 per cent of the population who are excluded from credit". The bank proposes to finance all sectors of the social economy, hence the qualifier "universal".

Box 24. **Access to credit**

**Various responses to the problem of access to credit for social enterprises:**

- formation of networks of social enterprises to mutualise their available funds or to approach banking institutions collectively;
- alternative credit organisations, often formed at the instigation of the not-for-profit movement, which lend to social enterprises on favourable terms;
- emergence of ethical banks.

**Problems:**

- lack of co-ordination between traditional and non-traditional financing circuits;
- few partnership agreements between the social-purpose financial sector and the conventional financial sector: reciprocal lack of knowledge about their respective skills and expertise;
- need by banks and financial organisations to model profitability criteria for projects aimed at local, economic and social development.

## Conclusion

While social enterprises have often anticipated reforms to the Welfare State, their expansion in many OECD countries is certainly linked to the acceleration of these reforms and outsourcing of welfare services. The main characteristics of social enterprises is: *i*) the provision of goods and/or services that are not satisfactorily delivered by either the State or the market and *ii*) the hiring of disadvantaged groups of workers. The viability of the enterprise and the employability of the persons recruited are mid-term goals. Social enterprises respond to various challenges, which can be divided into five broad categories:

- New sectors of activity, which are often unprofitable in their start-up phase;
- Highly segmented demand, centred on geographical, ethnic and community units, which is inadequately covered by standardised supply;

– Reduced public budgets leading to the withdrawal of the State from not-for-profit collective projects;

– Withdrawal of central governments, after or during administrative and fiscal decentralisation, accompanied by empowerment of private, co-operative and community operators and priorities based on new parameters: better cost/benefit ratios, review of positive discrimination policies in the light of specific situations in certain countries and the achievements of private and/or non-profit organisations at various levels, and reassessment of the forms and conditions of public support (temporary rather than permanent, needed for operators to seek co-financing and to become self-financing in time);

– Varying capacity of social economy/non-profit sector operators to co-ordinate with the private sector, including the private financial sector, and to form public/private networks at a regional/local or national/international level to expand and sustain their action.

Despite differences between the national and regional/local contexts studied in this document, OECD economies seem to be converging in three main directions:

– "Use" of social and/or social-purpose enterprises to improve and reconstruct the Welfare State, according to a revised model of sustainable development (support for emerging, not-yet-solvent economic sectors, often driven by a concern to improve living standards; empowerment of users through participation in determining the quality of services/products delivered to them; contribution of users to the costs of new services/products; public financial support related to results, measured in terms of the number of people affected, and other goals, such as the reintegration of unemployed people into the labour market through active employment measures).

– Professionalisation of the third sector and inclusion of social enterprises in a new economy that will be competitive in 10 to 20 years' time, with existing not-for-profit organisations spearheading new undertakings in promising fields of activity and others starting up and opening the sectors of the future.

– Creation of a new form of mixed economy, serving the interests of the public economy and the private sector and underpinning the structural adaptation of OECD economies to changing needs. Perhaps also an interest in more efficient allocation of resources by emphasising certain local factors for socio-economic reasons or social cohesion.

These three dimensions are reflected in the policies of central governments to varying degrees, depending on the specific situation in each country.

Several fundamental questions remain to be addressed by future research:

– The contribution of social enterprises needs to be measured by appropriate evaluation tools. These must be able to identify short-term results, in terms

Box 25. **Sens/Croissens – Social economy at Cokerill-Sambre**

The idea for the Sens/Croissens project was inspired by the White Paper of the European Commission under Jacques Delors and the European Declaration of Businesses Against Exclusion. In 1996, with the creation of Sens asbl and the Croissens co-operative, the Cokerill-Sambre group's commitment to the Declaration became a reality. The Croissens co-op developed two lines of business: a household errand service and the marketing of vacuum-packed ready-meals prepared by Echafaudage, a training-through-work enterprise in Lille.

For its part, Sens asbl provides a range of neighbourhood services at special low prices. The services are performed by three social economy enterprises in the Lille area. Creasol EFT in Liège and Village No. 5, an *entreprise de travail adapté* in Seraing, iron and do alterations on personal clothing for Cokerill-Sambre employees. The third firm – Cortil, a Neupré-based gardening and horticulture EFT – does small gardening jobs for the same customers.

The business developed by Sens and Croissens has enabled social economy enterprises in the Liège area to expand their clientele. Geared at first toward company employees, the market has shifted, and the people that initiated the project are now trying to expand its scope.

of the number of people entering or re-entering paid or unpaid work, and mid- to long-term benefits in terms of overall development and effects (positive externalities) on the capacity of a region or an employment area to revitalise and mobilise its strengths for economic and social development. (Gaudrey, 1996; Fondazione Giacomo Brodolini, 1997).

- The degree of entrepreneurial culture injected into an area that can be attributed to social enterprises in the discovery or rediscovery of market niches with potential for revitalising the private sector to meet new or unmet needs.
- The cost of financing social enterprises compared with other lines of financing for the creation and maintenance of employment and successful retraining of "unused" human resources.
- The "contagion" effects on conventional enterprises through partnerships capable of generating economies of scale and making demand solvent by matching supply to new patterns of consumption. Examples include the European Business Network for Social Cohesion (EBNSC), which is keen to open commercial enterprises to new challenges with a view to winning new markets, and US enterprises that emphasise multi-cultural recruitment and management and support for community development as a way of keeping up with social change.



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New private-sector actions, inspired partly by the social enterprise movement, include:

- forward-looking management of human resources, including recruitment of categories traditionally under-represented in enterprise, with a view to conquering new markets;
- a review of traditional models of marketing and management, so that enterprises that enter into co-operation agreements with social enterprises can position themselves as overall enterprises, while remaining attentive to small market segments for future expansion;
- a new way of communicating and forming partnerships, reflecting the concern for social cohesion advocated by governments and civil society.

Other issues that deserve to be investigated are:

- How and why should legislation distinguish between not-for-profit and for-profit activities? Is there a need to provide for intermediate structures such as social-purpose enterprises?
- Can we forecast the future 10 or 20 years from now of the changes currently under way (organisation, integration and training, financial tools, etc.) in social enterprises and commercial enterprises engaged in emerging economic sectors?
- Could co-operation between social enterprises and commercial enterprises be enhanced by facilitating reciprocal flows of staff?
- How could the professionalisation of the new jobs created in social enterprises be enhanced by establishing closer links with the private sector?
- How can we best measure the economic impact of social and social-purpose enterprises?



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## Notes

1. In 1996, the EMES network (*L'émergence des entreprises sociales, réponse novatrice à l'exclusion sociale en Europe*) consisted of representatives of seven countries: Belgium, Finland, France, Italy, Spain, Sweden and the United Kingdom. In 1997, membership was extended to the other EU member States.
2. The term "social economy" comes from the French "*économie sociale*" and is beginning to enter usage in other European countries. However, the meanings attributed to the term vary. In general it applies to a category of enterprises which have a specific legal form and rules of operation and which conduct particular activities. Some sources, however, prefer to define the social economy by its objectives or motivations: principally, that it escapes partly from market rules, adopts a more people – centred mode of production and emphasises the social aspects of production (Bidet, 1997). Bidet stresses the existence of multiple networks in the social economy. Although the social economy sector does not yet enjoy institutional recognition in Europe, the concept is taking hold in a number of countries. In the United Kingdom, where the more common term is voluntary sector, a Forum for Social Economy was set up in 1993, the equivalent of the *Comité national de liaison des activités mutualistes, coopératives et associatives* (CNLAMCA) in France.
3. The 13 countries analysed were: France, Germany, India, Italy, Japan, Sweden, UK, USA, Brazil, Egypt, Ghana, Thailand and Hungary. The mainly American concept of "non-profit sector" can be compared to the French concept of *économie sociale*. It emphasises the fact that the aim of the organisations belonging to this sector is not to make a profit. This sector includes any formal, private and independent organisations that involve volunteers and that do not distribute profit.
4. The term "third sector" is probably the most appropriate for describing this sector's positioning outside both the market and the State, while "non-profit sector" emphasises the aspect of profit, which is re – invested rather than distributed.
5. Unless the Constitution promotes the creation of intermediate groups, as in Italy.
6. The participation of volunteers was one of the criteria selected by John Hopkins University to identify organisations belonging to the non-profit sector. According to M. T. Cheroutre's definition in *L'essor et l'avenir du bénévolat, facteur d'amélioration de la qualité et de la vie*, *Conseil économique et social*, Paris, 1989, "A volunteer is a person who freely undertakes an unpaid activity for the benefit of others, outside of his work and family time". For an analysis of the motivations of volunteers, see F. Zandonai, *Le motivazioni del lavoro non retribuito nelle imprese sociali*, in Impresa sociale, No. 25/1996.
7. In *Les associations dans la dynamique locale*, a paper presented at the thirteenth conference of the Association pour le Développement de la Documentation sur l'économie sociale (ADDES), M. T. Cheroutre proposes a methodology for evaluating the contribution of volunteers in monetary terms, while stressing its limitations. On the one hand, voluntary

work cannot be reduced to an economic input and, on the other, it incurs a management cost (office space, instructors, courses, documentation).

8. The Conseil national de la vie associative (CNVA), the federation of non-profit associations in France, recently adopted an opinion on the complementarity between employment and volunteer work in associations, stressing the positive effect on employment of synergy between paid workers and volunteers. Other sources, such as B. Halba and M. Le Net, *Bénévolat et volontariat dans la vie économique, sociale et politique*, Notes et études documentaires, la Documentation Française, 1997, also describe the complementarity between paid work and volunteer work and emphasise the fact that volunteer work not only maintains current levels of employment but even creates jobs (p. 113). In contrast, *Le Monde des initiatives* of 10 December 1997 describes complicated relationships between paid workers and volunteers in associations.

9. However, the study carried out by the CGM in Italy indicates that almost half the Italian *cooperative sociali* do not have any volunteer members. Voluntary work in general has been considerably reduced, while the other component that could replace volunteers – user members – in influencing the quality of services and improving the image of the enterprise, has not increased.

10. The University of Le Mans, for example, has offered a Masters degree (*Diplôme d'Études Supérieures Spécialisées*) in management of a social economy enterprise for some time.

11. For example, the Institut d'études politiques in Grenoble runs a post – graduate course on developing social economy activities and enterprises, which is open to students and to people already working in the sector.

12. *Entreprises de formation par le travail* (EFT) provide up to 18 months of training for the unemployed. Their programmes combine productive work and counselling with psychiatrists and/or social workers for people who are very hard to place in the labour market. There are approximately 60 EFTs operating in French-speaking Belgium today, which offer over 1 000 training places. In Flanders, there are similar organisations: *leerwerkbedrijven*, *leerwerkplaatsen* and *werkevarings projecten*, which aim to integrate disadvantaged categories into the labour market through work.

13. 750,000 Belgian francs the first year after approval, BEF 500 000 the second year, BEF 250 000 the third.

14. 200,000 Belgian francs the first year, BEF 150 000 the second, BEF 100 000 the third, BEF 50 000 the fourth.

15. C. Borzaga, "*Social Cooperatives and Work Integration in Italy*", Annales de l'Économie publique Sociale et Coopérative, No. 2, Vol. 67, 1996.

16. The IG organises information and assistance for networks operating in the social sector and technical assistance to social enterprises, including project evaluation, financing and supervision for setting up social enterprises.

17. Decreto legislativo 4 December 1997, No. 460 "*Riordino della disciplina tributaria degli enti non commerciali e delle organizzazioni non lucrative di utilità sociale*", Gazzetta Ufficiale No. 1/L, 2 January 1998. Although this decree only covers tax aspects, it gives the only legal definition in Italy of *organizzazioni non lucrative di utilità sociale* (ONLUS). The ONLUS that meet the conditions indicated in the decree may benefit from special tax treatment.

18. Some work integration social enterprises only receive the subsidy from the departmental directorate of labour, employment and professional training (DDTEPF).

19. These are recycling enterprises.

20. These are minorities recognised in socio-cultural and identity terms, living a nomadic life. There are some 4 000 families of Travellers. Their work is mainly trade and the disposal of used goods (O'Hara, 1998).

21. Swedish associations (*förening*) are divided into "*ekonomisk förening*" (economic associations) and "*ideell förening*". Any association that does not have an exclusively economic purpose to enrich its members is automatically classified as *ideell*.

22. Figures for 1989.

23. This took the form of Community Development Corporations, key organisations in local development seeking to reconcile economic and social objectives. "These corporations are non-profit bodies based on complex partnerships (community, public, private sector), run on democratic principles, and with a diversified range of activities. They have operating and investment funds that they use to buy, renovate and manage local housing and to provide community care services, particularly in health and social services. They have expanded in number as a result of financial and training support from non-governmental organisations at both national and local level. They are hybrids in three ways: first, their financing is provided by the federal, state and local authorities and by the community via the use of local savings. Second, their boards of directors include residents, local development corporation professionals, and representatives of the municipal authority. Third, their policies integrate the lobbying of public authorities, the use of funds by the communities that provided them, and economic and social revitalisation." (Favreau, 1994).

24. An Affirmative Business is an enterprise that give real jobs at competitive wages to people with physical, mental, economic or social difficulties.

25. Most of these credit unions belong to the Mouvement des Caisses Desjardins, the biggest private-sector employer in Quebec, with almost 31 700 employees in 1995 and a further 15 000 employed in portfolio companies and other organisations in the movement.

26. For examples of these sectors, see M. D'Amours, op. cit. For a historical overview of the community movement, see L. Favreau, B. Lévesque, *Développement Économique Communautaire. Économie sociale et intervention*, Presses de l'université du Québec, 1996.

27. Community economic development is based on integrated intervention (combining both economic and social aspects) targeting specific geographical areas. It is implemented by community economic development corporations.

28. These aim to enhance the employability of local people and facilitate their integration or re-integration into the labour market and to support enterprises with projects centred on maintaining and creating jobs. They promote co-ordination and solidarity between local players. Operations of this type are currently being carried out in Montreal and in central districts of Quebec City.

29. These are the result of the merger of two organisations: *centres d'aide aux entreprises* (enterprise assistance centres) and *comités d'aide au développement des collectivités* (community development assistance committees) and their mission is to encourage communities to participate in their own development and take charge of their future.

30. These seek to reinforce grass-roots and community groups in their area and to promote the active participation of these groups in local socio-economic development. Experiences of this type are currently under way in some 20 local communities and sub-regions of Quebec.

31. In France, it has been estimated that an unemployed person costs the community roughly 120 000 francs, whereas financial support for a work integration placement costs considerably less (around 50 000/60 000 francs).

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