European Parliament

EU support for social entrepreneurs

SUMMARY

Social enterprises combine social goals with entrepreneurial activity. They represent a business model focused on having a positive social or environmental impact rather than simply making profit for shareholders. Social enterprises make a valuable contribution to the economy and society, operating mainly in local communities and covering areas such as education, healthcare, social services, work integration and environmental protection. They are also an increasingly popular choice for outsourcing certain public services of general economic interest.

Social enterprises encounter challenges in their operations, mostly related to regulatory obstacles and difficulties in accessing funding. At EU level the momentum gained by the Social Business Initiative of 2011 is currently being supplemented by regulatory changes such as the review of the regulation on the European Social Entrepreneurship Funds, improving access to public procurement and developing methodologies for measuring social impact. The EU is also making efforts to improve funding opportunities, for instance via the Social Impact Accelerator and the 'microfinance and social entrepreneurship' axis of the Employment and Social Innovation programme. Additional funding is made available under the European Structural and Investment Funds, as well as programmes tailored to small and medium-sized enterprises. Expansion of the social economy, however, requires further development of a supportive regulatory environment, a tailored financial ecosystem, and also increased visibility and recognition.

In this briefing:

EPRS | European Parliamentary Research Service
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PE 599.346

Background

Social enterprises are part of the social economy and focus on achieving wider social, environmental or community objectives. According to the European Commission's 2015 report on social enterprises in Europe, a social enterprise is commonly defined as 'an autonomous organisation that combines a social purpose with entrepreneurial activity'. A more extensive definition is provided in the European Commission's communication on the Social Business Initiative (see Box).

Social enterprise – EU definition

The Social Business Initiative launched by the European Commission in 2011 defines a social enterprise as: 'an operator in the social economy whose main objective is to have a social impact rather than make a profit for their owners or shareholders. It operates by providing goods and services for the market in an entrepreneurial and innovative fashion and uses its profits primarily to achieve social objectives. It is managed in an open and responsible manner and, in particular, involves employees, consumers and stakeholders affected by its commercial activities'.

There are about two million social economy enterprises operating in Europe; they represent 10 % of all EU businesses. A 2013 European Commission report estimates that the social economy in Europe employs 14.5 million paid workers, which translates as about 6.5 % of the then EU-27 working population. In addition, social enterprises provide work for volunteers and other unpaid workers. These data include only the four most common forms of social economy enterprise (cooperatives, mutual societies, associations and foundations), whereas social enterprises may take various other legal forms including a standard private company. Therefore, the complete numbers may be higher. Social enterprises also vary in size, ranging from small local companies to networks or consortia allowing them to achieve economies of scale.

Social enterprises usually share several common features: a social objective, an entrepreneurial dimension, participatory decision-making, and the reinvestment of profits. They are also often highly innovative and respond to the needs of their local or regional communities. Social enterprises represent a new business model, based on social responsibility and attention to the social impact of economic activity. The positive aspects of this approach can be exemplified in the resilience of cooperative banks during the crisis, as they abstained from engaging in risky financial behaviour on account of their primary goal being the provision of financial services for their members rather than profit-maximisation for shareholders, as in case of the commercial banks. Moreover, they often operate in job-intensive sectors and in job-intensive ways, thereby contributing to employment creation.

The areas of activity of social enterprises vary widely; examples include:

- social and economic integration of disadvantaged and marginalised people (involving for instance work integration and sheltered employment, and the integration of migrants, the unemployed and people with disabilities);
- social services of general interest (such as long-term care for the elderly and for people with disabilities; education and childcare; employment and training services; social housing; healthcare and medical services);
- other social and community services (e.g. counselling, youth outreach, banking, micro finance and temporary housing for the homeless);
- public services (e.g. maintenance of public spaces, transport services, refuse collection, rehabilitation of ex-offenders);

- land-based industries and environmental work (e.g. reducing emissions and waste, recycling, renewable energy, neighbourhood development or rehabilitation schemes in urban areas; food production and distribution);
- cultural, tourism, sport and recreational activities;
- solidarity and cooperation with developing countries (such as promoting fair trade and development aid, etc.).

The specific areas of activity also vary from country to country, depending on civil society traditions, welfare systems, social finance markets and public policies. A relatively new trend is the participation of social enterprises in the delivery of public services. This includes such services of general interest as healthcare, childcare, education, renewable energy provision and community transport. These services can be complementary to social security or welfare regimes. A particular advantage of social enterprises compared with ordinary enterprises to which such services may be outsourced, is their social mission and the focus on social impact rather than purely on profit making. Arguably, this can ensure better quality of services. In some cases, such organisations are recognised and supported by the state, even becoming part of the public welfare system (e.g. Italian social cooperatives and Swedish home-care services).

Currently, social enterprises are encountering a number of challenges in the existing regulatory and financing frameworks. Their business model does not follow the traditional market logic (the double bottom line of social and economic goals; the limited or zero profit distribution), and is therefore not sufficiently understood. This makes it more difficult for these enterprises to access mainstream finance and instruments available for small and medium-sized enterprises (SMEs) more generally. The social added value of such enterprises is difficult to capture and measure, and consequently the return on investment is not clear for financial institutions, which rely on short-term exit strategies, traditional ownership structures and a high-return investment logic. For these reasons an enabling regulatory framework and specifically tailored financial ecosystem are needed to support the development of the social economy.

Regulatory framework

The legal and regulatory frameworks are important for clarifying the definition, legal status and activities of social enterprises. They can also help improve opportunities for tax incentives, provision of business support, and access to public procurement and other markets. The EU's efforts in this area include legislative measures as well as policy initiatives aimed at supporting the development of the social economy and social enterprises.

One comprehensive EU-level policy initiative for social entrepreneurship is the Social Business Initiative (SBI), presented as part of the 'Responsible Business Package' in 2011. It contains an action plan aimed at creating a favourable social enterprise ecosystem, focusing on three priority areas: funding, visibility and the legal environment. Specific actions cover issues such as social investment funds, microcredit, the register of social enterprises, labels and certifications, public procurement and state aid. The implementation of the SBI is aided by the Expert Group on Social Entrepreneurship (see Box). The initiative is considered an important part of the single market, helping to strengthen entrepreneurship and supporting employment policies. Social entrepreneurship is also one of the 12 levers of growth identified in the Single Market Act.

Regulation (EU) No 346/2013 on European social entrepreneurship funds (EuSEF) set out a new European Social Entrepreneurship Fund label, enabling investors to identify funds that focus on investing in European social businesses. The label guarantees that at least 70 % of capital received from investors is used in support of social businesses. This uniform label facilitates the marketing of social entrepreneurship funds across Europe. The regulation is currently under revision with the main amendments referring to the extension of the range of managers eligible to market and manage EuSEF funds, and making the registration and cross border marketing of these funds easier and more affordable.

Expert Group on Social Entrepreneurship (GECES)

GECES was set up in 2012 by the European Commission as a follow-up to the Social Business Initiative (SBI). It has four working groups and a subgroup on social impact measurement. This consultative multi-stakeholder group is made up of representatives of the Member States, local authorities, social entrepreneurs' organisations, the banking and finance sector, and academic institutions. The group meets twice a year and is consulted by the European Commission on the implementation of SBI actions and also on the development of social entrepreneurship and the social economy in Europe.

The EU also took legal initiatives in the area of creating EU-wide legal forms of social enterprises to facilitate mutual recognition. In 2003 it adopted a Regulation on the Statute for a European Cooperative Society (SCE) to support the development of cross-border and trans-national activities of cooperatives. However, two other Commission proposals on the statute for a European mutual society and on the statute for a European foundation (EF) have been withdrawn, as they did not receive sufficient support.

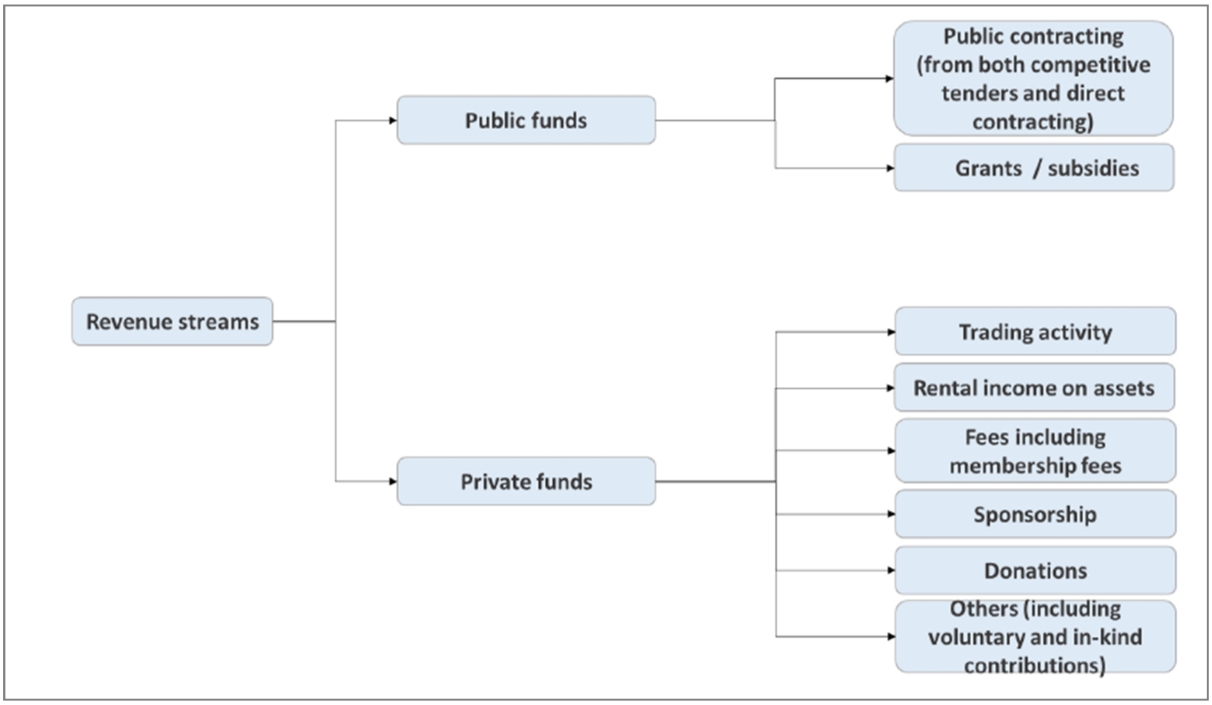
Another set of EU rules relevant to social entrepreneurship is European procurement law. The public procurement reform package of 2014 included provisions encouraging public authorities to introduce social considerations in procurement decision-making. More specifically, it allowed for the insertion of certain social clauses in procurement procedures and terms of reference. In a similar vein, the 2012 Services of General Economic Interest (SGEI) package introduced more flexibility for public authorities when providing state aid for social enterprises in the area of public service compensation.

At the Member State level various regulatory frameworks exist, ranging from well-developed policy initiatives to no formal framework targeted specifically at social entrepreneurship. As a result, there are significant differences across countries in terms of the activity profile of social enterprises, legal forms, tax incentives, business models and support structures. Sources of capital also vary (see Figure 1), ranging from models based on donation and grant finance to enterprises with sales and fees as their primary capital sources.

According to the European Commission's 2014 report on social enterprises and their ecosystems in Europe, only 16 EU countries have some form of legislation that recognises and regulates social enterprise activity. Some countries have a separate, legally defined, social enterprise status (e.g. Denmark, Finland and Slovenia), whereas in others social enterprises operate as cooperatives, associations, mutuals, foundations, WISE (work integration social enterprises) and various types of mainstream companies pursuing a social aim. Some countries have established clear rules for the required percentage of revenue from market sources or entrepreneurial activity (Czech Republic, United Kingdom, Italy and Croatia). Some national laws require a total (Italy, Poland) or partial (Finland, United Kingdom) non-profit distribution constraint, while others do not require reinvestment of profits (e.g. Lithuania). Rules also vary when it comes to asset lock and the involvement of stakeholders in company governance. Tax exemptions are generally not targeted at social enterprises, they exist either for non-profit organisations or certain forms of activity (e.g. work integration, training). Public support measures cover a variety of areas such as information services, specialist business development support, dedicated financial instruments (such as social investment funds), physical infrastructure (e.g. shared working space) and collaboration on market access.

In order to improve the harmonisation of rules on social entrepreneurship across the EU and establish a favourable regulatory framework, stakeholders represented in the Expert Group on Social Entrepreneurship have identified four areas where action at EU level could have the most impact: creating a legal framework for social enterprises; reinforcing opportunities in the internal market for mutuals and cooperatives; introducing social considerations in public procurement decision-making; and implementing state aid rules more effectively.

Figure 1 – Revenue streams for social enterprises in Europe



Data source: European Commission, 2015.

EU funding

Limited access to finance is one of the main barriers to the growth of social enterprises and the social economy. One of the problems that social enterprises encounter with regard to funding is the false perception that they entail higher risk and are less profitable than other businesses. Moreover, they tend to be small and lack the capacity to prepare sound business plans. Their desired financing amounts are also relatively small and tend to require patient long-term capital, which implies higher transaction costs for financial intermediaries. These obstacles can be overcome with a favourable financial ecosystem and specifically tailored support. Raising awareness and understanding of the opportunities and risks of financing social enterprise is also crucial. Following up on the Social Business Initiative, the EU took several steps to address some of these challenges.

An important step towards a European regulatory framework for social investment funds was the adoption of the regulation on European Social Entrepreneurship Funds (EuSEF) in 2013. While the regulation does not itself provide for EU-level funding, it facilitates investment in European social businesses by establishing the EuSEF label.

Moreover, an EU-level financial instrument was established under the Programme for Employment and Social Innovation (EaSI) – microfinance and social entrepreneurship axis, with a total budget of approximately €171 million for the 2014 to 2020 period. It supports the development of the European market for social enterprise financing by providing microcredit providers with risk-sharing guarantees in order to allow them to increase their lending. It also supports the building of microcredit providers' institutional capacity. The axis builds on and extends the European Progress Microfinance Facility, which existed previously under the EaSI programme.

In addition, the European Investment Fund (EIF) engages in activities aimed at increasing the availability of and access to finance for social entrepreneurs. It manages two financial instruments under EaSI: The EaSI Guarantee Instrument and the EaSI Capacity Building Investments Window. Furthermore, the EIF helps microcredit institutions to expand their capacity to lend to micro-enterprises. These micro-loans (up to €25 000) are tailored to micro-enterprises and can be used by social entrepreneurs. In 2015 the EIB Group (European Investment Bank and EIF) created the Social Impact Accelerator as a fund-of-funds, strategically targeting social enterprises. It totals €243 million, which will be distributed among fund managers providing social enterprises with finance in the form of equity.

Social enterprises have also been made an investment priority under the European Regional Development Fund (ERDF) and European Social Fund (ESF), which are part of EU cohesion policy. The goal of 'promoting social economy and social entrepreneurship' translates into a variety of supporting actions selected by national authorities (awareness raising, workshops, awards, direct financing). Social enterprises can also be supported under other investment priorities, depending on their field of activity (e.g. active ageing and labour market inclusion under the ESF; aid to investment for SMEs and the provision of small-scale infrastructure under the ERDF). Funding can be accessed via calls and tenders announced at the local and regional level.

Lastly, social enterprises can apply for funding directly under European Commission programmes available for SMEs, such as InnovFin under Horizon 2020 (research and innovation investments for enterprises) and COSME (Competitiveness of Enterprises and Small and Medium-sized Enterprises). Meanwhile, the European Fund for Strategic Investments (EFSI) Equity instrument also supports social enterprises through pilot equity investments made via funds linked to incubators and accelerators, as well as co-investments with social business angels.

One major barrier blocking access to funding for social enterprises is the insufficiently developed measurement of social impact, which could otherwise help with estimating the added value generated by social enterprises and assessing the return on investment for financial institutions. In 2014, the GECES Sub-group on Impact Measurement set up by the European Commission issued a document suggesting approaches to social impact measurement legislation, with particular relevance to EuSEF and EaSI. Furthermore, for the purposes of the Social Impact Accelerator, the EIF has developed a social impact performance methodology.

European Parliament

The European Parliament's 2015 resolution on 'Social Entrepreneurship and Social Innovation in combating unemployment' calls for the necessary framework conditions to be established for a system of social innovation, facilitating access to public procurement, developing tailored financial instruments, improving access to funding via European funds, risk capital funds, microcredit and crowdfunding, promoting social entrepreneurship via education and training, and also providing support by means of tax relief and incentives. In its 2013 resolution on the contribution of cooperatives to overcoming the crisis, Parliament pointed out the resilience of this type of enterprise in facing the fluctuations of the economic cycle and their critical role in integrating disadvantaged workers. It also called for measures to support their capitalisation, and also the provision of tax benefits and business support services. In its 2009 resolution on the social economy, Parliament advocated investment in the social economy through investment funds, guaranteed loans and subsidies, as well as improvements to the regulatory framework so as to support and facilitate recognition of the social economy.

Currently, the Parliament is working on a legislative initiative on a statute for social and solidarity-based enterprises (rapporteur Jiří Maštálka, GUE/NGL, Czech Republic), which would provide an opportunity to establish a broader EU-level legal basis for various types of social economy actor. A study on this topic was requested by the European Parliament's Committee on Legal Affairs and published in February 2017. It compares existing models of social enterprises in the Member States, and explains the rationale for tailor-made EU legislation on this subject. The main recommendation is to introduce an EU-specific legal statute for social enterprises in the form of a European Social Enterprise.

European Economic and Social Committee

In its 2015 opinion on 'Building a financial ecosystem for social enterprises', the European Economic and Social Committee (EESC) advocated creating a supportive policy framework and a tailored financial ecosystem for the social economy. It made various detailed recommendations, calling for a multi-stakeholder approach, the adoption of hybrid and patient capital solutions with guarantee schemes, and the framing of new financial instruments and tax incentives. It encouraged public co-investment in the establishment of ethical funds, social innovation funds and social venture capital funds. For social enterprises themselves, it recommended auto-capitalisation, crowdfunding and the development of social finance partnerships. The Committee also called for more research into the societal added value of social economy enterprises. This opinion builds on previous EESC opinions on topics such as social impact investment, social impact measurement, the European Social Entrepreneurship Funds and social entrepreneurship and social enterprise.

Outlook

The role of social enterprises in the economy is growing. There is growing demand for goods and services with a positive social and environmental impact, as consumer awareness rises and more attention is given to the social impact of economic activities. Social enterprises represent a new business model that is also growing in popularity among traditional enterprises, pushing them to incorporate corporate social responsibility practices. Another current trend that is likely to be strengthened in the future is the cooperation of the social economy with the public sector (through the subcontracting of a variety of public services) and the private sector (for instance via the integration of disadvantaged people trained by social enterprises to work in traditional enterprises, or via the direct purchasing by for-profit corporations of goods and services produced by social enterprises). The recent emergence of the collaborative and circular economy provides additional opportunities for the expansion of social entrepreneurship in Europe.

Social enterprises still struggle with some challenges such as lack of visibility (also in the media), public awareness and recognition, specialised training and education. Other challenges are related to shortcomings in support networks and infrastructure, as well as regulatory frameworks and financial services. Efforts at EU level are aimed at closing some of these gaps, not least by improving access to funding and legal frameworks, collecting more systematic data, promoting awareness of the sector and its impact, and developing social impact measurement methodologies. Major challenges for the future remain the need to frame a better-tailored financial system, to recognise the added value of social enterprises and to respond to their specific needs in order to support their development. Legislation in this area at EU level can be expected to become more advanced as the Social Business Initiative is taken further.

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