The Changing Boundaries of Social Enterprises

Edited by Antonella Noya

OECD

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Local Economic and Employment Development

OECD

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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Foreword

This book presents and analyses some of the most interesting and recent developments in the expanding field of social enterprises in OECD member countries. Current and future trends are examined in critical areas for the development of social enterprises, such as: institutional frameworks; enabling financial environments, and; support structures and tools. Multi-stakeholder co-operatives, that is businesses formed by a variety of stakeholders interested in working together as equals to achieve a common goal, are also presented as an interesting and challenging model for social enterprises to combine economic sustainability and social impact. Lastly, the role of social enterprises in endogenously driven development processes is analysed in depth. In particular, the idea that it is the innovative features of social enterprises which make them particularly suited to sustaining local dynamics and a bottom-up approach to development is explored. Based on the analysis presented in this book, concrete policy recommendations for national and local policy makers are provided.

This book is published ten years after the first OECD/LEED study on social enterprises, which represented the first report of the phenomenon carried out by an international organisation. Social enterprises are local initiatives with the aim of combating exclusion and creating well-being for individuals and communities. They are a key component of the social entrepreneurship dynamic in OECD countries.

In fact social enterprises have proven to be able to contribute to: reducing social exclusion by reintegrating difficult groups into the labour market and by delivering well-being services (not only welfare services) to the underprivileged; creating jobs at the local level, and; increasing social capital and citizens' participation, thereby creating more sustainable communities. However, much has still to be done to fully harness the potential of the sector and to better link it to social and economic policies. This book aims to contribute to a better understanding of the social enterprise sector, and of the new challenges it will face as a result of a social fabric weakened by a financial and economic crisis. New opportunities are opening up which will further enable them to contribute to social inclusion and economic well-being.

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Executive Summary

Far from being a phenomenon "*à la mode*", social entrepreneurship, in its various forms, represents nowadays a consolidated, growing trend in most OECD member and non-member countries.

Only ten years ago social entrepreneurship was an emerging phenomenon, of which social enterprises were considered (and still are) the most visible and easily identifiable expression, though not the only one, in most OECD member countries. The situation has radically changed in ten years; the last decade not only witnessed the continuous development of the social enterprises sector around the world but, more importantly, the significant changes occurring in the field of social entrepreneurship and in the strategies and tools to support it.

The social enterprise sector will probably continue to further develop and expand in the following decades. There are many reasons for this: first, the generally positive results that social enterprises have obtained in the economic and social arenas by creating local wealth, and individual and collective well-being have started to attract policy makers attention. This could translate into an enhanced support for the sector, possibly through an integrated approach to tackle the sector needs (*i.e.* creating enabling legal, financial, fiscal frameworks for it).

Second, the values that social enterprises promote and take into account to define and to accomplish their entrepreneurial mission, such as: the centrality of the human being in the economic undertakings, the responsibility towards the society, the realisation of collective well-being as an objective and, not as a "positive externality", are likely to become increasingly shared. This situation will not be only the result of the current economic crisis, which has showed the world the negative consequences of reckless speculation and, more generally of an economy overly based on the financial sector.

The general features and role of the social enterprise sector in the coming years will depend on a multiplicity of endogenous and exogenous factors, such as: its internal capacity to identify the new challenges of these changing times and to adapt its strategies to cope with these; its capacity to build sound alliances with the private and public sectors, and; its capacity to gather general interest and consensus around its engagement in sustainable economic and social development.

The policy makers at national and international levels will also have a role to play in order to build an integrated approach leading to a new policy framework that recognises the social enterprise sector's capacity but also its critical needs.

What are social enterprises?

In recent years, the term "social enterprise" has become familiar to academic and policy audiences as well as increasingly to the general public. A common understanding is nevertheless far from being achieved and this also depends on the different cultural contexts. There are at least two major geographical and cultural contexts from which the notions of social entrepreneurship and social enterprises take different meanings: the USA and Europe.

In the USA, social enterprise usually refers to non-profit organisations which develop "earned income strategies" to generate revenue to finance their social mission. This commercial activity is not necessarily linked to the social mission of the non-profit organisation (NPO). The concept of social entrepreneurship stresses social innovation processes. These processes are undertaken by social entrepreneurs in a wider spectrum of organisations along a continuum from profit-oriented businesses engaged in socially beneficial activities (corporate philanthropy), to dual purpose businesses which mediate profit goals with social objectives (hybrids), to non-profit organisations.

In Europe social entrepreneurship and social enterprises are very often seen as a "different way" of doing business (*entreprendre autrement* in French) and are usually located in the third sector. To grasp the dynamic of social enterprises, a list of criteria have been developed which includes: the continuity of the production of goods and services; autonomy; economic risk; an explicit aim to benefit the community; a decision making power not based on capital ownership, and; a limited profit distribution. Attention to a broad, or distributed democratic governance structure and multi-stakeholder participation is also important.

Social enterprises are generally understood as an innovative business model that meets both social and economic objectives contributing to labour market integration, social inclusion and economic development. They are a vehicle of social innovation. The organisational arrangements and legal forms that social enterprises adopt vary greatly across OECD countries.

New frontiers in the legal structures and legislation of social enterprises in Europe: what are the policy implications at the national and European levels?

A number of European countries have recently adopted national laws regulating social enterprises. Laws such as those in Belgium, Finland, France, Italy, Poland, Portugal and the UK have generally addressed (or failed to address) some key questions such as: What is the definition of social enterprise as distinct to non-profit organisations?; What is the asset allocation, according to the entrepreneurial methods and in accordance with the social nature of the enterprise?; How to identify stakeholders and the governance structure of the enterprise?, and; How to establish mechanisms and principles of accountability and responsibility not only inside the social enterprise, but also which allow sufficient information disclosure in favour of third parties?

Comparing recent national laws on social enterprises, which are evidently influenced by the legal, social and economic context of each county, both common features and differences can be observed. It is also possible to identify models into which these laws can be grouped, according to the different legal solutions they provide. These models represent not only an indication of the various organisational forms that social enterprises can adopt but, most interestingly, they also contribute to shape the entrepreneurial extent of their missions, as they result from specifically adopted legal frameworks. The “co-operative”, “company” and “open form” models (the latter meaning that no specific legal form is selected by the law) as their names immediately suggest, are widening the boundaries of the social entrepreneurship field. These models allow different kinds of enterprises to become organised and recognised as social enterprises following they meet the criteria identified by each national law notably including the “social finality” criteria.

These legal models are likely to create a spectrum of social enterprises having different legal forms, where the recognised “social finality” of the enterprise will be a better indicator of the social enterprise nature of the enterprise, rather than its organisational form. This represents a radical change in the European social enterprise landscape and opens up a number of new opportunities to these kinds of enterprises which can enter a growing number of new fields of activity as defined by the law.

The variety of laws and the existence of multiple, and sometimes overlapping, models of social enterprises certainly require that the national legislator carefully opts for a solution that best fits the national context and best interacts with the national welfare state. However, some core features should be recognised whatever the adopted legal form, particularly:

- The possibility of an entrepreneurial activity being the main activity of an organisation with which to achieve social goals.
- A control mechanism over the social nature of the finality pursued by the organisation, as defined at least by broad principles by the law and specified in the by-laws of the organisation.
- The enforcement of a positive (although not necessarily total) assets lock to ensure the achievement of social goals (this also implies a non-distribution constraint, although partial).
- The possibility for the enterprise to sustain its own activity through remunerated financing.
- A certain degree of stakeholder representation within the governance of the enterprise, with specific but not necessarily exclusive representation with regard to beneficiaries and employees.
- The enforcement of a non-discrimination principle concerning the composition of membership.
- The enforcement of accountability of the governing bodies to allow pluralism, fair dialogue and the restriction of controlling rights, unless in favour of non-profit organisations which share the social goals and democratic nature of the social enterprise.
- An adequate degree of information disclosure (also in favour of third parties) about the governance and the activities of the social enterprise.

Moreover, national legislators need to be aware that social enterprise legislation promotes a different approach when it is focused on the activity rather than on the organisational structure of social enterprises, and that the organisational structure are therefore selected to be instrumental in the pursuit of the activity and its social goal, and not the reverse. Obviously this has an impact on governance and accountability principles.

In relation to the organisational dimension, the legislative approach is on the whole, running behind practice. In fact, the growing dimension of social enterprises is often driven by their ability to operate within more complex and sophisticated structures such as groups and networks, which have emerged over the last 15 years. Groups and networks represent different forms of co-ordination both among social enterprises, between social enterprises and for-profit organisations, and between social enterprises and other types of non-profit organisations.

The need to integrate different entities is even more evident in Europe, where it is essential to promote transnational organisations able to co-ordinate welfare policies with cross-border dimensions, and where the necessity of European social enterprises groups and networks implementing transnational policies is therefore the most pressing. Currently groups of networks exist, with national networks belonging to European ones. The interdependence of policies at the European Union level would nevertheless require a more integrated approach that would enable social enterprises to co-ordinate or to integrate, hence the urgency for a European intervention. Multilevel architecture should be designed to co-ordinate European, national and regional levels where many of the competences concerning policies are located. However before any legislative intervention, a white paper on social enterprises and welfare policies is needed.

The new boundaries of the financial landscape for social enterprises: from social to sustainable finance. What are the policy implications?

While social enterprises continue to emerge in various activity sectors across the world, the identification and continued access to various forms of capital represents an indispensable element for them to thrive and to consolidate their activities.

New financial instruments and favourable environments for social enterprises are appearing in most OECD countries and as such, many interesting initiatives are developing in the financial markets that serve social enterprises. The investment market has transformed considerably in recent years to respond to the financial needs of social enterprises and to the growing public demand for new socially responsible investment opportunities.

A big array of new actors, financial instruments or products, legislation and public policies are shaping the development of an innovative financial market, together with the old actors who are transforming their roles from donors to investors, as demonstrated by the growth of so-called venture philanthropy. Governments are essential stakeholders in this process and are actively engaged in this emerging landscape. Despite the increasingly transforming roles of all the actors involved - private, public and non-profit -

their co-ordinated involvement is crucial for the consolidation of financial tools that combine financial viability and social returns.

In this major evolution process of the financial landscape for social enterprises, what are the major shifts taking place? What specific instruments have appeared and what is needed to make them sustainable?

In addition to the more recent financial innovations such as social investment, community based investment, program related investment (PRI) and venture philanthropy, traditional financial providers (philanthropy, financial institutions and public financing) are seeing their role in this landscape shift. All these financial instruments (often hybrids) generate blended value instead of an exclusive financial return, and need to be measured by emerging measurement tools such as social accounting and social return on investment (SRoI). These new financial tools can be characterised as social innovations and have contributed to a complex landscape of innovation and repackaging of existing practices. Such a landscape is defined by a general approach to proactive investment choices.

From the many products and strategies that correspond to this proactive investment attitude, six are particularly interesting and promising sources of financing for social enterprises: solidarity finance; venture philanthropy; institutional investment; individual investment; quasi-equity and equity instruments, and; ethical or social capital markets.

For the area of social finance to become sustainable, an integrated approach different from that required for traditional capital is needed. The establishment of the FIDUCIE (patient capital) in Québec, Canada, is an enlightening example of such a co-ordinated approach.

Accordingly, enabling and integrated policies measures are also needed as a silo approach is not appropriate. The dissemination of networking and inter-sectoral collaborations would facilitate the development of a social capital marketplace. Some specific policy measures that could be supported by governments at all levels include:

- Offering fiscal incentives to attract investors, including traditional tax credits and subsidies, and enabling tax legislation.
- Offering multiple forms of credit enhancement (e.g. through loan guarantees).
- Developing public procurement measures that include socio-environmental criteria.

- Developing legislative innovation based on broad multi-stakeholder consultation.
- Supporting the creation of, and participation in, networks or federations nationally and internationally.
- Spearheading and monitoring innovative institutional arrangements (e.g. public-private community partnerships (PPCPs) between civil society, government and financial institutions, and public-social enterprise joint ventures).
- Promoting a transversal or horizontal space for social enterprises within government structures to reflect their inter-sectoral nature.
- Offering support services, financial advice, labour market training for employees, and support for technical research on crucial topics for the field, specifically for social enterprises.
- Specifically for emerging social finance intermediaries and the investor community as a whole, offering support and training systems including technical assistance, business development and participation in the co-construction of markets.

Regardless of the breadth of the financial instruments available, the real potential of social enterprises will only be realised if they are integrated into a systemic approach to social exclusion, labour market transformation and territorial socio-economic development strategies which requires enabling public policy. Social enterprises must be recognised by all potential funders for their capacity to create socially inclusive wealth. The issue of financing social enterprises is not therefore, to be addressed from an isolated perspective but rather in the context of an integrated systemic approach.

If social enterprises and the financial instruments that are emerging to capitalise their activities are perceived as part of a renewed commitment to social citizenship and equity, the challenge ahead is to build the social, financial and policy architecture to meet these objectives. The 21st century has become the moment for creativity and innovation as social enterprises and the social finance sector are integrated into a political economy of citizenship.

Networks as strategic support structures for social enterprise: what are the policy implications?

Social enterprises like any other business need business development support tools to start and consolidate their activities. However social enterprises have specific features that create complex needs demanding diversified solutions. While all business support agencies should be aware of social enterprises and be prepared to support them, there is also a place for support agencies that specialise in the social economy.

The last decade has witnessed the development of networks as support structures for social enterprise development. Such inter-organisational structures perform highly diversified tasks, such as setting up new enterprises, representing them to public and private institutional partners, and promoting quality and innovation policies. Collaboration between generic and specialist business support organisations can be very fruitful, and can lead to a higher standard of business support being made widely available nationally. The aim should be to create a 'braided' system of support which includes both generic and specialist components.

Many initiatives for the support of social enterprises already exist in Europe and elsewhere. They can be categorised into four "clusters" according to function:

1. Defining and promoting the identity of social enterprises, and therefore promoting quality policies for the system.
2. Supplying innovative business development support services in the light of the peculiarities of social enterprises.
3. Supporting the development of social enterprises in specific areas of activity by differentiating their activities in order to increase competitiveness.
4. Fostering social enterprise involvement in local development processes.

The "general good" objective typical to these companies makes policy-making activities an important intervention area. Support structures must therefore also be active on this front.

Support structures for social enterprises are essential but they in turn, require support with targeted policies. The overall aim of the support structures should not only be to give sound advice on how to develop a business. The issues of at whom such advice and support are targeted, where they are delivered, and how and by who are critical. The job of opening up the path to social entrepreneurship starts long before the business idea is discussed. It is necessary to encourage diverse role models of what constitutes a successful business thereby fostering social entrepreneurship, something which should also be included in school and university curricula. Ensuring the availability of appropriate finance sources which meet the needs of enterprises who aim to solve social problems rather than strictly to maximise financial return, is also very important.

Why then should support structures be supported themselves?

- *They can better represent the sector*. Networks of social enterprises aim at supporting the development of the sector. This requires that the support structures work in tighter connection with other representative bodies, such as chambers of commerce, notably at the local level.

- *They can better spread innovation*. Support structures should be recognised as “centres of excellence’ in which social enterprises can develop and share innovation in the quality of products and processes. Such activities not only concern social enterprises but often also public and private actors through co-operation agreements to experiment in new activities and to adopt standards of quality and model of social and economic accountability.

- *They can contribute to policy making*. Networks of social enterprises can be better supported by formally acknowledging their role in the decision making process. At the same time, these networks can act as implementation structures through the management of development processes at the territorial level.

Social enterprises and local development: new highlights

Social enterprises have developed rapidly in the last decades. While traditional economic literature focuses only on market failures as an explanation of this development, new approaches emphasise other factors such as the different way in which social enterprises implement production processes and create surplus. This is essential in understanding how social enterprises contribute to local development processes.

Social enterprises have a peculiar entrepreneurial form which does not simply substitute either public or for-profit provision of public-benefit goods. Because of its institutional features, this form opens up new productive opportunities which are best suited for the supply of quasi-public and meritorious goods. For example, social enterprises can create trust relations with customers thereby reducing the costs of contracts linked to asymmetric information. Furthermore, their governance is often based on the involvement of all relevant stakeholders and on the valorisation of intrinsic and pro-social motivations, rather than on extrinsic and monetary ones. Different governance mechanisms can reduce control costs enabling them to increase the surplus they are able to produce and distribute.

Social enterprises' main objective is not profit maximisation but instead the satisfaction of socially relevant needs under the constraint of economic sustainability. This shift in the objectives of the enterprise can have visible implications in terms of resource allocation and output. In the absence of the profit motive, the survival of social enterprises depends more strictly on trust relations with customers, volunteers and financiers. This also allows for the supply of goods and services to a wider set of consumers and users bypassing traditional market exchanges based on the rule of equivalence. Increased production allows the extension of distribution extended to weak social groups. Furthermore, additional resources like voluntary labour and donations can be used to increase supply and to support the process of local development.

The potential of social enterprises as community organisations are connected with the same institutional features since governance based on the involvement of all the relevant stakeholders favours the local entrenchment of production objectives, while the public benefit nature of the organisation allows the spread of beneficial effects beyond mere market transactions to weak groups and to the community at large. These features allow a proper location of social enterprises in the theory of endogenously driven local economic development.

Up until now the theory of local development has considered almost exclusively industrial firms and public bodies, and not enough weight has been given to the intermediate area between these two extremes in which non-profit organisations and social enterprises usually operate. A second shortcoming inherited from the theories of local development is that they consider almost only profit making activities. This cannot be assumed as a general approach since the firm is to be defined in terms of evolving sets, organisational routines and co-ordinating mechanisms, suitable to govern complex production relations carried out by subjects that are driven by a complex set of monetary and economic, but also intrinsic, relational, and pro-social motivations. In this sense, non-profit making activities like social enterprises must also be considered firms.

Social enterprises are well integrated in all those models of development that tend to valorise endogenously driven instances and local resources. Their contribution is mainly represented by the satisfaction of needs, most of which are local in nature, through a direct impact driven by increased supply and by the distribution of resources to weak social groups, and through indirect dissemination of positive externalities and the accumulation of social capital.

Solidarity co-operatives: how social enterprises can combine social and economic goals through a multi-stakeholders approach.

Multi-stakeholder co-operatives provide a positive contribution to the renewal of the co-operative model; they offer relevant answers to new needs that combine social and economic dimensions. In North America this model has a very limited impact, except for the Canadian province of Quebec where solidarity co-operatives can be found. The solidarity co-operative was developed to attract new key players of the civil society. As such, solidarity co-operatives can be set up in many original ways across various branches of industry including environment, leisure, fair trade and health care.

At the international level, the co-operative model is seen as one of the best organisational models to maintain a close link between the economy and the territory. Mobilising civil society by promoting a culture of innovation, responsibility and accountability is seen as a key advantage of the co-operative alternative. Multi-stakeholder co-operatives pursue a compromise between diverse stakeholders to manage the diversity of interests under a superior interest - the interest that underpinned the co-operative at its inauguration.

Solidarity co-operatives are important in the co-operative landscape in Quebec, Canada. Their impact on social cohesion has been measured according to five dimensions: territory, accessibility, employability, degree of democracy and connectedness. Case studies show that in general, solidarity co-operatives make a significant and in some cases, very significant contribution to the various dimensions of social cohesion. There is however, one exception: the degree of democracy.

Solidarity co-operatives have been set up in a wide variety of areas. In many cases, they are innovative not only because they gather diverse stakeholders, but also by the way they structure or offer services. Health care service co-operatives (HCC) deserve particular examination. In Quebec, their numbers are expected to increase significantly in years to come. A closer observation of HCC development shows that they constitute a step forward when compared to the large commercial chain models which currently manage medicals clinics.

An analysis of some HCCs shows that: they have a positive impact on citizen awareness and mobilisation; they are a space for debate and democracy; their focus is on users rather than profit, and; they represent a basis for more fruitful collaboration with medical practitioners.

Some policy recommendations are as follows:

- More thought should be given to the multi-stakeholder co-operative approach and the solidarity co-operative model when determining public policy concerning social cohesion and local development.
- In innovative organisational projects, the public interest would benefit from promoting the concept of partnerships between the public sector and co-operatives, rather than focussing exclusively on public-private partnership options.
- Considering the growing place occupied by multi-stakeholder co-operatives, it would be of benefit to gain a better knowledge of their set-up and development conditions. For instance, research could determine how initial networking is developed among diverse stakeholders including supporting members and how over time, these partnerships evolve.
- It is a known fact that among social health determinants, one important element is that people feel in control of their life and their sense of accomplishment. In this way, it would be appropriate to identify the specific contribution of solidarity or multi-stakeholder co-operatives, to the empowerment of individuals, especially those in remote areas.
- The phenomenon of multi-stakeholder co-operatives seems to be growing in OECD member countries. Because of the novelty of the model, it would be relevant to conduct comparative studies on diverse indicators such as the impact of multi-stakeholder co-operatives on civil society, the development of alternative solutions for the delivery of public services and the combination of resources required (from the market, subsidies and the voluntary sector).

Chapter 1
New Frontiers in the Legal Structure and Legislation of Social Enterprises in Europe: A Comparative Analysis

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This chapter aims at presenting and discussing policy issues regarding the legal structure and legislation of the social enterprise through the lenses of recent law reforms in Europe. The legislation of seven countries is analysed: Portugal, France, Poland, Belgium, the United Kingdom, Finland and Italy. National models are compared distinguishing them according to the legal form and the main rules concerning asset allocation, governance and responsibility.

Aware about the specificity that the legal, social and economic context may entails in each legal system, the authors conclude that, in order to promote a distinctive role for social enterprise in Europe, the law should guarantee: a control mechanism over the social nature of the finality pursued by the organisation, as defined at least per broad principles by the law; the enforcement of a positive (although not total) assets lock to ensure the achievement of social goals; the possibility for the enterprise to sustain its own activity through remunerated financing; a certain degree of stakeholders' interests representation inside the governance of the enterprise, with specific but not necessarily exclusive representation with regards to beneficiaries and employees; the enforcement of a non-discrimination principle concerning the composition of membership, if any; the enforcement of a democratic principle inside the governing bodies which allows pluralism, fair dialogue and no emergence of controlling rights, unless in favour of non-profit organisations which share the social goals and the democratic nature of the social enterprise, and; an adequate degree of accountability which allows sufficient information disclosure, also in favour of third parties, about the governance and the activity of the social enterprise.

Regulating social enterprises in Europe: some key questions

This chapter aims at presenting and discussing policy issues regarding the legal and institutional framework of social enterprises through the lenses of recent law reforms in Europe.[1] Though only narrowly regulated by legislators, the attention paid by scholars and policy makers to confirming a distinctive status to social enterprises has increased over the last decades. In some countries this acknowledgement has developed with respect to specific forms of enterprises, especially co-operatives. The attention paid to co-operatives with social purposes has itself significantly contributed to the debate on social enterprises in Europe.

This chapter analyses some of the contents of possible legislation related to social enterprises, more than the fundamental reasons behind, and scope of this legislation. In most cases, legislation is enacted to promote the development of a form of enterprise that over the last decades has shown its potential in terms of efficiency and efficacy (Hansmann, 1980; Weisbrod, 1988, Hansmann, 1996; Ben-Ner, 1996; Salamon and Anheier, 1997; Barbetta, 1997; Anheier and Ben-Ner, 2003; Borzaga, 2003). In abstract terms, such promotion can be reached through different types of legislation.

Indeed, the law can be directed to legitimise a social phenomenon, enlarging a legal concept (such as "enterprise"). Secondly, the law can provide incentives for creating a particular type of enterprise (social enterprises for instance). These incentives, for example, can be monetary through direct contributions or tax exemption or non-monetary reduction of administrative costs such as incorporation costs, registration costs and the like.[2]

Legislators may also promote the role of social enterprises by defining organisational models which may maximise the effectiveness of enterprises. In this case, legislation should predominantly be based on default rules concerning, for example, the role of directors or the systems of internal monitoring. Similarly, self–regulation, possibly promoted by the legislator itself, could also be an effective tool for framing the governance of social enterprises (Cafaggi, 2002).

In relation to the different functions of legislation surrounding social enterprises, it is also important to note that European legal systems promote social enterprises mainly using non-monetary incentives or by regulating organisational models, rather than providing direct monetary support. In contrast, the opposite is true with respect to legislation surrounding non-profit organisations.[3] Indeed, organisational models which can adequately reflect a balance between its "social mission" (sociality) and entrepreneurship are what is fundamentally lacking within traditional legislation on both traditional for-profit enterprises and non–profit organisations. Through a comparative overview of some European laws in this field, the question of who should regulate social enterprises, whether public regulators, private organisations representing social enterprises or entrepreneurs themselves, will be addressed by this chapter.

Building on this discussion, four sets of important questions will be addressed and considered pivotal:

1. Social enterprises and non-profit organisations. This relates to the definition of social enterprises as distinct to the notion of a non-profit organisation. Moreover, the status of the enterprise, whether non-profit or for-profit, must also be considered. Clearly, the mere non-profit distribution constraint is insufficient but a single criterion has not yet emerged. As mentioned above, the recognition of this distinction has increasingly spread through the European debate among scholars and policy makers, though the richness of the debate has not yet permitted a common approach to be reached (Defourny and Nyssen, 2006). By contrast, in very few cases, legislators have acknowledged the uniqueness of social enterprises and defined their legal status as distinctive. Where this has occurred, sometimes indirectly through legislation for specific types of social enterprises, diverse connotations of sociality ("social mission") and entrepreneurship emerge. Where this acknowledgement is still lacking, the key issue is what legal definition of social enterprises, if any, would best promote the adoption of these efficient and effective operational tools in the social economy.

2. Asset allocation. The distinction between affirmative and negative asset partitioning has been fruitfully developed in the literature (see Hansmann and Kraakman, 2000). In the context of this chapter, affirmative asset allocation is especially important. Indeed, pursuing social goals through a private organisation raises the issue of the allocation of assets according to entrepreneurial methods and certainly in accordance with the social nature of the enterprise. From a legal perspective, this gives rise to a real "lock" on the assets: it limits the possibility of distributing profits and, in the case of dissolution, prevents resources from being directed away from social objectives to others. Often more constrains are posed when social enterprises have benefited from public subsidies even in the form of tax advantages. These issues lead to a number of specific questions: how strong should this asset lock be? Which kind of distribution or concurrent use of the assets should be permitted, if any, given the entrepreneurial nature of the organisation and its need for autonomous sustainability and financing in the first place? To

what extent does this continuity prevent social and economic innovation while ensuring stability?

3. Stakeholders and governance. A third set of questions concerns the identification of the different represented interests (or due to be represented) within social enterprises. In current debate, the social enterprise is often defined as a multi-stakeholder entity, which suggests that different interests should be given a voice and legal protection within its governance structure (Borzaga and Mittone, 1997; Zoppini, 2000; Defourny and Nyssens, 2001; Laville and Nyssens, 2001; Sacconi, 2006; Cafaggi, 2000). Which combination should be selected and by whom? Should this be equal or distributed according to the nature of the interest? What rights should be attributed to each stakeholder? The identification of stakeholders and the definition of their roles vis à vis the organisation suggests that different boundaries of the enterprise may be drawn and these boundaries contribute to defining the role of corporate and contract law.

4. Accountability and responsibility: principles and instruments. The previous set of questions relate to defining the governance structures (or the various models of governance) of social enterprises. In addition, it is worth considering the issues of accountability and responsibility. The special status of social enterprises is defined not only by the direct representation of interests within the governing body, but also by the ability of this organisation to be accountable to a given community beyond membership (regardless of the effective powers awarded to its members). When social enterprises are made accountable towards external stakeholders, information duties come into action as well as the adoption of social balance sheets as a communication tool of the social enterprise towards its community. A number of questions lead on from these issues: What should the legal effects of these practices be? How do social and legal responsibilities interact? Who regulates social enterprises and enforces their responsibilities - administrative authorities or the courts? What solutions can be enforced by members and/or by third parties?

Having established this set of policy issues, the following analysis will particularly focus on legal frameworks in Italy, France, Belgium, Portugal, Poland, the United Kingdom and Finland. Specific attention will be paid to the most recent evolution of social enterprise legislation.

After briefly describing the main approaches in each legal system, discussion will focus on the identification of common models of legislation across these countries. Moving beyond the view that legal forms, including different governance structures, influence the modes and efficacy of policy goals, this chapter will begin by considering alternative legal forms. These forms range from the co-operative, the more general company form to the even broader “open form”, which does not select a specific organisational form within a given legal system.

Of course, other legislative models that focus on a single specific form could be identified and examined: the associative or foundation models, for instance. In particular, the associative model plays an important role in the social economy within some legal systems (such as Italy, Belgium and France) (DIGESTUS, 1999). Even in these countries, however, legislators tend to consider associations as actors which can, only marginally, carry on entrepreneurial activities. As a consequence, legislation which clearly regulates social enterprises with specific regard to the associative model is not easy to identify. In some cases, such as in Italy, the choice of the “open form model” represents a deliberate response to this issue.

With regard to the positive framework, analysis will show that, while the choice of legal forms is a significant factor behind the governance structure and type of social enterprise, some features may be shared by different models regardless of the form (the co-operative and “open form” models, for example). Instead of suggesting the neutrality of legal forms, the following discussion will raise new questions about the effectiveness of some governance rules within different types of social enterprise. Then, in normative terms, analysis will consider whether the future of social enterprises will be better improved by a law which focuses on a specific legal form or by a law which leaves this choice to social entrepreneurs who can choose from a set of statutorily-provided forms. This issue is relevant in the European perspective given the level of diversity still existing at the national level.

Recent reforms across some European countries: legal forms and organisational models

In the last 20 years, the debate surrounding social enterprise in Europe has stimulated a rich discussion concerning its specific function and its place in new mixed welfare systems and the adoption of a legislative framework.

The “European Agenda for Entrepreneurship”, adopted by the European Commission in 2004[4] as well as the Communication on the promotion of co-operative societies in Europe,[5] has generated some initial findings on the subject. The debate has also been fuelled by the European judiciary through a series of cases, mainly focusing on the applicability of competition law, in which the European Court of Justice highlighted the specific role of social enterprises operating within the market according to solidarity standards, calling, in some cases, for the application of different principles, at least in relation to competition law.[6] The case law has contributed to the definition of undertaking and profit making entities, clarifying that the non-distribution constraint is compatible with the definition of undertaking[7]. Case law of the ECJ has deepened the distinction between enterprises, including for profit and not for profit ones, and non entrepreneurial organisations[8]. Unlike the national systems, where social enterprises are generally part of the third sector, but for those systems that have adopted a company based model, the European approach is organised around the distinction between enterprises exercising economic activities and organisations that exercise activity for solidarity purposes.

No specific legislation currently exists at European Community level, although the directive and the legislation on European cooperative societies may represent a starting point in this direction.[9] Nevertheless, the circulation of legislative models and concrete experiences developed at national level could lead (in some cases, this is already happening[10]) to a partial convergence of models and common trends in Europe. This would strengthen calls for a more explicit harmonisation process through European law. This convergence is, at present, limited as even where a clear legal notion of social enterprises emerges, different legal systems balance entrepreneurship and "social mission", and rank stakeholders' interests differently within the governance structure of the organisation. These differences increase radically when Central and Eastern European countries are considered (EMES, 2006).

This dissemination of national models has been significantly fostered by academics, scholars and international institutions (including the European Commission and so on) for the last 20 years. In this context, a common understanding about the functions and forms of social enterprises has emerged, though some differences still exist as to specific definitions (DIGESTUS, 1999). In particular, the focus is on the (*i*) nature of the activities professionally undertaken in relation to the supply of goods or services; (*ii*) explicit goal of producing benefits for the community at large, or for a specific category of individuals; (*iii*) assumption of risk by the entrepreneurs; (*iv*) autonomy of the organisation, especially with respect to the public sector; (*v*) employment of paid workers; (*vi*) collective nature of the initiative; (*vii*) democratic characterisation of the governance structures, where decision making powers are not based on capital share; and (*viii*) (partial) limitation in distribution of profits.[11] A complementary investigation by the Organisation of Economic Cooperation and Development (OECD) helpfully highlighted the relevance of economic sustainability, the complexity of financial structures with a high degree of self-financing, and orientation to the work integration of disadvantaged people. The OECD report also considered the plurality of legal forms that social enterprises may adopt across countries, without infringing their intrinsic nature (OECD, 1999). More recent contributions have reduced the focus on self-sustainability via commercial activities, while considering the relevance of public support and voluntary resources in their financial structure as well as the role of social enterprises in the development and shaping of institutions and public policies (Defourny and Nyssens, 2006).

If considered with a certain degree of flexibility,[12] this conceptual grid could inform (and, in fact, has often informed) comparative research of the main models of social enterprises found across Europe (DIGESTUS, 1999; Borzaga and Defourny, 2001; OECD, 1999; Borzaga and Spear, 2004; Iamiceli, 2005; Noya and Clarence, 2007) Building on this, this chapter will focus on the relations between legal forms, governance structure and social outcomes in order to discuss a number of key policy issues which are relevant today.

While first focussing on the analysis of legal forms, it is useful to first distinguish between three different models developed in different legal systems:

1. The "co-operative model", in which social enterprises are regulated by law as particular co-operative companies characterised by social goals.
2. The "company model", as derived from the form of a for-profit corporation though characterised by social outcomes and limited distribution constraints.
3. The "open form model", as legally defined with respect to social outcomes without a specific legal form being selected.

Each country examined herein cannot necessarily be associated with a single model. It is possible that two different laws in the same legal system regulate, respectively, two types of enterprise that are consistent with the conceptual framework of a social enterprise. This chapter will compare the various models as outlined above and the laws which shape these models (Annex 1.A1 is a comparative table of social enterprises in Europe).

The co-operative model: the cases of Italy, Portugal, France and Poland

The particular nature of co-operative companies, as generally pursuing social goals, was recognised by the European Commission in recent policy documents.[13] However, whilst all co-operatives can be characterised as social enterprises, it is possible to distinguish those organisations which are explicitly characterised by social finality and those which are more orientated towards mutuality.[14]

Italy: the structure and application of the co-operative model

Italy has been a leading case in Europe. In 1991, a statute on social co-operatives was enacted. It introduced a new category of enterprise subject to the legislation of co-operative companies except for aspects specifically regulated in this special law.[15] Though they already existed, the law had a significant impact, providing a framework for co-operatives that had already been formed and generating an increase in the number of social co-operatives (Nyssens, 2006).[16] Legislation surrounding co-operatives was subsequently reformed in 2003. This legislation, which affected all co-operatives, has not yet had a significant impact on social co-operatives but for the aspects outlined below. It should also be noted that in addition to the social co-operative statute, Italy has recently adopted a general statute on social enterprises which aims at providing a general framework. This legislation will be examined within the third model. In addition, legislation concerning the associative model was enacted at the beginning of this century, though not specifically focused on entrepreneurial organisations.[17]

Social finality and activities

What distinguishes a social co-operative from an ordinary co-operative company is primarily social finality. In law, these social co-operatives have the fundamental aim of satisfying the community's general interest in human promotion and social integration. Such an end-goal may be pursued in two different ways: by providing educational, social and health-care services ("Type A – co-operative") or by undertaking other types of entrepreneurial activities with the objective of integrating disadvantaged people into working life ("Type B – co-operative"). In the latter case, disadvantaged workers are preferably but not necessarily members of the co-operative. This means that, by definition, the social co-operative is not a mutual organisation, like an ordinary co-operative,[18] but it is generally directed towards providing benefits to external beneficiaries, as distinct from its members. These features related to the activity, significantly affect the governance structure and, in particular, the costs of governance.

Non profit constraint and asset allocation

For all social enterprises, the generation of profit is not a central motivation for the organisation. However, with the reforms of ordinary co-operatives, which in this respect are also applicable to social co-operatives, the possibility of issuing financial instruments with special profit-making rights has increasingly been recognised. Certain limits and thresholds have been agreed in order to preserve the intrinsic nature of the co-operative company.[19] To date, organisations have not taken significant advantages of these opportunities. This is most likely due to the organisational costs related to the presence of this different class of "stakeholder" or the tendency to access more traditional financing resources, which are more familiar to co-operatives such as shareholders' loans or public sub-contracting.[20]

Stakeholders and governance

Like ordinary co-operatives, the governance structure of social co-operatives is characterised by democratic rules. The system sees decision-making power decentralised across the organisation's membership to avoid the emergence of controlling single members. At the same time, particular attention is given to ensuring that a plurality of interests is represented within the governance structure of the organisation.

The decision-making process is still substantially governed by the "one member, one vote rule", which breaks the correlation between capital investment and control, which generally characterises for-profit corporations. Exceptions exist for members qualifying as legal entities (they can be entitled to a maximum of five votes) and financing members, as outlined below.

Even more than ordinary co-operatives, the governance structures of social co-operatives are engineered to represent the interests of different classes of stakeholders in the organisation. As well as the attribution of voting rights to co-operative and financing members, voluntary working members are also enfranchised.[21] The multi-stakeholder nature of the governance structures of social enterprises may increase transaction costs and instability but these issues are often counterbalanced by a more structured and less market-oriented system of governance. The scope for corporate control is almost non-existent and management inefficiencies are tackled through non-market devices. Often these co-operatives are members of larger groups which are organised at the territorial level in two or three layers which reach up to the national level or beyond. To some extent the network model is used by creating consortia among different cooperatives for services that would be too costly to produce in-house.

Inside the co-operative, the major power is attributed to co-operative members, who will be part of the Board of Directors, or at least form its majority. Specific limits are provided either for financing members (whose voting powers, if any, are limited to a maximum of one third of those attributed to ordinary members and whose nomination rights are limited to less than one third of the Board of Directors) and for voluntary working members (whose number cannot amount to more than half of the total number of shareholders).

The multi-stakeholder nature of the social co-operative is realised by the nomination of Directors who represent each of the interest groups (Article 2542 of the Civil Code), or by the institution of separate assemblies for different categories of members (Article 2540 of the Civil Code). Though not crafted with specific reference to social co-operatives, this structure is profitably used to reinforce democracy and stakeholders' protection inside the organisation. Before the reform, social co-operatives adopted different mechanisms to represent stakeholders' interests such as beneficiaries' committees and family groups. It seems that self-regulation, more than legislation, is enriching the social expression of this particular co-operative model, while legislation increasingly tends to encourage the transplantation of the for-profit model of entrepreneurship into the co-operative domain.

The relationship between the general membership and the Board of Directors is shaped differently according to the governance model chosen by the organisations, which were prescribed by the corporate law reform of 2003. In all cases, the Board of Directors holds full management power and the majority of directors are co-operative members, who are also part of the general membership. In the "ordinary administrative model", however, the general membership retains the power to nominate Directors and approve annual balance sheets. In the so-called "dualistic model", these decisions may be deferred to, or are shared with, an intermediate body (*Consiglio di sorveglianza*), which also has monitoring powers over the Directors. In the so-called "monistic model", the monitoring of Directors is delegated to an internal body within the same Board of Directors.

Another aspect of the 2003 reform is also noteworthy. The dualistic and monistic models are subject to the mandatory institution of a monitoring body. With the ordinary administrative model, the introduction of a monitoring body is mandatory only if the co-operative issues financial instruments (such as bonds) without voting rights and if some thresholds related to the amount of capital, revenues, or workers, are exceeded by the company. In these cases, external accounting and balance sheet auditing concerning is requested if the company does not attribute this task to the internal monitoring body. In contrast, external auditing is mandatory if dualistic or monistic models are adopted.

In summary, the institutionalisation of monitoring functions is not a general feature of (social) co-operatives but it is reinforced by the new models of governance and finance that were provided for by the 2003 reform.

Accountability and responsibility

As discussed above, most regulation concerning the governance structure of social co-operatives is derived from laws which apply to mainstream co-operatives and, more generally, from corporate law. The same applies to transparency requirements, which are defined as information duties and accountability of organisations to members and third parties. The main information duties relate to the communication of the activity of and decisions taken by internal bodies and of the annual balance sheets. While the former are accessible only to members,[22] the latter are deposited at the Enterprises' Register Office, public access to which is regulated by law.[23]

Apart from general liability rules which apply to all companies (and their Directors) towards third parties, no specific legal allowances are made for beneficiaries who are not members. No voice is legally mandated but social cooperatives have often engineered committees on a voluntary basis. To some degree the institutionalisation with the beneficiaries has also been promoted by the legislation on policy that makes reference to the welfare of final beneficiaries (the disabled, elderly and migrants). The enforcement of social enterprises' fundamental social objectives (services to older people, to disabled, to migrants) is ensured through members' participation in governing bodies. However, as for all co-operatives, an external control is provided by the Ministry of Economic Development with the main purpose of monitoring compliance with mutuality requirements.[24] The auditing function can be concurrently performed by associations promoting and representing the co-operatives' interests, which have been approved by the Ministry. In this way, the monitoring process becomes a mixed public and private responsibility. Co-operatives which violate the mutuality principles can be dismissed from the Registry, submitted to receivership, or liquidated, depending upon the gravity of the infringement.

Specific to the co-operatives' mutuality, this system implies a general monitoring activity over the administrative and accounts structure, the participation of members, and the distribution of profits. As a result, this type of control allows indirect checks on whether social finalities are correctly pursued. The application of co-operative and for-profit company law to social co-operatives is definitively important in terms of the complexity and richness of governance rules, especially considering the opportunities introduced by the reform. However, it should be examined to what extent this framework could be more profitably developed or complemented for promoting the social nature of the enterprise. Indeed, there is a potential tension between the development of the general co-operative model ever closer to the for-profit company and the specificity of the goals pursued by social enterprises. This potential conflict can only be solved by ensuring that the forms of governance pay due attention to the social goals and, in particular, to the beneficiaries' rights and legitimate expectations.

Portugal: the structure and application of the co-operative model

The co-operative model is also employed in Portugal. Though in the 1980s, the law already recognised some fields of social interest as eligible operational fields for co-operatives (e.g. social solidarity or special education and integration), it was only in the late 1990s, that the Co-operative Code (Law No. 51/96) was inaugurated by special legislation on Social Solidarity Co-operatives (Law of 22 December 1997) (Do Campos, 1998).[25]

Social finality and activities

These co-operatives are defined as those which work for the satisfaction of social needs and for the promotion and integration of disadvantaged people, by means of the co-operation and self-help of their members, subject to co-operative principles and without a view to profit. Their main fields of activity include support to disadvantaged people, handicapped and aged persons, children, and acutely poor families. These co-operatives also promote social and economic integration, support Portuguese persons in need when resident abroad or returning to Portugal, and facilitate the education and professional training of disadvantaged people.

Non-profit constraint and asset allocation

Unlike Italian social co-operatives, social goals are promoted by a total allocation of the assets to the institutional activity. No distribution of profits is allowed and the residual assets in case of liquidation are devolved in their entirety to a social solidarity co-operative and according to the view of the federation representing the interests related to the main activities of the co-operation in liquidation. This social solidarity co-operative will preferably be situated in the same municipality.

Stakeholders and governance

The governance structure is based on a distinction between effective members and honorary members. The former may include direct or indirect beneficiaries and professional workers. The inclusion of beneficiaries as institutional members represents an important difference with respect to the Italian legislation. Honorary members are those who contribute to the co-operative's activity through the supply of goods and services of social volunteering. Their admission is processed on the basis of a judgement by the General Assembly, which evaluates the relevance of their liberal support for the activity of the co-operative.

This distinction is also important in terms of participation. While all members have the same information rights and can attend the meetings of the General Assembly, only the effective members may appoint and be appointed as members of the governing bodies and have the right to vote in the General Assembly, where the "one member, one vote rule" applies.

When compared to the structure of the Italian social co-operatives (where, for example, volunteers and financiers may be entitled to vote, although with limitations), the Portuguese approach shows a clearer divide between beneficiaries and professional workers (effective members) and voluntary workers and supporters (honorary members).

However, honorary members' rights do not only include information. Indeed, besides the Board of Directors and a Supervisory Board, which is in charge of internal audit, the governance structure of the co-operative may also be composed of a consulting body, the General Council, where either members of the Board of Directors and all honorary members will have a chair.

Accountability and responsibility

A further element departure from Italian legislation relates to accounting duties. Besides the ordinary balance sheets required for all co-operatives, social solidarity co-operatives are obliged to report about the way they meet their social goals and to send the social balance sheets to the Ministry of Labour and the Association, which is responsible for supervision over co-operatives (INSCOOP). In fact, this requirement has been enforced only for co-operatives with more than 100 workers (CECOP European Seminar, Manchester, 2006). Unlike other legal systems, the Portuguese statute on Social Solidarity Co-operatives does not include any specific provision on responsibility towards members and third parties, nor does it establish a specific mechanism of administrative control over these organisations.

France: the structure and application of the co-operative model

A third example of the social enterprise regulated as a co-operative company is that introduced in France in the form of *the Société Co-opérative d'Intèrêt Collectif* (SCIC) by the Law of 17 July 2001, No. 624.

Social finality and activities

These co-operatives produce or deliver general interest goods or services of collective interest which can be appreciated in terms of social utility. Such an assessment is given having regard to the ability to satisfy emerging needs, to support social and professional inclusion, social cohesion and to improve access to goods and services.[26] Third parties (as non-members) are expressly included among the potential beneficiaries of the co-operative.[27]

Non-profit constraint and asset allocation

In accordance with such finality, a number of constraints are provided in terms of the allocation of assets within a framework more similar to the Italian than the Portuguese model.

Limited profit distribution is allowed, provided that either legal or statutory reserves are maintained according to legal thresholds[28] and all public contributions and subsidies are excluded in this calculation. In any case, like for all co-operatives, the interest rate paid to members may not exceed the average rate of remuneration of private companies as published by the Ministry of Economy.

Also applicable to SCICs are the rules that govern all co-operatives. They relate to the possibility of awarding contributions to other co-operatives or for initiatives of general or professional interest, either at the end of the year and in case of dissolution. However, all constraints outlined above are to be respected preliminarily and, in case of dissolution, members' contributions of capital will be reimbursed.

Apart from the limited remuneration of capital to members considered above, the financial contribution to social solidarity co-operatives is promoted through the legislation on co-operative investment certificates and co-operative certificates for members. Unlike ordinary co-operative shares, both these certificates give rights to profits in correlation to the contribution to capital, but the former are deprived of voting rights. They do, however, provide rights to access the company's documentation on the same conditions to all members. The total of these certificates may not represent more than 50% of the co-operative's capital.

Stakeholders and governance

Financing members and financiers who hold certificates without voting rights represent relevant stakeholders within the co-operative. Major value is, however, attached to other interests and categories. More specifically, membership includes beneficiaries (both users who pay or who do not pay for the goods and services they receive) and workers. In addition to these groups, at least one more category of members has to be included. This category represents a variety of interests associated to the activity: volunteers, public entities and/or other individuals or entities that somehow contribute to the activity of the co-operative. Unlike the other forms of social co-operatives, as outlined for Italy and Portugal, the multi-stakeholder feature is a mandatory requirement in France. Plurality of represented interests is required, but interests are also ranked in accordance with the social finality of the organisation and its entrepreneurial nature. Entrepreneurship and autonomy from the public sector are characteristics that explain why local public bodies may not hold more than 20% of the capital of a single SCIC.

The multi-stakeholder feature is also reflected in the governance structure of the co-operative. In general terms, the “one member, one vote rule” is applied within the General Assembly (so that the number of members for each category will be relevant). Moreover, the co-operative may introduce separate assemblies for each category of interests. As a default rule, each separate assembly is entitled to the same voting rights in the General Assembly. However, the co-operative’s articles may regulate differently, provided that each assembly may not encompass members who, as a total, hold more than 50% and less than 10% of the voting rights in the General Assembly.

Accountability and responsibility

With regard to accountability and monitoring, the law provides members and holders of investment certificates with information rights with respect to a company’s documents. It also introduces a general duty of giving the public authority which is responsible for the regulation of all relevant information and documentation necessary to assess compliance with the law. Special penalties, also at a criminal level, are imposed in case of false declarations or violation of rules concerning the allocation of resources and assets. All these provisions apply indistinctively to ordinary co-operatives and collective interest co-operatives, while no specific provisions concern the co-operative’s and directors’ responsibilities towards third parties. Nor does the social finality of the co-operative imply any specific integration of the administrative control function in favour of beneficiaries or workers.

Indeed, their protection is ensured more via the membership's voice than by external control.

Poland: the structure and application of the co-operative model

Polish legislation on social co-operatives dates back to April 20, 2004, when the Act on the promotion of employment and on institutions of the labour market, amended the Act of September 16, 1982 known as the Co-operative Law. However, on April 27, 2006, a new law on social co-operatives was passed with the purpose of regulating this category of organisation outside of the Co-operative Law. To a large extent, this new legislation was imported from Italy, and relates to type-B social co-operatives. Unlike in Italy, however, the 2006 legislation was not deeply rooted within a general legal framework where impediments for the effective growth of social enterprises still exist (EMES, 2006; Gumkoswa, Herbst and Wyagnask, 2006; Les, 2004).[29]

Social finality and activities

The Polish social co-operatives are structured as work co-operatives. They are established by unemployed and disadvantaged persons (namely identified as the homeless, alcoholics, drug addicts, mentally ill persons, former prisoners, and refugees) and are devoted to the social and/or professional re-integration of their members. As a result, the "mutual" feature of this type of co-operative is much more visible than within the other legal systems presented above.

What is also peculiar is the definition of the co-operative's statutory activity as non-economic. Though critical in terms of a social enterprise, this approach is consistent with the general legal framework concerning other non-profit organisations in Poland. Polish law considers economic activities as a "necessary evil" brought into the organisation by financial needs and fails to consider economic activity as a means to deliver social project conducted by the social enterprise (Gumkoswa, Herbst and Wyagnask, 2006).[30] In the case of social co-operatives, these "non economic" statutory activities include social, educational, and cultural activities and any other activity directed towards social and professional re-integration.

Non profit constraint and asset allocation

The non-profit characterisation is also clearly marked. No profit can be distributed among members, nor can any merger or division indirectly result in the transfer of assets to entities which are not a social co-operative. In the case of liquidation, only 20% of the residual assets after paying back debts may be divided among members. Any remaining resources will be directed to a so-called "Work Fund".

Stakeholders and governance

With regard to governance structure, membership is important. At least 80% of members (generally amounting to a number between five and 50) include beneficiaries such as the unemployed, drug addicts and so on, provided that they have legal capacity. In addition, within the threshold of 20%, other members may be admitted if the social co-operative requires specific qualifications which the remaining members do not have. Within the same limit, people who are potential beneficiaries, as above listed, but who partially lack legal capacity, may still become members of the social co-operative. The co-operative's statute may also allow non-governmental organisations to become members.

The role of beneficiaries within the general meeting is even more important in small co-operatives. When the company does not exceed 15 members, it is not only the general meeting as a body that has a monitoring power but also each individual member. In larger co-operatives, such a role is played by a supervisory board.

Accountability and responsibility

While considering the monitoring issue at internal level (as discussed above), the Polish statute on Social Co-operatives does not include specific provisions concerning external monitoring mechanisms (either public or private). As such, the law on ordinary co-operatives is applicable. However, a certain degree of social accountability is ensured by a requirement to draft a separate account concerning the different (social, i.e. "non economic") statutory activities with specific regard to their income, costs and results.

This new legislation has already been criticised as a legal transplant unable to facilitate the effective growth of social enterprises. More specifically, a prior recognition of the role of entrepreneurship in the social economy should take place. This should bring a major change in the qualification of the social enterprise's activity as economic. This will likely result in a process of professionalisation of the membership and workers of social enterprises, who are today perceived as lacking a proper sense of entrepreneurship. Significant effects could be derived from these changes on taxes, public procurement and private contributions (Gumkoswa, Herbst and Wyagnask, 2006).

Even within the same co-operative models, the legislation of the countries examined above present different features in terms of the definition of social interest, identification and prioritisation of relevant interests within the co-operative, corporate governance and accountability. However, within these differences, a general balance emerges between the need for a pluralistic representation of interests and the priority attributed to workers and beneficiaries. Questions arise as to whether this characterises the social enterprise models with respect to other countries, as outlined below.

The company model: the cases of Belgium and the United Kingdom

A different approach to social enterprise legislation emerges in those legal systems which employ the company model. In such cases, the link with for-profit company legislation is stronger, although the social finality leads the legislator to define a number of exceptions to company law.

This model mostly emerges in those contexts in which previous initiatives of social economy have been developed in the non-profit sector through the adoption of traditional not-for-profit forms, mostly associations. In this context, social enterprises require a stronger entrepreneurial connotation to compete with other organisations, either from the for-profit or the public sector. The evolution towards the company model is perceived as a possible device to achieve this objective.

Belgium: the structure and application of the company model

In Belgium, legislation on social finality companies (*sociétés à finalité sociale or SFS*) was introduced by the reform of the Companies' Code in 1995 (Law of 13 April 1995). Before 1995, the main actors of the social economy within the non-profit sector were associations, operating for work integration and providing "community services" for the elderly, children, disadvantaged people and the like. Though the law on associations does not allow them to exercise commercial activity as their main activity (*Solidarité des Alternatives Wallonnes* ASBL, 2000),[31] the operation of these associations is commonly perceived as consistent with the concept of the social enterprise (Defourny, 2001). In fact, these organisations are still operational; the evolution towards the company form, as envisaged by the reform, has not taken place comprehensively, probably due to the burden of the requirements imposed by the law or the lack of substantial tax incentives (Defourny, 2001).

Social finality and activities

According to the reform, any company (including co-operatives) may adopt the statute of a social finality company if it commits not to pursue lucrative goals in favour of its shareholders (although a limited distribution of profits is admitted) and complies with a number of requirements as stated by the law (and examined below).

Non profit constraint and asset allocation

Social finality is not defined in the Code but will be qualified in the articles of the company, provided that no direct or indirect economic benefit is provided for the members. Profits and reserves are to be employed in accordance with such finality, as well as the company's assets in case of liquidation. Payment of dividends to shareholders can be made below a cap represented by a fixed interest rate established by a royal decree on the basis of a consultation with the National Co-operative Council (today this rate amounts to 6% of the capital).

Stakeholders and governance

No special provisions define the governance structure of the social finality company; and so, ordinary company legislation will apply, depending on the specific legal forms. However, three requirements must be complied with:

- Workers who have been hired for more than one year have a legal right to become members. This right expires in case of termination of the employment contract.
- Although the correlation between the decision-making power and financial participation into capital is not derogated, a limit is imposed so that no shareholder is allowed to vote in the general meeting expressing a number of votes representing more than 10% of the capital (this percentage decreases to 5% if workers are shareholders within the company).
- Directors must annually issue a special report concerning the way the social finality has been pursued (social balance sheets).

Accountability and responsibility

Stricter constraints than those traditionally applied to ordinary companies are imposed on social finality companies in terms of sanctions and control.

First, Directors will be liable, in terms of restitution and payment of damages, for any allocation of reserves to objectives different from the social goals as stated in the articles of the company. Restitution may also be claimed against the receivers if it is proved that they knew or should have known about the irregularity of the distribution. Shareholders may not only sue Directors and receivers, but also third parties, if they prove they have a relevant interest in the case.[32] Provided that "interested" third parties can be informed about irregular behaviour, this provision seems to establish a fairly high burden on the company and its Directors to ensure the company's stated social goals are those which are allocated reserves in practice.

Secondly, the company may be dissolved by an order of the Court following a request filed by shareholders, a public prosecutor or (again) third parties who have a relevant interest in the case. This may occur if the company's articles do not comply with legal requirements or if, though complying, they are violated by the company.[33]

Unlike other legal systems (but probably similarly to for-profit company law, also outside of Belgium), the control function over the social finality is substantially attributed to the Courts and not to administrative authorities. However, at least in principle, an important role may be played by interested third parties, provided that they are informed about relevant facts concerning the management of the social enterprise. This discussion is continued later in this chapter.).

Examining governance requirements more specifically, it seems that, although within the more general "company model", this legislation tends to move towards the co-operative type of company (e.g. with respect to voting rights, limitation and workers participation). In fact, it is held that the co-operative form is, amongst all, the most suitable for constituting a social enterprise (Solidarité des Alternatives Wallonnes ASBL, 2000).

Perspectives of reform

The legislation surrounding social enterprises is currently under discussion. A proposal for reform has been presented, mainly concerning members' remuneration, workers' participation in the governance structure, the social report and judicial control. Three changes seem quite relevant in the perspective of this chapter.

First, with respect to members' remuneration, it would be allowed to go beyond the legal dividends' "cap" during the first seven years of activity of the company, provided that the average rate during those seven years does not reach the limit established by the statute. This flexibility could offer the opportunity of attracting additional capital investments in the company during its start up. However, it seems also to be true that this is a phase in which material investments in the activity should be encouraged more than dividend distribution.

Second, with regard to workers' participation, the proposal would include non-membership participation along with a membership participation by workers. In other words, workers would alternatively be entitled to become members or to generally take part in the governance ("*politique de gestion*") of the company also representing workers' interests in its governing bodies. As it is clear in other legal systems, membership is not the only way to involve stakeholders in the governance of a social enterprise.

Third, the dissolution of the enterprise would not be the only sanction provided for in case of default; the loss of *SFS* status could, alternatively, be imposed. This could be important in cases in which, although not complying with the *SFS* statute, it is reasonable (and efficient) for the enterprise to continue its activity under the ordinary regime. Unless the SFS status is connected with very favourable advantages in terms of tax treatment or public benefits, the dissolution would remain by far the most severe sanction, considering the mandatory allocation of assets in case of liquidation, as discussed above.

The proposal seems to be directed towards reducing the burden of some requirements, probably in order to encourage the use of the SFS form. An indirect effect would be to make the boundaries more blurred between ordinary and social enterprises. This is particularly possible given that the connotation of *SFSs* in terms of governance and social finality is already not as marked as it is in other legal systems. There is a question as to whether a more successful direction might be offered by legislation which, also by the means of default rules, would try to define governance and operational models more precisely for this specific type of enterprise.

The United Kingdom: the structure and application of the company model

The experience of the United Kingdom is similar only in certain respects. The legislation on the Community Interest Company (CIC) came into force in 2005 with the main purpose of recognising and promoting entrepreneurship in the field of the social economy.[34] Indeed, the existing legislation on charities, although supporting many important initiatives in this area, especially thanks to a favourable tax regime, does not address relevant aspects such as financing or economic reporting. The application of corporate law to social interest enterprises would, therefore, provide some answers to this need.[35]

The English model is also interesting because the Act attributes significant regulatory powers to a public independent officer (the so-called "Regulator"). Not only shall this officer, appointed by the Secretary of State, issue guidance and provide assistance about any matter related to the CICs as requested by the Secretary of State, but s/he may exercise these functions on his/her own initiative, provided that these are based on good regulatory practices.[36] This regulatory approach allows a certain degree of flexibility which can be useful in adapting legislation to concrete needs and taking into account possible problems in the application of the rules. As will be shown below, the same Regulator is also in charge of monitoring and sanctioning with respect to CICs. In principle, this allows quite strict control over the implementation of the Statute. In practice, however, this role is framed as one of a "light touch regulator"- a regulator designed to assist CICs in order to encourage their birth and success than to sanction any defaulting behaviour.[37] The regime is relatively straightforward as between 2005 and September 2008, 2150 community interest companies have been registered.[38]

Social finality and activities

Under the Companies Act 2006, both companies limited by shares and companies limited by guarantees can adopt the status of a Community Interest Company. Their registration as a CIC is subject to the approval of the Regulator under the so-called 'community interest test'. This test aims to verify whether, in the view of a reasonable person, the company's activities are exercised for the benefit of the community. Activities which are incidental to these are also deemed to be eligible. By contrast, political parties and similar organisations are explicitly deemed as non-eligible in this respect. It is important to underline that beneficiaries may also represent a "section of a community". This takes place when a group of individuals share an identifiable characteristic not shared by other members of the same community. In contrast, an organisation will not comply with the legislative requirement if it only benefits its members or employees.

Non profit constraint and asset allocation

The CIC is qualified as a "locked body" with respect to its assets. The assets may not be gratuitously transferred or distributed on winding up to any organisation different from a Community Interest Company, a charity or a body established outside Great Britain that is equivalent to any of these legal persons. Normally the CIC may not distribute profits to its members. However, if the company's articles provide for this, the CIC may distribute assets on winding up and, if limited by shares, dividends to shareholders, provided that this is done below the limit established by the Regulator (today 5% above the Bank of England base lending rate). Then, the CIC may adopt a partial (only) distribution constraint in order to attract financing and investment with limited remuneration. Remuneration of debt is also allowed, and the interested rate is also capped.

It is important to underline that distribution to "asset-locked bodies" is exempted by this limitation and the "cap" does not apply in this case.[39] This means that a CIC, a charity or an equivalent organisation operating in a country different from the United Kingdom may constitute or participate in a CIC and retain profits to finance its own activity. The formation of networks of non-profit and social enterprises may be encouraged in this way.

Stakeholders and governance

The possibility of issuing debt and equity instruments which entitle members to a limited remuneration affects the governance structure of the organisation. Unlike equity holders, debt holders do not become members of the CIC. This prevents them from appointing (or removing) the majority of Directors. Indeed, the appointment of Directors is reserved only to members.[40] Although this rule does not also apply to equity holders, it tends to limit the influence of financiers in the governance of the company.

The Act on CICs does not design a specific governance structure for these companies. However, some rules have to be taken into account in accordance with the scope of the organisation. Indeed, the Regulatory Guidance explains that either the roles of members or of Directors should be defined with regard to the community interest and the goals pursued by the company. Without doubt, Directors are trustees of the company (and duties imposed by general company law apply to them). However, members should also ensure that the company in fact pursues the community interest. Members here play an important monitoring role with respect to Directors, thereby facilitating the supervisory task of the Regulator.[41]

No specific provision is stated with regard to the allocation of powers among members in reference to limitation of control, democracy, or differentiation of rights per classes of interest. It is then assumed that ordinary company law will apply and, therefore, the usual correlation between capital investment and decision-making power. More particularly, this is the case of companies limited by shares, while companies limited by guarantees follow the “one member, one vote” rule (Spear, 2004).

As for stakeholders’ rights, they are outlined more in the Guidance than stated in the law. The Act itself requires a minimum information and consultation standard in favour of stakeholders, whose compliance has to be documented in the community annual report.[42] The Guidance illustrates the possible modes of stakeholder consultation and participation. These can include the circulation of newsletters, open forums, information and consultation facilities which are web-based, or, more significantly, the constitution of stakeholder advisory groups or some forms of mandatory consultation in case of relevant decisions.[43]

Apart from members, directors, employees and customers, the major stakeholder is considered the community as beneficiary of the CIC’s activity. In this respect, the Guidance explains that not only effective beneficiaries, but also potential beneficiaries should be included.[44]

Accountability and responsibility

An important element of the relationship with stakeholders is the mandatory issue of a community interest annual report. According to the Regulations, this report must include: (*i*) a fair and accurate description of the manner in which the company's activities during the financial year have benefited the community; (*ii*) a description of the steps, if any, which the company has taken during the financial year to consult persons affected by the company's activities, and the outcome of any such consultation, and; (*iii*) the information regarding the Chairman's and Directors' emoluments (including pensions and compensation for loss of office). If this is the case, the annual report should also include information regarding the declaration of dividends, transfer of assets, and remuneration of debentures.[45]

In this way, the law complements the ordinary information duties imposed on a company in relation to its special role as a CIC. It is important to underline that the community interest report is a specific duty imposed on the CIC’s Directors.[46] The report falls then within the Directors’ responsibility towards members, but also (it could be said) towards stakeholders in general, thanks to the monitoring role of the Regulator in their favour.

The main monitoring function provided by the legislation on CICs is attributed to the Regulator as supervisor. The specific purpose related to this role is to ensure that the CIC continues to serve the community it is set up to benefit and that it is not operating in breach of the asset lock. The Regulator will not step in to solve internal conflicts, for which the companies are able to use alternative dispute resolution mechanisms.[47]

In order to exercise his/her monitoring powers, the Regulator can investigate the affairs of the company or appoint an external person for the same purpose. He/she may also require a CIC to allow the annual accounts of the company to be audited by a qualified auditor appointed by themselves.

Most enforcement measures can be activated by the Regulator only in case of default by the management or any person in a position to control the company's activity.[48] These enforcement measures include: the appointment of a Director, only removable by the Regulator, not the company; the removal of a Director; the appointment of a manager in charge of specific functions; the substitution of Directors; and transfer of CIC's assets to an Official Property Holder in order to prevent or interrupt misuse of these assets. In some cases, the Regulator may also re-arrange the control of the CIC (by transfer of shares) or present a petition to the Court for its winding up.

An important measure is connected to the Regulator's power to bring civil proceedings in the name of a CIC when members or Directors fail to do so. This power allows, for instance, Directors to be sued for a breach of fiduciary duties when members do not bring any action. This can be vital in order to protect stakeholders' rights against any misconduct of Directors where they have no standing to sue.

Unlike other legal systems, where judicial control is almost the only answer to misconduct by social enterprises, the English model complements this system with forms of administrative control. The integration between judicial and administrative control also implies that the public authority, already provided with monitoring and sanctioning powers, has legal standing to bring a case before the Courts.

More than the Belgian model, where the company pattern is somehow hybridised with rules deriving from the co-operative legislation (i.e. the role of workers as members, limitation to members' control powers), the British approach adapts the company legislation preserving most of its characteristics in terms of governance structure and allocation of powers among members. It then focuses on a stronger implementation of the "asset lock rule" and of community interest finality through the role of the Regulator. Since no tax incentives are attached to the adoption of the CIC form, the success of this new model is almost exclusively sought through the move of social enterprises towards business methods and legislation.[49] It can be questioned whether this is sufficient or whether a complementary focus on "social interest governance" could help the growth of CICs in the near future, for example regarding the role of stakeholders and beneficiaries in particular within these companies.

The "open form" model: the cases of Finland and Italy

Both Finland and Italy recently passed a law on social enterprises[50] and in both cases no special legal form has been prescribed as preferential or mandatory, provided that the organisation is formed and operates as a social enterprise. For this reason we call it the "open form model".

The foundations of this common approach are, however, quite different in the two cases.

The main purpose of the Finnish law is to encourage any kind of enterprise, however it is formed, to employ disabled people and long-term unemployed persons (Pättiniemi, 2004; Daniele, 2007). Specific subsidies are granted to enable this type of employment, provided that the enterprise complies with its main obligations in terms of labour law, social security, tax law, insurance and the like. The focus is much more on activity (more precisely, a specific field of activity or area of interests) than on forms and governance models. In these terms, the choice of the "open form" model is quite straight-forward.

By contrast, Italian law does not intend to provide any monetary incentive, nor does it promote any specific field of activity or area of interest. Therefore, the focus is more precisely on the definition of a (new) type of enterprise to be defined as a "social enterprise". Forms and governance models become more relevant in this case and attach a different value to the choice of the "open form" model. It is not necessarily that different legal forms may operate in the same area of interests, achieving equivalent results (and, therefore, deserving equivalent monetary treatment; as in Finland), but, more precisely, that different legal forms may adopt comparable governance models despite their diversity.

This consideration does not prevent us from examining the Finnish model. Of course, the approach to governance is quite different in this case. While, in general, the attention is on internal governance mechanisms (including the functioning of assemblies, boards and committees, decision-making processes, Directors' liability, and so on.), here, these mechanisms are not substantially modified by the law or adapted to the social goals of the enterprise. Companies, co-operatives, foundations, and associations will continue to be regulated according to their ordinary rules. What is specially regulated is the governance at large, which results from the functioning of internal governance (as defined above), contracts (in particular, labour contracts) and relationships with public entities (particularly the Ministry of Labour and other Departments which operate in its area of activity). This mix of legal instruments characterises the Finnish model, distinguishing it from any other considered in this chapter.

Social finality and activities

One element of commonality with other legal systems is the nature of the activity undertaken by social enterprises. A social enterprise must operate as an ordinary business by producing goods and services in relation to a commercial principle. The social connotation is represented by the provision of employment opportunities, particularly for the disabled and the long-term unemployed (Davister, Defourny and Gregoire, 2006).[51]

Non profit constraint and asset allocation

The Finnish Statute on the Work Integration Social Enterprise (WISE) does not include any specific provision for the distribution of profits and allocation of assets. It is intended that ordinary rules apply, depending on the legal forms of the WISE[52].

Stakeholders and governance

There is a strong focus on the disabled and long-term unemployed, something which is similar to other models. At least partially, these stakeholders can be considered within the wider category of disadvantaged people. Unlike other legal systems, however, the Finnish law does not consider membership (of disadvantaged persons themselves or their family members) as a tool for their protection, but focuses instead on contract law and establishes that labour contracts have to provide employees with the pay of an able-bodied person regardless of the worker’s productivity. Disabled and long-term unemployed people therefore have to constitute at least 30% of the enterprise’s employee population.

Accountability and responsibility

Secondly, social enterprises are subject to specific rules as to their relationship with the Ministry of Labour. They are required to enrol onto the register of social enterprises, as administered by the Ministry, and are subsequently subject to controls concerning their business practice and must comply with tax and social security obligations. They must also provide information which justifies their qualification as a social enterprise. More comprehensive information duties arise when social enterprises apply for and/or receive public subsidies. All these duties are enforced by the Ministry, which, amongst other potential sanctions, has the power to remove social enterprises from the registry in case of default.

This analysis leads us to question whether this combination, between rules concerning contracts and rules concerning relationships with public entities, should also be considered in the light of (internal) governance. Can the social enterprise better promote its interests while adopting measures directed towards representing workers within its governance structure? Should public bodies consider this as a preferential criterion while attributing subsidies? Could comparable results in terms of enforcement of work integration objectives be reached with different intervention by public bodies? If their role has to be related to finance, could they become financing investors in the social enterprises? Some of these solutions would probably move the Finnish model towards the other European models examined here. In no respect, would they suggest that legislation on labour contracts and public subsidies is not relevant or may not be crucial for the success of a social enterprise.

The Italian law on social enterprises is most likely more complex and comprehensive than other laws examined in this document. It was enacted in 2006[53] and was introduced into a legal system already regulating social co-operatives (as has been described in this chapter), associations, foundations, social utility non-profit organisations (ONLUS), musical foundations, cultural foundations, and a number of other different entities at least potentially involved in the fields and activities of social enterprises. While social enterprises were already in place, the legal framework was highly fragmented and unclear: (*i*) a legal definition of the social enterprise was still lacking; (*ii*) it was not definitively clear which entities could legally operate as enterprises and which legislation should be applied in that case; (*iii*) even preliminarily, many of the above mentioned entities lacked (appropriate) legislation concerning the exercise of an enterprise and that concerning the ordinary enterprise could not be considered adequate with respect to the social finality.[54] A law on the social enterprise intended to fill at least some of these gaps (Fici and Galletti, 2007; De Giorgi, 2007; Borzaga and Scalvini, 2007).[55] It is too soon to conclude whether or not these objectives have been reached. It seems likely that non-profit organisations still lack the incentives and instruments to realise a substantial change in their operational and governance structure, as only a few entities are today qualified as social enterprises under the new law.

Social finality and activities

According to Italian law, social enterprise is a qualification which can be referred to any kind of private organisation (e.g. associations, foundations, co-operatives, non-co-operative companies) which permanently and principally operates an economic activity aimed at the production and distribution of social benefit goods and services while pursuing general interest goals.[56] Public entities are expressly excluded as well as private organisations which direct their activity towards members only. The use of the company model is also prohibited. As will be discussed, membership is important but members are neither the only nor the major stakeholders of a social enterprise, although they do control it.

The qualification of an enterprise as a social enterprise is subject to specific requirements concerning its field of activity, the allocation of its assets, ownership and control structure.

Indeed, two alternative definitions of "social utility" are adopted. The first refers to the fields of activity of the organisation. Should goods or services be supplied in one of the "qualified sectors" they are automatically considered as social utility goods or services.[57] The second refers to the enterprises which are strongly orientated towards labour market integration with respect to disadvantaged or disabled people. As with Type B co-operatives and Finnish law, this category of employee must amount to 30% of the enterprise's workers. The former definition has often been criticised for its automatism and the lack of evaluation of concrete social value in the supply of certain goods or services, considering the modalities of this supply and the relationship with the beneficiaries (Bucelli, 2007).

Non profit constraint and asset allocation

The second requirement concerns the non-profit nature of the social enterprise. The allocation of profits and surplus to the institutional activity is permitted in law. However, the direct or indirect distribution of profits is expressly prohibited (except for social co-operatives where limited distribution is permitted). Among the indirect forms of distribution, the law permits the extra-remuneration of Directors, employees or financiers at levels higher than those ordinarily applied. In particular, with respect to financiers, remuneration up to 5% beyond the base lending rate is permitted, provided it is not referred to capital shares (Fici, 2007).[58] In other words, the partial remuneration of financiers is allowed such financiers, who are remunerated, may not be members of the organisation.

The profit distribution constraint is also correlated with a concurrent affirmative allocation of the assets in case of a transformation, merger or split, or the transfer of the enterprise. It is not clear why the legislator, in the former case, imposed the preservation of the non-lucrative feature so that resulting entities must be non-profit. By contrast, in the case of the latter, he/she identified, as sole beneficiary of the transfer, a social utility entity (Fusaro, 2007).59 Moreover, all these transactions have to be approved by the Ministry of Social Solidarity, except for those directed towards benefiting social enterprises. In case of extinction, the residual assets are distributed, according to the organisation's articles, to social utility non-profit organisations, associations, foundations or religious entities.

Stakeholders and governance

The third requirement relates to the ownership and control structures of social enterprises. While it is legal for a non-profit entity to control a social enterprise and form a group of social enterprises, the law prohibits public entities and for-profit organisations from controlling a social enterprise. None the less, they may have shares or somehow participate in a social enterprise as long as their participation does not translate into any sort of control.

What is control in a social enterprise is complex to define. It seems appropriate not to consider the formal concept of control as the ownership of the majority of the capital, but to instead view control in terms of influence over the governance structure of the entity, starting with its governing bodies. The law confirms this view explaining that, among other circumstances, control is defined as the ability to appoint the majority of the Board of Directors. Regarding this particular meaning of the term 'control', it has to be added that, according to the law, public and for-profit organisations may not appoint directors at all.

Apart from this restriction, the law does not prescribe what the composition of the membership of a social enterprise should look like (as happens in other legal systems such as France or Portugal). For instance, it is not clear whether the law considers the category of volunteers as members of the organisation (Iamiceli, 2007).[60] However, a non-discrimination principle is made mandatory. This means that inclusion in, or exclusion from, the organisation may not be arbitrarily defined and are subject to internal review by the members' assembly (or equivalent body). In addition, it is the social enterprise itself which opts for the selection of special classes of stakeholders as members, provided that this general principle is respected.

The composition of the membership is also important because, when the social enterprise takes the form of an association, only members may appoint the majority of the Board of Directors. This means that, given compliance with this limit, the possibility to appoint Directors by external entities is possible, yet limited, in law and represents an important tool for stakeholders who are not members (Schiano di Pepe, 2007).[61]

Regulation relating to the internal monitoring body is also important. Indeed, the law refers to the legislation of limited liability companies and makes the activation of this body mandatory when certain economic thresholds are exceeded (predominantly with respect to revenues and workers).[62] This body is responsible for the monitoring function of not only the enterprise's accounts, but also for the compliance with the legal status of the social enterprise as stated in the law. This compliance will then be outlined within social balance sheets to be provided together with ordinary balance sheets, as required by company law.

The provision of ordinary and social balance sheets is a fundamental mechanism to ensure both the internal and external transparency of social enterprises. The "outside dimension" of social enterprise governance is also promoted by a multi-stakeholder participation which relies on forms of involvement that differ from those associated to membership.

Apart from financiers and volunteers for whom the law does not afford any specific rights in terms of participation in governance[63], the law attaches significant importance to beneficiaries and workers. These groups have a formal right to participate in the governance of the organisation through mechanism of information, consultation and participation. These channels allow them to influence internal decision-making, at least with reference to those issues which affect work conditions and the quality of the goods or service supplied (Alleva, 2007). In fact, social enterprises are free to choose whatever level and mechanism of involvement (both quantitatively and qualitatively) they desire. As a result, the implementation of this provision in terms of sanctioning is difficult, though theoretically possible. Significance should therefore be attached to the self-regulation and self-enforcement of these practices (Iamiceli, 2007).

Accountability and responsibility

The main instrument of accountability is represented in the form of social balance sheets, though their impact on social enterprises and their relationships with stakeholders is not easy to predict at this time.[64] The executive regulation has not just come into force and, though the practice is gradually developing, a deeper analysis of the functions of this instrument is still lacking. In the current framework of executive regulation, social reporting will reflect the organisational and operational dimensions of social enterprises. The relations with the various classes of stakeholders are especially considered, as well as the modes in which social enterprises interact with other institutions, also in the form of social networks. While evaluation of the impact of the activity on the process of pursuing social goals is widely considered, this draft regulation fails to include internal monitoring as a mechanism through which social enterprises should report. This weakness may be overcome by self-regulation, given that these Guidelines only set minimum standards.[65] Special attention should also be paid to the specific role attributed to social enterprises as distinguished not only from for-profit entities but also from other non-profit organisations (Cafaggi, forthcoming).

While the "internal" dimension of the monitoring function is guided by company law, the "external" monitoring role is attributed to the Ministry of Social Solidarity, which is vested with investigative and injunctive powers. If the enterprise does not comply with the legislation, it will be dismissed from the social enterprises' section of the public registry and its assets will be devolved to an alternative non-profit entity.[66] It is important to highlight how Italian law fails to co-ordinate this monitoring system to adequately oversee the range of other social enterprises which operate in the third sector such as associations, foundations, social co-operative and the like (Cafaggi, 2000; Cafaggi, 2002).[67] As a result, like in other legal systems, administrative and judicial monitoring functions will co-exist. . In contrast, different forms of administrative control will also in principle operate for the same organisation and the same type of violation. The costs of enforcement and clarifying rules are, of course, enormous.[68]

Operating within the so-called "open model", Italian law attempts to identify a core of fundamental rules which relate to all social enterprises, whatever their legal form. Many of these rules are derived from the legislation regarding specific types of organisations, or have been adapted on the basis of this legislation. For instance, the non-discrimination principle recalls the open nature of co-operatives in the current law; checks, accounts and ordinary balance sheets are regulated with regard to ordinary company law and some provisions of the law on voluntary organisations do apply to social enterprises. However, other rules are new or innovative, like those concerning social balance sheets[69] or the involvement of beneficiaries and workers. In specific cases, a higher degree of innovation would have been preferable. This is particularly true with regard to the monitoring body, which is derived from the company model in almost its exact same form.

Developing a legal concept by cutting horizontally across a number of given legal forms offers the advantage of "shopping" through the models and searching for the "optimum result". There is also a reduced requirement for entrepreneurs to become familiar with a new form and new comprehensive legislation. Of course, current Italian legislation is far from being "optimum" and many expressions of criticism have already been outlined in this article. Indeed, the "open form" approach faces a significant challenge surrounding co-ordination. If "horizontal" legislation does not have to cover all issues already covered by the "vertical" statutes, which are applicable separately, it has to be consistent with them. For instance, is a limited liability company that pursues social interests rather than distributing profits to members still a company under the Civil Code? More critically, is this company still a social enterprise when it is controlled by a single non-profit entity that, although non-profit, has no social purpose?[70] To avoid such "co-ordination costs" a legislator may prefer to introduce a totally new form of enterprise or to adapt an existing legal form (e.g. a co-operative company).

Comparing the models and analysing some policy issues

Though legislation is different for approaches toward and contents of social enterprises, the laws outlined above allow a comparative analysis of a number of policy issues related to legislation surrounding social enterprises in Europe.

Of course, there may be many differences between legal systems. Some differences may occur for reasons that are endogenous to such systems. For instance, some reasons may include activism of the public sector within the sphere of social enterprises; success of the co-operative model as the main private actor in the social economy; or a significant appreciation for "volunteership" which slows down the process of "entrepreneuralisation" by limiting the amount of paid work that may be undertaken. These differences may become even more acute if Central and Eastern European countries are considered (Hadzi-Miceva and Bullain, 2007). Because of these differences it is difficult for this comparative analysis to make conclusive policy suggestions, which take into account all this variety. However, when policy makers face common issues regarding legislation on a private enterprise characterised by social finality, a comparative analysis is possible before endogenous factors are considered.

On this, a number of conclusions will be presented for further discussion. These conclusions will also take into account the differences between national legal forms, which have been examined above.

Defining social finality

Defining the social finality of a private organisation in terms of social benefit or social utility is by far one of the most difficult tasks of a legislator which regulates social enterprises. Moreover, this is a crucial premise which operates as a "navigator" for those who have to apply the law as entrepreneurs, consultants, public officers, judges and so on. Therefore, the first conclusion that can be proposed is that a law which totally abandons this definition delegating it to the practitioners would probably fail in its scope.

Two issues are related to this: who will be in charge of defining what social finality means?, and; how should this be defined?

With regards to the first issue, three approaches emerge within the framework analysed here:

- Social finality is directly and broadly defined by the law (as happens in Italy, France, Portugal, Poland and Finland).
- The definition is delegated to a public regulator different from the legislator (as happens in the United Kingdom).
- The definition is delegated to private parties by reference to the articles of the bylaws of private organisations which operate as social enterprises (as happens in Belgium).

In abstract terms a fourth solution would also be possible. The definition would be delegated to a private regulator, such as a network organisation composed of non-profit entities or a mixed network organisation, which is also composed of public entities operating in relevant fields.

The differences between the first and second approaches are worth considering. When the legislator defines social utility, there are most likely concerns about uniformity. Here, the legislator will be inclined to adopt a definition of social utility which is fairly consistent across different branches of the law. When defining social finality is tasked to a "specialised" regulator, then an increased appreciation of the specific role of social enterprises, as is already emerging in practice, can be expected. In other words, a "specialised" regulator should be able to draw on greater expertise and knowledge, which would enable an improved understanding of the subtleties involved and therefore an improved definition of social finality.

This second approach could be even more relevant if the fourth alternative were considered. If the objective is to favour a conceptualisation of social utility which takes into account the concrete needs of society, then network organisations could be an important source of information. Of course, different mechanisms of involvement could be used to satisfy this ambition. Consultation and open forums organised by the legislator or a public regulator could be used, for example. This would represent a form of co-regulative model (Cafaggi, 2004).

Though the third approach is strong in that it specifically considers the needs of the social entrepreneur, it risks co-ordination failure and the application of the law to serve very different needs. A complementary method would be to delegate to an authority, most likely a public supervisor, the power to examine and approve the articles of an organisation on the basis of their commitment to social finality. However, it could be problematic and ineffective to give this authority such power without defining any general principles or grid within which the evaluation should be done.

Building on this discussion, three approaches can be identified:

1. Social finality is defined predominantly by the sectors in which the enterprise will operate (as happens in Italian social enterprises, particularly the Italian Type A social co-operative).
2. Social finality is defined predominantly by the type of beneficiaries (as happens in the United Kingdom and Portugal).
3. Social finality is defined predominantly by the results that the activity is intended to achieve such as work integration, social inclusion, answering unsatisfied needs, access to certain goods or services, and so on) (as happens in France, Italian Type B social co-operatives, Poland and Finland).

Again, the list is not all-inclusive but shows from the first to the third approach a gradual approximation towards a definition of social utility which is more a result than an activity**.** References to sectors and beneficiaries may only operate as far (in the case of the former) or as close (in the case of the latter) as proxies of the concept. The issue is whether these proxies are sufficient or adequate. In particular, the mere identification of the sector of operation of a firm does not seem sufficient, since it does not give any guarantee of the concrete social needs it will satisfy. For example, a manufacturer of medical instruments operates in the health-care sector, but does not necessary work towards a goal that benefits disadvantaged communities.

It is also important to underline that the social finality of an enterprise can be related to the modality in which it operates. For instance, of two hospitals which both have the goal of curing patients, the hospital which involves beneficiaries in the decision-making process could be defined as having social finality. In other words, this hospital works to fulfil unsatisfied needs among patients or in the local community. In this way, the governance of an organisation may be a helpful proxy to define social finality.

Between affirmative and negative assets allocation: the non-distribution constraint and the assets-lock

All the above discussion examined laws which include a double constraint on the allocation of assets:

- A negative constraint, which concerns the prohibition of distributing profits and other resources to members and, under some laws, directors, employees, and financiers.
- A positive constraint, which related to the allocation of these resources to reserves or to the financing of social institutional activities. The French case sees the reallocation of resources to other social interest organisations in the case of liquidation and sometime during the life-cycle of an organisation.

The second constraint is important for distinguishing a social enterprise from an ordinary non-profit organisation. An element of distinction among the legal systems is the possibility of allowing a partial derogation from these constraints in favour of members (as financiers) or financiers (as non-members).

It is not possible to correlate this distinction with a specific legal form, since the only legal systems, within the ones examined here, which opt for the total distribution constraint are the Portuguese and Polish systems with respect to social (solidarity) co-operatives. On the contrary, in other countries like Italy, the co-operative form is the form which permits greater freedom in terms of the (limited) distribution of profits.

Within the systems that allow a partial remuneration of financial instruments, it is important to distinguish between:

- Remuneration of shares or equivalent instruments held by members. For social co-operative but not other social enterprises, this is permitted in France, Belgium, the United Kingdom and in Italy (as regulated by the Legislative Decree of 2006).
- Remuneration of other "non participatory" financial instruments. This is permitted and regulated for social enterprises in France, in the United Kingdom and in Italy, either for social co-operatives or for social enterprises at large. In Italy, however, it represents the only allowed remuneration.

In fact, these two approaches are not significantly far apart:

- Each of them adopts a "cap" to limit the remuneration of financial instruments, including shares, to members and non-members.

- While allowing the remuneration of members' shares, some of them distinguish between financial instruments which offer voting rights and those which do not (as happens in social co-operatives in France and in Italy). Here, remuneration described by the first point above becomes quite similar to the remuneration described by point two.
- Other limitations regarding participation in governance relate more precisely to the right to appoint directors or of being a member of the board:
  - In some cases such as in Italian social co-operatives, this limitation is directly connected with the right to remuneration. Financing members, for example, may not appoint more than one third of the board.
  - In other cases such as in the United Kingdom and Italy, this limitation is linked with membership. Non-members (therefore, also financiers) may appoint only up to 49% of the Board of Directors (as happens in the United Kingdom and Italy, with respect to associative social enterprises) or may not cover the majority of its chairs (as happens in Italy with respect to social co-operatives).

To summarise:

- Each system recognises a "capped" remuneration of investment in social enterprises.
- Each system recognises a limited right of financial instrument holders to participate in the governance structure of the enterprise, either as a member or as an "outsider" entitled to appoint a minor part of the Board of Directors.
- Some of these laws such as the Italian law on social co-operatives include specific restrictions for financing members in terms of voting power.

The allowance for a partial remuneration of financial instruments in social enterprises is indeed an important tool for their sustainability and growth (Cafaggi, 2000; Zoppini, 2000; Defourny, 2001). It contributes to reducing or annulling the dependency of the enterprise on public support and strengthens its capability to make innovative investments in order to successfully compete in the market.

The role of the financiers within the governance structure is also critical. In fact, their participation could help the social enterprises to operate more efficiently. On the other hand, at some point, this more business-like approach may clash with the social finality objective of social enterprises. As a result, legal systems:

- Limit remuneration below a cap. Here enterprises do not search for any finance whatsoever, but are interested in financiers who are willing to give up part of the remuneration in favour of social goals.
- Limit the financiers' means to participate in the governance to below the "control threshold", so that critical decisions are always controlled by persons whose major interest is not financial.

All these solutions are definitively important. However, they may not cover all critical circumstances, especially if the law limits non members-financiers' rights, but allows remuneration for ordinary members (as in France and the United Kingdom, for instance). Therefore, specific legislation on conflicts of interests could be appropriate in order to monitor the decision-making process in cases in which voting powers are not limited in the first instance. This legislation would also encompass conflicts among classes of stakeholders different from financiers, such as public bodies.

The governance structure: which rights for which stakeholders?

To differing extents and though differing approaches arise, the laws examined here allow for some rights that favour non-member stakeholders. In particular, it is possible to distinguish between participation and control rights when contrasting exclusive membership governance and integration with non-membership governance.

A preliminary issue relates to the identification of stakeholders. In this respect, differences do exist but they are quite limited. Close attention is paid to beneficiaries in almost all the laws examined. However, specific reference is lacking in Belgian law, where third parties are generally protected. Some are more inclusive, considering indirect beneficiaries (as in Portuguese law) or potential beneficiaries (as in British guidelines). In addition, workers are normally considered as an important class of stakeholders (particularly under the French, Portuguese, Italian, Belgian and Finnish laws), sometimes even at the same level as that of beneficiaries (French, Portuguese and Italian laws).Some laws adopt a final clause which relates to any interested person who supports or contributes to the pursuit of the enterprise's goals (as in French law) or is affected by its activities (as in British law).

A different approach is taken with respect to public entities. The current debate on social enterprises tends to highlight their independence from public power (Borzaga and Defourny, 2001). Some of the laws examined prevent public bodies from controlling social enterprises (as in Italian law) or establish limits to the size of the capital share they can hold in the enterprise (as in French law). In fact, independence from public entities could play an important role in fostering innovative capacity building as the enterprise is released from possible constraints deriving from political agendas. It also highlights the self-financing capability of social enterprises as well as the role of private financiers.[71]

This frame work does raise a number of questions for the policy maker. For instance, should the law identify the interests that need to be represented in the social enterprise or should the enterprises themselves decide? The issue remains as to whether the material protection of one or more of these categories could qualify an organisation as a social enterprise or not. With this discussion in mind, a focus on beneficiaries (including potential and indirect beneficiaries) and workers could, be favoured, with the identification and protection of other relevant interest groups left to the choice of the enterprise itself. The identification of these relevant interest groups should be distinguished from the definition of members and membership. When membership is considered, the differences between laws increase:

- Some laws explicitly define one or more classes of members as qualifying members of the organisation (the Polish law with respect to specific classes of beneficiaries; the Portuguese, with respect to beneficiaries or workers; the French, with respect to beneficiaries and workers; the Italian, under Type B social co-operatives, but only to the extent that disadvantage workers should preferably become members. In fact, all the cases within the co-operative model).
- Amongst these, just one law requires the organisation be multi-stakeholder with respect to membership. The French law requires that at least three categories of members must be fulfilled. Other laws confer on some stakeholders the right to be admitted as members, such as the Belgian law with respect to workers who have been appointed for one year.
- Other laws do not identify classes of members, but instead introduce a non-discrimination principle in relation to admission practices (Italian law on social enterprises).
- Other systems do not set any limitation with respect to membership (as in British and Finnish laws).

The reason for making the inclusion of certain classes of members compulsory is to ensure that a range of interests are represented within the organisation. Similar to others, this requirement could represent another prerequisite for the qualification of an organisation as a social enterprise.

However, if it is accepted that membership is not the only mechanism by which the interests of a private organisation may be expressed, then it could also be agreed that organisations should be free to set their own memberships. Moreover, they should have the power to decide the number and variety of membership classes that should be represented at general meetings.

At the same time, it is important to discuss the relationship between member and non-member stakeholders. For instance, some laws examined above attribute to members the power of appointing the majority of the Board of Directors (as particularly happens in Italian and British laws). The identification of members also distinguishes between controlling and non-controlling stakeholders.

Particularly when membership is multi-stakeholder in nature, rules concerning decision-making processes play a significant role. The inclusion of diverse interests in the general membership could mean very little if a single class is in the position of controlling the whole organisation. For this reason, legal systems that attach importance to membership pluralism and that legislate to ensure that different classes of interests are represented (the Italian law on co-operatives or French law, for instance) also tend to balance the power attributed to each class in order to avoid any of them having a disproportionate level of control (as is the case with French law).

Though here seen from the perspective of different classes of interests, the democratic character of social enterprises is seen as a means to ensure pluralism and fair decision-making. This system does, however, have the risk of attributing too much control to an individual actor. As a result, the models examined here clearly establish different rules to avoid a single member having control of the organisation:

- Within the "co-operative model" the "one member, one vote rule" is, with few exceptions, generally adopted.
- Within the "company model", the correlation between capital investment and voting rights is strong. In some cases, however, the law mitigates the risks of this correlation by establishing a minimum and maximum concentration of votes that can be given to a single member (as in the Belgian law) or includes legal forms in which the "one member, one vote rule" operates (as for companies limited by guarantees in the United Kingdom).

- Within the "open form model", one of the two mechanisms outlined above is used depending on the specific legal form of the social enterprise.

A sort of hybrid and intermediate model can prevail where laws generally tend to avoid the emergence of controlling rights for single members without necessarily opting for uniformity and equal voting rights. This intermediate solution seems to adequately balance the need for pluralism and the goal of differentiating between classes of interests in accordance with the finality and the specific purpose of the organisation.

It seems unwise, however, to allow the emergence of single members in controlling positions (as under United Kingdom law and with the exclusion of public and for-profit entities under Italian law on social enterprises). To safeguard the intrinsic nature of a social enterprise, controlling single members could be permitted only if they are organisations which not only pursue social goals (where the Italian reference to the non-lucrative nature does not seem sufficient) but also display strong accountability mechanisms both towards members and external stakeholders

As already affirmed, membership is not the only way of recognising interests as relevant within a private organisation. The large dimension and the spreading of social effects beyond members suggest the necessity to create new devices combining governance and judicial accountability.

In fact, only some laws attribute specific rights to "external stakeholders". They:

- Are entitled, individually or collectively, to information, consultation and participation rights under the Italian and British law;
- May be part of a consulting body under the Portuguese law; or
- Have the authority to sue against a defaulting enterprise under the Belgian law.

These rights are quite different in their function. They involve participation rights in the first two cases and monitoring rights in the last case.

Indeed, only the first two approaches allow external stakeholders to actively participate in the governance of an enterprise, contributing to internal decision–making through a direct expression of their needs or points of view. In fact, nothing legally dictates to what extent internal bodies are required to take into account this consultation. It is reasonable to believe that organisations should not be bound by it, but they should publicly justify (e.g. in social balance sheets) the reasons for disagreement with external stakeholders' expression of interest and possible conflicts among different classes of stakeholders (Iamiceli, 2007).

Information duties are also crucial to ensure accountability. At the very least, information allows stakeholders to assess the efficiency and effectiveness of an enterprise's activity and governance in order to adjust consumption, work, finance, and so on.

Information duties are also crucial with respect to the last option outlined above concerning stakeholders' right to sue, where this right is recognised. It is usually very difficult for an outsider to gather sufficient information to be able to sue on solid grounds. The critical issue relates to the way in which such information is provided. Normally, it is not sufficient to rely exclusively on information directly provided by the organisation, for example, in its social balance sheets. It is necessary for a more independent body or party to supervise the provision of this information and exercise autonomous investigative powers. This could be the role of an internal monitoring body, provided that the law establishes adequate criteria for the independence of the members of this body. Alternatively, an external supervisory agency (either public or private, like a non-profit advocacy organisation) could operate. An issue for debate is whether the same internal body or external supervisor should be given the power and obligation to sue in support of or in order to replace stakeholders. This could reduce the cost of information gathering and procedural administration of the dispute (Cafaggi and Iamiceli, 2006).[72]

Accountability and responsibility issues

Almost all examined laws oblige social enterprises and their governing bodies to comply with information duties in favour of members and/or qualified third parties (for the latter option, Portuguese, French, Italian and, United Kingdom laws are particularly relevant). Though enforced to differing extents, almost all these laws oblige social enterprises to issue a social balance sheet at the end of each year.

These provisions are fundamental elements surrounding the legislation on social enterprises and their mandatory nature should not be disputed. Indeed, full and effective information is the basis for any kind of relationship with the organisation, either in case of default (when a party intends to dismiss its activity) or during the ordinary life-cycle of the enterprise (when a party may wish to establish a business, financing or consumer relationship).

For these purposes, the ordinary accountability rules provided for for-profit enterprises are important but not sufficient. They cover the economic and financial cycle of the enterprise, but they do not address the social feature of its activity. They also differ according to the attended audience (shareholders) and with regards to the content (the effectiveness not the fairness). The social dimension requires additional instruments. This is the role of the social balance sheets. To be effective, social balance sheets have to offer concrete elements to assess achievement against social goals, providing more qualitative than quantitative information (Matacena, 2007; Sacconi and Faillo, 2005; Baldin, 2005).

What should be emphasised and is not always explicitly stated in the law, is that accountability does not relate only to activity (covering both the processes and the results), but also to the governance as a fundamental contributor to an enterprise's success On this theme, a number of questions arise such as which interests are represented in the general meeting, what role the body has played within the life-cycle of the enterprise, who appoints Directors, whether there are any Executive Directors or Directors in charge of specific affairs, what the role of the staff is; to what extent workers are involved in the management and refer to it, to what extent other stakeholders have been concretely involved and which decisions have been taken according or despite their suggestions? The link between governance, activity and social finality is much stronger in relation to social enterprises than for profit enterprises. Participation and control are part of the mission, not purely instrumental in achieving effectiveness. Satisfaction of beneficiaries' demands is related to the ability of devising an appropriate governance design.

In this area, self-regulation and ethical codes are important. Given a minimum set of general principles (such as fairness, comprehensiveness and effectiveness of information), the law could delegate private network organisations or the enterprises themselves to define the contents and the modalities of "social disclosure" (Cafaggi, 2008). Also, lacking this legal transfer of competence, social enterprises could commit themselves, on a legal and/or ethical basis, to issue social balance sheets and other information according to an agreed set of standards. This would foster effective competition among social enterprises and establish the basis for a constructive dialogue with external stakeholders as well as the public sector.

Establishing constructive responsibility towards the community at large or selected stakeholders as a way of facilitating democracy and participation seems to be the major objective of accountability in the area of social enterprises.

The sanctioning aspect of responsibility should also be present. If empowered by the law, internal and external supervisors, as well as single stakeholders must be able to control and eventually void the decisions of social enterprises in case of infringements of the law, of the organisation's articles, or concurrent obligations. Moreover, the recovery of damages represents an important solution for the difficulty associated with assessing social activities and the lack of effectiveness in a given circumstance. Therefore, laws should focus both on the possibility of issuing injunctions as specific non-monetary relief and as a means directed towards prevention before sanctioning (Italian law is particularly relevant here). Depending on the general framework in which public functions are executed in each legal system, this approach could mean a major role for administrative rather than judicial control, provided that the "public controller" is independent and is itself accountable to the community (the British case is a particularly relevant example) (Cafaggi, 2005).[73] This solution could lower the costs of a more "decentralised" judicial-based form of control, based on the initiative of individuals who are harmed by defaulting enterprises or Directors. It could also increase the effectiveness of the control when a potential plaintiff fails to prove his/her concrete interest in the case.

At the same time, it is important to consider self-regulation. Non-profit organisations, which represent the interests of social enterprises at large, could be empowered to perform a monitoring function. This role would see them strongly discouraging misconduct within social enterprises and, eventually, sanctioning (on a legal or ethical basis) those enterprises that fail to pursue their social goals.[74]

Back to the legal forms: co-operatives, companies or "openly defined" private actors?

The first part of this chapter developed analysis of some legislation on social enterprises in Europe. There was a specific focus on the legal forms of social enterprises: the co-operative, the company form and the open form model, where no specific legal form was selected by the legislator.

The analysis developed in the second part of the chapter shows that similarities between the models are relatively frequent. Indeed, a clear cut polarisation based on the adoption of specific legal forms is not easy to detect. One explanation is provided by the fact that the same legal form may have different connotations in diverse legal systems so that total uniformity within the same model cannot be expected. Crucially, once the legislator adapts a given legal form to the contents of a social enterprise, a hybrid between the two forms results. For instance, the company model, as adopted in Belgium, has some similarities with the co-operative form adopted in

Italy and in France (more than in Portugal).[75] A second reason is that legal transplants and mutual learning have had great relevance at the European level and beyond. The role of collective organisations in promoting the adoption of models has contributed to defining a common background which has then been qualified according to country-specific factors. Compared to the for-profit sector, social enterprises show a much higher level of "organised" convergence in the absence of European intervention. It is a clear example of minimum harmonisation through bottom-up cooperation.

Partial convergence does not imply partial uniformity and when there are different choices concerning legal forms, a legislator should move from the foundations of the social enterprise and its intrinsic nature and connotations. The legislator should ask whether any legal form or one in particular can be adequately adapted to be efficient and effective governance for the social enterprise.

The comparative analysis outlined above and the evaluation of the different models in terms of policy assessment suggest that at least a few elements should be taken into account. Particularly, the legal form, whatever its name and overall legislation, should guarantee:

- The possibility of carrying on an activity, which can be qualified as entrepreneurial, as the main activity of the organisation to achieve social goals.
- A control mechanism over the social nature of the finality pursued by the organisation, as defined in broad principles by the law.
- The enforcement of a positive (although not total) assets lock to ensure the achievement of social goals (this also implies a non distribution constraint, although partial).
- The possibility for the enterprise to sustain its own activity through remunerated financing.
- The representation of a certain degree of stakeholders' interests inside the governance of the enterprise, with specific but not necessarily exclusive representation with regard to beneficiaries and employees.
- The enforcement of a non-discrimination principle concerning the composition of membership.
- The enforcement of an accountability principle inside the governing bodies which allows pluralism, fair dialogue and no emergence of controlling rights, unless in favour of non-profit organisations which

share the social goals and the democratic nature of the social enterprise.

- An adequate degree of information disclosure relating to the governance and the activity of the social enterprise.

To what extent one or more legal forms may be adapted to this status is a question of flexibility which should be assessed in relation to each legal system. The greater this flexibility, the more appropriate the "open form model" option. As illustrated above, this offers the advantage of promoting competition among legal forms which allows social enterprises to select the most appropriate model for their purposes. On the other hand, the adoption of the "open form model" results in higher costs in terms of co-ordination among the forms and awareness of their legislations. This is a price that legislators, on the one hand, and social enterprises, on the other, may not want to pay.

Which European perspective? Looking ahead: towards a white paper on social enterprises

The chapter has showed that social enterprises, in different forms and degrees constitute an important reality both at the domestic and European level.

They have taken different forms and interacted with national welfare states in different ways. National experiences show that there are two coexisting legal dimensions: (*i*) a private governance oriented, which has been the focus of the analysis, and; (*ii*) a policy based one where social enterprises are considered instruments of social policies[76]. Social enterprises have been the pillars of many welfare policies concerning employment, social inclusion, migration, public order, cultural development etc. Most of the new legislation, though focusing on organisational matters, was driven by the necessity of implementing new policies arising out of the transformation of the welfare states.

Often the two streams of legislation have not been perfectly aligned. While sector specific policy driven legislation is more innovative, the integration of legislation concerning social enterprises in Civil Codes is far from being ripe. New Civil Codes, both in western and eastern Europe, do not recognise the specificity of social enterprises when legislating on non-profit organisations and relegate the organisational aspects to special legislation. This is partly because the legal design concerning third sector is still organised around organisational forms more than the activity. Social enterprise legislation promotes a different approach where the core is represented by the activity and its characteristics and the different organisational forms are instrumental to the pursuit of those activities and their welfare spillovers on local and global communities. The link between activities and organisational forms emerges in different dimensions and shapes both governance and accountability principles, differentiating social enterprises from common for-profit organisations but also from non entrepreneurial non-profit organisations. The entrepreneurial activity and the social goals call for specific legal regimes. These have grown out of a combination of path dependency and legal transplants with some national experience with the Italians playing a leading role.

However, even in relation to the organisational dimension, the legislative approach is running behind practices. The ever growing dimension of social enterprises is often driven by their ability to operate within more complex and sophisticated organisations. The emergence of groups and networks has characterised the last 15 years. Groups and networks represent different forms of coordination both among social enterprises, between social enterprises and for profit organisations and between social enterprises and other types of non profit organisations[77].

The necessity to integrate different entities is even more pressing when moving from the national to the European level. There is a strong need to promote transnational organisations able to co-ordinate welfare policies with cross-border dimensions. Migration, social security, health care, disability and transport are only some of the many dimensions where the necessity of European groups and networks of social enterprises implementing transnational policies is pressing. These could take different forms and degrees of complexity. Often in practice we observe groups of networks, with national networks belonging to European ones. Here again the organisational aspect is far behind the policy one. The implementation of welfare not only requires new organisational forms able to integrate different competences and experiences. A network composed of European foundations, associations and social cooperatives implementing migration policies would have to refer to national systems as to its legal frame. Belgium for obvious reasons has often provided such a frame but not always in a satisfactory way. The national dimension seems limited. The interdependence of policies at EU level calls for a more integrated approach that will enable social enterprises to coordinate or to integrate.

While state specificities suggest the necessity to preserve national dimensions, the urgency of a European intervention is clear. A multilevel architecture should be designed to coordinate European, national and regional levels where many of the competences concerning policies are located. Before any legislative intervention, being hard or soft law, a white paper concerning social enterprises and welfare policies is needed. Its scope would be to take stock of what is currently happening and of the impressive set of principles that the ECJ has developed over the past 15 years. These are clearly biased by the necessity to evaluate the applicability of competition and state aid principles but could provide a useful starting point to consider a co-ordinated multilevel intervention concerning the role of social enterprises to the creation of European citizenship in an integrated market, on the basis of the principles set out in the Lisbon Treaty.

Notes

1. This debate dates back 20 years. For a first European overview see DIGESTUS, 1999.

2. On the diverse functions of legislation in the domain of social enterprises, see Cafaggi, 2000; Cafaggi, 2005; Sacconi, 2006.

3. This seems to be the case in Italy and the United Kingdom, at least if we consider, respectively, the social enterprise, as regulated in Italy in 2006, and the community interest company, as regulated in the United Kingdom in 2004.

4. Communication from the Commission to the Council and the European Parliament, the European Economic and Social Committee and the Committee of Regions, Action Plan: The European agenda for Entrepreneurship, COM (2004) 70 final (11.2.2004), p. 9 and p. 19 ("In view of changing demands within society, because of the ageing of the population and consumer expectations regarding the behaviour of firms, new demands are arising in areas such as health care, mobility or the environment. As these sectors are close to or within the public domain, the public sector can be client or competitor. Social economy enterprises already provide examples of delivering services in sectors alternative to or complementing the public sector. The Commission will, together with the Member States under the open method of coordination, address barriers to the development of both commercially-driven and non-profit enterprises in these sectors. In preparation for future action, the Commission is currently analysing the role of social enterprises. […] Based on an analysis of the specific needs and constraints of non-profit and commercial enterprises providing social (such as health care, education, and welfare services) and environmental services, the Commission will benchmark conditions in the Member States for providing these services and present recommendations and guidance on improving the conditions under which enterprises operate in these sectors (in terms of promotion and legislation) within the framework of their public service obligations and quality requirements specific to the services provided.").

5. Communication from the Commission to the Council and the European Parliament, the European Economic and Social Committee and the Committee of Regions on the promotion of co-operative societies in

Europe, COM (2004) 18 final (23.2.2004), part. p. 10 ("The effectiveness of co-operative forms in integrating social objectives has led certain Member States to adopt specific legal forms to facilitate such activities. These have experienced considerable success and generated interest in other Member States facing similar problems").

6. See Opinion of Advocate General Jacobs, 23 March 2000, Joined Cases C-180/98 to C-184/98, Pavel Pavlov and Others v Stichting Pensioenfonds Medische Specialisten; Court of Justice, 21 September 1999, Case C-67/96 Albany International v Stichting Bedrijfspensioenfonds Textielindustrie; Opinion of Advocate General Fennelly, 11 May 2000, Case C-222/98, Hendrik van der Woude v Stichting Beatrixoord; Opinion of Advocate General Jacobs, 17 May 2001, Case C-475/99, Ambulanz Glöckner v Landkreis Südwestpfalz, § 69; Case C- 222/04, Cassa di risparmio di Firenze and others ECR-I- 289, Motosykletistiki (MOTOE) v. Dimosio, C-49/07, 1 July 2008 nyr.

See also Liège (7e ch.) 17 novembre 2005, J.T. 2006 (abrégé), liv. 6218, 202; J.T. 2006 (abrégé), liv. 6231, 466, note GLANSDORFF, F.; Annuaire Pratiques du commerce & Concurrence 2005, 703; Juristenkrant 2006 (reflet BREWAEYS, E.), liv. 134, 1: "Dans la mesure où il est admis que les avantages légaux reconnus aux sociétés d'économie sociale d'intégration ne constituent pas des discriminations contraires aux articles 10 et 11 de la Constitution, et que la participation de ces entreprises à des procédures de passation de marchés publics ne constitue ni une violation du principe d'égalité de traitement des soumissionnaires, ni une discrimination déguisée, ni une restriction contraire au Traité C.E., malgré le fait que ces sociétés reçoivent des subventions l EUR permettant de faire des offres à des prix sensiblement inférieurs à ceux de leurs concurrents qui ne bénéficient pas de tels avantages, il ne peut être retenu en l'espèce que l'intimée ait commis un acte contraire aux usages honnêtes en matière commerciale en remettant des prix inférieurs à ceux de l'appelante dans les deux marchés litigieux du fait des aides et subsides reçus par elle en parfaite légalité."

7. See C- 222/04, Cassa di risparmio di Firenze, cit., part. par. 123.

8. See C- 222/04, Cassa di risparmio di Firenze, cit., part. parr. 120-123. "Treatment of the banking foundation as an 'undertaking' seems to be excluded in respect of an activity limited to the payment of contributions to non‑ profit‑ making organisations. As the Commission observes, that activity is of an exclusively social nature and is not carried on the market in competition with other operators. As regards that activity, a banking foundation acts as a voluntary body or charitable organisation and not as an undertaking. On the other hand, where a banking foundation, acting itself in the fields of public interest and social assistance, uses the authorisation given it by the national legislature to effect the financial,

commercial, real estate and asset operations necessary or opportune in order to achieve the aims prescribed for it, it is capable of offering goods or services on the market in competition with other operators, for example in fields like scientific research, education, art or health. On that hypothesis, which is subject to the national court's assessment, the banking foundation must be regarded as an undertaking, in that it engages in an economic activity, notwithstanding the fact that the offer of goods or services is made without profit motive, since that offer will be in competition with that of profit-making operators."

9. Regulation (EC) No. 1435/2003, 22 July 2003; Directive 2003/72/EC, 22 July 2003. In the perspective of this paper the legislation on European Cooperative is interesting especially for the cross-country dimension that a social enterprise could adopt through this legal form and for the governance structure defined by the European legislation: a mix between democratic principles (as reflected in the "one member one vote rule" and in the workers' participation rights), and efficiency of administrative bodies (with a certain level of independency of the board from the general meeting). See also Communication on the promotion of co-operative societies in Europe, cit., as quoted below under footnotes 21 and 22.

10. See especially the case study of Poland later in the chapter.

11. With respect to the results of EMES research, see Defourny (2001). See also the development of the comparative study into the Digestus Project, DIGESTUS (1999).

12. For example, it could be discussed whether the orientation to work integration should be considered as a definition element of the social enterprise, or what the assumption of risk includes (whether exposure to financial loss, to bankruptcy, to the loss of non-financial investments, or to another type of risk).

13. Communication on the promotion of co-operative societies in Europe, cit., p. 15 ("co-operatives are an excellent example of company type which can simultaneously address entrepreneurial and social objectives in a mutually reinforcing way").

14. Communication on the promotion of co-operative societies in Europe, cit., p. 4: "All co-operatives act in the economic interests of their members, while some of them in addition devote activities to achieving social, or environmental objectives in their members' and in a wider community interest.".

15. Law 8 November 1991, No. 381.

16. With special respect to B-type co-operatives, see Borzaga & Loss (2006), where quantitative data elaborated by INPS are reported. According to these data, B-type co-operatives have increased from 287 (in 1993) to

1915 (in 2000). For a more recent survey, see Istat, Le cooperative sociali in Italia, in Informazioni, 2008, n. 4, part. p. 13 ff., which reports that social cooperatives actively operating in Italy at the end of 2005 are 7363 and this amount has increased by 19.5% from 2003 to 2005.

17. See Law 7 December 2000, n. 383 on social promotion associations.

18. In fact, also for ordinary co-operatives, co-operative mutuality has been significantly re-shaped within the reform of capital companies in 2003; this reform allows the existence of a category of co-operatives with a minor characterisation in terms of mutuality (see articles…). Then social co-operatives would represent a distinct category, being by law considered within the group of "major mutuality" but still characterised by social finality (which, in fact, denies the mutuality feature).

19. See the Law of 31 January 1992, No. 59 and the reform of 2003 under article 2526 of the Civil Code.

20. On the impact of these novelties on the governance structure, see below.

21. Art. 2, l. 381/91, cit.

22. See art. 2545-bis of the Civil Code.

23. See art. 2435 of the Civil Code. On public access to the Enterprises' Registry, see D.P.R. 7 December 1995, No. 581, and article 8, Law of 29 December 1993, No. 580.

24. See Legislative Decree 220/2002.

25. See on the portuguese law. Canaveira do Campos, Cooperative di solidarietà sociale nel Portogallo, in Impresa sociale, 1998, p. 38 ff.

26. Article 19-quinques, l. No. 47-1775 of 10 September 1947, as modified by the Law No. 2001-624, 17 July 2001, and article 3, Decree No. 2002-241, 21 February 2002. On the definition of social utility see Margado (2004).

27. Article 19-sexies, l. No. 47-1775, cit.

28. The statutory reserve shall amount to 50% of the residual resources once the legal reserve is integrated.

29. On the political and cultural constraints affecting the success of the co-operative model see Les (2004).

30. For a comparative overview with regard to CEE countries, see Rutzen *et al* (2004).

31. See article 1, Law of 27 june 1921, as modified by Law No. 51/2002: "L'association sans but lucratif est celle qui ne se livre pas à des opérations industrielles ou commerciales, et qui ne cherche pas à procurer à ses membres un gain matériel". On this aspect as an important premise

for the reform concerning Sfs, Solidarité des Alternatives Wallonnes Asbl, La société à finalité sociale. Volets juridiques, fiscaux, sociaux et aides publiques, November 2000, p. 3.

32. Article 663, § 2, Code des sociétés: "Á défaut, le tribunal condamne solidairement, à la requête d'un associé, d'un tiers intéressé ou du ministère public, les administrateurs ou gérants au paiement des sommes distribuées ou à la réparation de toutes les conséquences provenant d'un non-respect des exigences prévues ci-dessus à propos de l'affectation desdites réserves. Les personnes visées à l'alinéa 2 peuvent aussi agir contre les bénéficiaires si elles prouvent que ceux-ci connaissent l'irrégularité des distributions effectuées en l EUR faveur ou ne pouvaient l'ignorer compte tenu des circonstances."

33. Article 667, Code des sociétés: "Á la requête soit d'un associé, soit d'un tiers intéressé, soit du ministère public, le tribunal peut prononcer la dissolution: 1° d'une société qui se présente comme société à finalité sociale alors que ses statuts ne prévoient pas ou ne prévoient plus tout ou partie des dispositions visées à l'article 661; 2° d'une société à finalité sociale qui, dans sa pratique effective, contrevient aux dispositions statutaires qu'elle a adoptées conformément à l'article 661".

34. See Companies (Audit, Investigations and Community Enterprise) Act 2004, Part 2 and Schedules 3 to 8, and Community Interest Company Regulations 2005 and Schedules 1 to 3. Both have been amended by the Companies Act 2006 (Commencement No. 2, Consequential Amendments, Transitional Provisions and Savings) Order 2007, Statutory Instrument 2007 No. 1093 (C. 49).

35. On the political and cultural background of the reform, see Spear (2004).

36. More specifically, under § 27(4), Companies Act, cit.: "The Regulator must adopt an approach to the discharge of those functions which is based on good regulatory practice, that is an approach adopted having regard to: (i) the likely impact on those who may be affected by the discharge of those functions; (ii) the outcome of consultations with, and with organisations representing, community interest companies and others with relevant experience, and (iii) the desirability of using the Regulator's resources in the most efficient and economic way".

37. See Guidance, Chapter 12, p 1.

38. See Community Interest Company Regulations website www.cicregulator.gov.uk/coSearch/companyList.shtml

39. See Community Interest Company Regulations 2005, cit., part 6.

40. See Community Interest Company Regulations 2005, cit., Schedule 3.

41. See Guidance, Chapter 9, p. 3 f.

42. See Regulations, cit., part 7, § 26.

43. See Guidance, Chapter 9, p. 5 f.

44. See Guidance, Chapter 9, p. 6.

45. See Regulations, cit., part 7.

46. See Companies Act, cit., § 34.

47. See Guidance, Chapter 12.4.

48. See Companies Act, cit., § 41(2): "The company default condition is satisfied in relation to a power and a company if it appears to the Regulator necessary to exercise the power in relation to the company because: (a) there has been misconduct or mismanagement in the administration of the company; (b) there is a need to protect the company's property or to secure the proper application of that property; (c) the company is not satisfying the community interest test, or (d) if the company has community interest objects, the company is not carrying on any activities in pursuit of those objects".

49. For some criticism of this legislation, with special regard to the proliferation of legal forms, Spear (2004), p. 111.

50. See, for Finland, Social enterprise (WISE) - law 1351/2003, in force since January 2004, and, for Italy, Legislative Decree 24 March 2006, No. 155.

51. On the Work Integration Social Enterprise (WISE) as a general category which identifies a type of social enterprise all over Europe, see Davister, Defourny and Gregoire (2006).

52. On the possibility of distributing profits see Pättiniemi (2004).

53. See Legislative Decree of 24 March 2006, No. 155 (implementing Law of 13 June 2005, No. 118).

54. See Cafaggi (2000).

55. See Cafaggi (2005); Fici and Galletti (2007); De Giorgi (2007); Borzaga and Scalvini (2007).

56. According to the law, the entrepreneurial activity is considered as the "main activity" if 70% of the enterprise's revenues derives from such activity.

57. See article 2 of the Decree No. 155/06, which specifically mentions: social assistance, healthcare, education, environmental protection, cultural heritage protection and promotion, social tourism, graduate and post-graduate education, cultural services, extra-school education, provision of services for social enterprises (by organisations mostly composed of social enterprises).

58. This cap is not applicable to banks and other financial intermediaries, who can then be remunerated beyond the limit of 5%. On this subject see Fici (2007) p. 52.

59. See art. 13, Legislative Decree No. 155/06. For a critical perspective on this legislation see Fusaro (2007), p. 194.

60. This approach is taken by a different law on voluntary organisations (l. 266/91), sub article 3. The law on social enterprises refers to this law under article 2, where volunteers are considered as "supporting participants" ("aderenti") and not (preferably) members. It seems that, if the organisation is a voluntary one, the volunteers must preferably be members, but this requirement does not apply to social enterprises. On this issue see Iamiceli (2007) p. 177.

61. See Schiano di Pepe (2007) p . 215, who holds that, according to general principles, it will, in any case, be the general assembly to appoint all the directors, although on the basis of a designation by third parties.

62. In fact, these thresholds are reduced to half with respect to those provided for a limited liability company, probably in consideration of the reduced size of social enterprises with respect to limited liability companies: an assumption which is probably disputable.

63. About volunteers, see above sub footnote 64.

64. Ministry of Social Solidarity, Decree of 24 January 2008, Guidelines on Social Balance Sheets adopted by social enterprises.

65. See Draft Guidelines on Social Balance Sheets, cit.

66. In fact, the provision is not clear in this respect, given that it explicitly refers to the case in which the enterprise no longer operates rather than continuing to operate as an enterprise different from the social one (see the combination between article 13 and article 16). However, given the "assets-lock" imposed in case of transformation, as examined above, it seems reasonable to believe that the constraint cannot be lighter when the "transformation" is imposed as a sanction against a default. On this issue, see Iamiceli (2007) p. 72; Bucelli (2007) p. 339.

67. On this question, before the introduction of the law on social enterprises see Cafaggi (2002).

68. On this debate, already before the introduction of the law on social enterprises, see Cafaggi (2000).

69. Although a reference is contained in the law on banking foundations, it does not expressly concern social enterprises.

70. On this criticism, see Iamiceli (2007).

71. On the self-financing capability and the diversification of financial sources as specific connotation of the social enterprise, see OECD (1999).

72. With specific reference to the role of self-regulation in this domain, see Cafaggi and Iamiceli (2006) p. 315.

73. On the responsibility of regulators, see Cafaggi, Gouvernance et résponsabilité des régulateurs privés, in Revue internationale de droit économique, 2005, p. 111 ff.

74. See F. Cafaggi, Regolazione ed autoregolazione nel settore non profit, cit.

75. With specific regard to the evolution of the co-operative model, see Spear (2004) p. 100 and p. 102.

76. This second dimension is "hidden" in policy and legislative interventions concerning health care, social services, education, arts, migration, security etc.

77. See F. Cafaggi and P. Iamiceli, *Groups and networks in the non profit sectors. The way ahead*, unpublished manuscript on file with the authors.

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Annex 1.A1

Table 1.A1.1. Social enterprises in Europe: a comparative table

	Co-operative model				Company model		"Open form" model	
	Italy	Portugal	France	Poland	Belgium	United Kingdom	Finland	Italy
Social finality								
Defined by…	Law	Law	Law	Law	Private organisations operating as social enterprises	Public regulator different from the legislator	Law	Law
Having regard to…	Sectors / social objectives (e.g. work integration)	Type of beneficiaries	Objectives (e.g. satisfaction of not-commonly satisfied needs)	Social objectives (work integration)	-	Benefit for the community	Social objectives (work integration)	Sectors
Distribution constraint								
Non-distribution constraint		Total		Total				
Capped remuneration allowed in favour of…	Members and non-members		Members and non-members		Members	Members and non-members	Depending on the legal form (ordinary rules apply)	Non-members only
Stakeholders' rights								
Membership								
Mandatory for one or more classes of stakeholders	(Type-B) Disadvantaged workers (preferably members)	Beneficiaries or workers	Beneficiaries and workers	Disadvantaged workers (at least 80% members)	At least one-year workers (right to be admitted)	-	-	-
Mandatory multi-stakeholder membership			At least three categories of stakeholders					
Non-discrimination upon admission								For membership based organisations (associations, companies)

Table 1.A1.1. Social enterprises in Europe: a comparative table (*continued*)

	Co-operative model	Company model					"Open form" model	
	Italy	Portugal	France	Poland	Belgium	United Kingdom	Finland	Italy
Members' voting rights								
One member, one vote rule	With exceptions	No exceptions	With exceptions	No exceptions				
Correlation between capital share and voting right					For non-cooperative companies but not for cooperatives; also for non-cooperative companies a cap is imposed to avoid controlling members.	For companies limited by shares, while for companies limited by guarantees the "one member, one vote rule" applies.	Depending on the legal forms (ordinary rules apply).	Depending on the legal forms (ordinary rules apply).
Non-members' rights		Information rights for honorary members (members without voting rights)				Information, consultation and participation rights for stakeholders (part.: the community as main beneficiary)		Information, consultation and participation rights for workers and beneficiaries
Social accountability								
"Social reporting" required	Yes	No	Yes	Yes	Yes	Yes	No	Yes

Chapter 2
Social Enterprises in OECD Member Countries: What are the Financial Streams?

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This chapter focuses on the emergence of financial instruments and enabling environments for social enterprises in selected OECD countries, with particular focus on Western European countries, Canada and the United States, and possible strategies for supporting their development in Eastern European Countries. As social enterprises continue to draw the attention of national governments and local authorities alike in the fight against unemployment and social exclusion, they are also being embraced by civil society as a way of addressing unmet needs in a sustainable manner. Social enterprises are emerging in numerous sectors producing goods and services, thereby increasingly demonstrating their capacity as economic actors. They are similarly considered as key to socio-economic transformation in transitional economies.

As the chapter suggests, the incompatibility of an existing investment framework, tied to outmoded and fixed categories that do not correspond to the new reality of social enterprises and their investment needs, requires cultural adaptation of the financial, legal, accounting and policy communities internationally to this new reality before the appropriate and enabling tools can be designed. For social finance to become sustainable finance, an integrated approach has to be adopted that is distinct from traditional capital markets.

In conclusion, and regardless of the breadth of instruments available, the real potential of social enterprises will only be realised if they are integrated into a systemic approach to social exclusion, labour market transformation, and territorial (place-based) socio-economic development strategies that requires innovative public policy.

Introduction

This chapter focuses on the emergence of financial instruments and enabling environments for social enterprises in selected OECD countries, with particular attention on Western European countries, Canada and the United States, and possible strategies for supporting their development in Eastern European countries. As social enterprises continue to draw the attention of national governments and local authorities alike in the fight against unemployment and social exclusion, they are also being embraced by civil society as a way of addressing unmet needs in a sustainable manner. Social enterprises are emerging in numerous sectors as producers of goods and services, increasingly demonstrating their capacity as economic actors. They are similarly considered as fundamental to socio-economic transformation in transitional economies.

For social enterprises to emerge and to consolidate their activities, they must have access to capital. Innovations in financial markets that serve social enterprises include a variety of new instruments that will be outlined in this chapter. However, a mere transposition of financial tools and instruments from traditional financial markets or from developed to transitional economies will not suffice: the specificities of these economies must be taken into consideration. Common to all countries, however, is the recognition that new financial tools and instruments that combine financial and social returns require the investment of both private and public actors. Moreover, the experience in OECD countries has shown that enabling legal and institutional frameworks are the pillars upon which this activity can emerge and grow. In this evolving environment in which social enterprises have emerged, the traditional roles assigned to the public, private and so-called third sector are transforming. While we suggest that this represents a reconfiguration of state-civil society relations, we do not minimise the cultural challenge this poses within societies embedded in long established institutional contexts. Therefore, the impact on institutional change, for the time being, might best be characterised as incremental, iterative and culture specific. Relationships are still evolving, fluid and unstable contributing to an incoherent and complex socio-political landscape (Mendell, 2006).

This chapter explores the principal streams of financing currently available for social enterprises, bearing in mind that this remains a contested term very much shaped by the institutional and cultural contexts of the countries within which these enterprises are emerging. What is common, however, and informs our chapter, is the growing presence and role of businesses committed both to wealth creation and to the public good. In many parts of the world, these social enterprises are collectively owned and take the form of co-operatives or not-for-profit organisations. Increasingly, the question of the legal form adopted by these enterprises has been subordinated to their social objectives, opening the way for private individual ownership of these enterprises. A great deal of literature is emerging that attempts to classify social enterprises along a continuum of ownership models (legal forms), sectors of activity and revenue-generating capacity, calling into question the role of government in facilitating the emergence and growth of these enterprises. It is suggested the growth of the social enterprise model and the recognition of the capacity of businesses to operate as social and economic actors is a development which should be welcomed. The current references to enterprises meeting triple bottom line objectives (economic, social and environmental) are only to be outnumbered by the number of businesses successfully meeting these multiple goals. Many are even going one step further to include governance as an objective to be met, adding democratic decision making processes to social, economic and environmental objectives pursued.

There is a need to cast a wide net despite the long commitment to collective ownership that characterises these businesses which were, until very recently, associated with the social and solidarity economy. The wide net is necessary to capture the numerous initiatives that are embedded in community and respond to needs unmet by the market or the state, there is a need to distinguish the concept of 'social enterprise', used herein, from those that represent a growing tendency to commercialise social services. The pressure to generate income in enterprises that are meeting primarily social needs is often felt in countries and/or regions where the disengagement of the state in social services is most present. In this case, social enterprises are a vehicle for the privatisation of these services previously provided by the public sector. In vulnerable countries and regions, in both the North and in the South, this pressure can take pernicious forms if social enterprises and the entrepreneurship they rely upon are presented as a solution to deeply rooted and structural problems of poverty and social exclusion. As a solution to these difficult and complex problems, without enabling public policy, it becomes a prescription for failure.

The present chapter is informed by these underpinning hypotheses, namely that the potential contribution of social enterprise to socio-economic growth and development must be part of a new policy framework that recognises its capacity, but also its critical needs, for enabling policy tools. It does not call for the withdrawal of the state. Quite the contrary; it calls for a different engagement by the state that has the potential to address these difficult issues. The same holds true for the investment market that is growing and responding to the financial needs of these enterprises. This, too, has to be situated within a policy framework so as to meet the objectives of financial viability and social return. On a positive note, social enterprises do offer promise, especially in the face of an urgent need to question the new role of the state, rather than its reduced role, too often an underlying objective in countries and regions embracing social enterprise and social entrepreneurs. For this type of business activity to take root and realise its objectives, there are several needs that must be met. In this chapter, the focus is on finance, on the investment tools designed for social enterprises.

The investment market has transformed considerably in recent years. Alex Nicholls and Cathy Pharoah refer to a "landscape of social investment" to capture the growth of this new market (Nicholls and Pharoah, 2007). In this chapter an overview of this activity that responds to the financial needs of social enterprises and increasingly to the growing public demand for new socially responsible investment opportunities will be provided. New actors, new financial instruments or products, new enabling legislation and public policy design are just a few of the components of this new financial market. New actors are emerging in the field and old actors are transforming their roles from donors to investors, as the growth of so-called venture philanthropy demonstrates. Governments are actively engaged in this emergent "landscape" with varying degrees; the institutional contexts determine the extent and the nature of this engagement. In the United States, for example, where direct government intervention is minimal, there is supporting legislation. In the United Kingdom, there is both an emergent policy environment and supporting and innovation legislation. In Canada, the Quebec experience is distinguished for its capacity to create a new multi-stakeholder investment market, for example, that includes the labour movement as a major investor in the social economy and active government participation. We are at a crossroads. This chapter contributes to the many important efforts to map this activity in different countries and regions internationally. Ultimately, this activity is a response to the globalisation of financial markets, often referred to as "financiarisation", and the need to develop new and hybrid capital markets to combat exclusion and poverty globally. The belief that a new paradigm may be at the end of this shift is increasingly recognised.

While only imagination can limit the creation of new financial tools to provide capital for social enterprises, a thorough knowledge of the specific historical and socio-cultural contexts and an understanding of national and global financial systems are paramount to the launching of any new financial instrument. This chapter aims to contribute to this effort by exploring the sources of financing for social enterprises in advanced economies that currently exist and documenting the conditions that enabled their emergence. Through the examination of the regulatory environment that facilitated innovation in the financing of social enterprises and the critical role played by civil society actors, the evolution of the sector will be explored from the traditional providers of financial support (philanthropy, financial institutions, public financing) to the more recent financial innovations such as solidarity finance, patient capital, targeted or programme related investment, socially responsible investment, venture philanthropy, to name a few. These new and often hybrid financial instruments generate blended value instead of an exclusive financial return. As this activity grows, unique tools for measuring their impact are emerging, such as social accounting and social return on investment (SRoI). This is critical not only to demonstrate the viability of social enterprises themselves, but also to confirm the growing commitment to contest the dominant paradigm by constructing appropriate tools with which to measure their activity and document their significant contribution to wealth creation.

Social enterprise: a brief review

In recent years, the term "social enterprise" has become familiar to academic and policy audiences and increasingly to the general public as a new innovative business model that meets both social and economic objectives contributing to labour market integration, social inclusion and economic development. The interest in social enterprise follows a decade of growing recognition by local and national governments and international organisations of the role of the social economy, the non-profit sector, the solidarity economy or the third sector (Borzaga and Defourny, 2001; Dees, 1998). The last decade can be caricatured by a cacophony of terms, phrases, concepts that until recently meant many things to many people causing a great deal of confusion and misunderstanding. From a policy perspective, most countries faced a common policy impasse. The failure of neo-liberalism to address structural problems of poverty and social exclusion has led many governments to look closely to civil society initiatives as solutions to these difficulties. In many cases, these initiatives are rooted in their societies. Numerous examples exist, such as the social co-operatives in Italy, community economic development initiatives in the United States, solidarity-based economy initiatives in France, the social economy in Quebec and, of course, the numerous micro-credit organisations that had emerged throughout the world, to name a few. These initiatives share their civil society origins but the nature and degree of institutionalisation are very culture specific.

Today the reference to "social enterprise" is used to capture this variegated activity, often glossing over these specificities, thereby ignoring the role of enabling environments and presenting these enterprises instead as homogenous, autonomous business models with multiple, achievable goals.

Whether they take the form of "new organisations" or "a new dynamic within the third sector" or as the seeds of an alternative economic development model calling for a new combination of resources – private and public, monetary and non-monetary - is not addressed (Borzaga and Defourny, 2001; Haugh, 2005; Defourny and Nyssens, 2008). Social enterprises are frequently analysed from a micro-economic perspective as a response to either market or state failure or both. The term has crossed cultural and language boundaries without major problems. Having said this, these enterprises do not exist in a vacuum: indeed, the attention paid to entrepreneurship, mission-related economic activities or to the question of ownership varies considerably in different cultural and institutional contexts. While the potential of social enterprises for attaining blended objectives is recognised worldwide, a major difference in conceptual approaches lies in the weight given to economic versus social objectives within this type of private organisation.

The interest in social enterprise has been accompanied, in the last few years, by the celebration of the "social entrepreneur" through personal stories that speak of the inspiration, drive and business-like mind of individuals aiming to change the world. And so the focus on "social entrepreneurship" initiatives has drawn the attention of public administrations, organised civil society and donors alike to the potential of these innovative individuals to respond to pervasive social problems so far unresolved by public policies and traditional socio-economic actors. While the objective of this chapter is not to unpack these terms ("social enterprise", "social entrepreneur", "social entrepreneurship") or to define the boundaries that separate them, we note that they must be differentiated (Kerlin, 2006).[1] That these terms are used almost interchangeably in Anglo-Saxon contexts, has contributed to confusion particularly as regards the power, influence and potential of the actors involved and hence the expectations that follow.

In this chapter, social enterprises are not seen merely as the institutionalisation of a social entrepreneurship initiative, since the extent of what the latter encompasses continues to expand.[2] The conceptual framework selected for this chapter draws upon the work carried out by the *Chantier de l'économie sociale* and ARUC-ES[3] in Quebec and by the EMES European Research Network in Europe.[4] According to the latter, a social enterprise is a private and autonomous organisation providing goods or services with an explicit aim to benefit the community, owned or managed by a group of citizens in which the material interest of investors is subject to limits. Attention to a broad or distributed democratic governance structure and multi-stakeholder participation is also important. In Quebec, for example, where collective enterprise is synonymous with the social economy and with the now more frequent reference to social enterprise, the definition and emphasis moves beyond the "juridical-administrative dimension" related to the organisational form that social economy enterprises (SEEs) adopt, to insist upon the "value-added dimension" or macro dimension to demonstrate and highlight the unique contribution of SEEs to socio-economic development strategies, to constructing democratic economic alternatives and to the public good. More generally, social enterprises, as a specific sub-sector of SEEs, must be analysed with both micro and macro-economic lenses and from organisational and normative perspectives.

The organisational arrangements and legal forms that social enterprises adopt vary greatly across OECD countries. Current debate has widened the definition of social enterprise to include cooperatives, non-profit and community-based businesses that are integrated into social economy and community economic development strategies. These entrepreneurial organisations driven by socio-economic objectives (blended value, triple bottom line, for example) pursue clear objectives to benefit the community and combine social and economic goals in an original way (Nyssens, 2006). How they combine financial and non financial resources and the current landscape of financial sources available to social enterprises constitute the core of this chapter.

History matters: the importance of path dependency for institutional innovation

The need for alternative economic strategies is clear in numerous countries unable to solve deeply rooted problems of poverty and social inequality. It is not surprising that social enterprise has captured the attention of policy makers around the world given both the correspondence of this model with a predominant commitment to withdraw the state from the provision of public services, on the one hand, and with a growing tendency within countries to adopt more pragmatic approaches to socio-economic development. The social enterprise "model", so to speak, responds to both these impulses. And so, despite the great variability between countries in the North and between the North and the South, the support for this new business form that meets both public and private objectives is universal. As this model evolves, the nature of government participation will most likely reflect the historical role played by the state in different national contexts. What authors refer to as path dependency, will play a determining role in generating different organisational forms of social enterprise situated within different policy regimes (Crouch, 2001; Kay, 2005). From a combined social and economic perspective, the value added of social enterprises stems from their engagement with the production of goods and services, the work and social integration of disadvantaged population groups, territorial initiatives, and so on. Through these activities, social enterprises are contributing to a framework for sustainable livelihood and wellbeing, as demonstrated by numerous experiences in OECD countries (Borzaga and Tortia, 2007; Galera, 2008; Powell, 2007; Laville, Lévesque and Mendell, 2005).[5] As a result, social enterprises are contributing to social cohesion, to the accumulation of social capital, and to sustainable development at the local and national levels and, most significantly, to poverty reduction (Borzaga, Galera and Nogales, 2008; Aiken, 2007).

In a recent article on the place of social enterprise in emergent ethical markets, Alex Nicholls provides a useful classification of social enterprises as institutional, normative and transformative to distinguish their principal characteristics and objectives (Nicholls, 2007).[6] It is suggested, however, that while this may not be the intent, Nicholls' classification reinforces a focus on micro experiences, drawing attention inward, rather than outward, as these enterprises challenge the dominant paradigm at all levels, micro (the enterprises), meso (new markets; intermediaries), and macro (socio-economic impact; policy implications). Instead, integrating these three objectives, while fully recognising the characteristics and specificities of individual enterprises, becomes a powerful transformative tool to both describe the activity and the objectives of individual social enterprises and to situate them in a social change framework. While they certainly are giving rise to an ethical market for investors, social enterprises are also demonstrating their capacity to produce goods and services available to consumers at large.

The growing fascination with social enterprises expressed by numerous donors, policy-makers and social actors can paradoxically reduce their impact and long-term sustainability if they are suspended from their context. What was identified before as an advantage – the portability and transferability of this micro-economic organisational form – becomes an obstacle if attention focuses solely on its formal aspect and overlooks the larger vision driving social enterprise that calls for institutional innovation. Likewise, some of the attention that social enterprises currently receive overlooks the more complex issue of the viability of this economic activity and the need for supportive structures. The potential viability of these enterprises is simply assumed, thereby underestimating the difficulties faced by many social enterprises and the role of government in this emergent market.[7] As noted, social enterprises are particularly sensitive to modifications in public policy, especially regarding their eligibility for public subsidies (Bacchiega and Borzaga, 2003).

Many authors are exploring these important questions. Some have suggested that social enterprises are part of a "new welfare mix" in which both governments and citizens cooperate in the co-design of new forms of social service provision (Ascoli and Ranci, 2002; Evers and Laville, 2004; Pestoff and Brandsen, 2006). This situation has resulted in a set of new practices (such as public procurement), institutional arrangements (such as work integration social enterprises) and actors (such as initiatives led by minority or disadvantaged groups). The sustainability of social enterprises to empower citizens economically, socially and culturally is complex, requiring human and financial resources and an enabling public policy environment that calls for policy innovation. It is noteworthy that in some Western European countries the shrinking of public and "voluntary" resources available to social enterprises coupled with their institutionalisation process in a context of a free market has brought about a paradoxical situation: either social enterprises are "compartmentalised" within closed activity fields so as to continue receiving public funds or they are left to their own devices in the market economy to mobilise the resources that they need (Nogales, 2007). Social enterprises are, in many ways, caught in a quagmire that often limits their access to private and public resources. While they are celebrated by the popular media and have attained great public visibility and while they are, for the most part, considered as new, hybrid small and medium-sized enterprises (SMEs), the nature of the mission, activity, and even the legal form of social enterprises still constrains their capacity to access resources. This is particularly true with respect to financing.

Financing social enterprises

Current trends: an overview

The emergence and rapid growth of social enterprises has created a new financial market to respond to the need for capital to finance these enterprises. The nature of these enterprises has also called for financial innovation, for a customised financial sector that is not a mere replication or extension of existing financial products and instruments. Today's changing "social investment landscape", to borrow from Nicholls and Pharoah, is complex and reflects the recognition of social enterprise as a viable business model (Nicholls and Pharoah, 2007) that requires a diversity of financial products to correspond with the life-cycle of these enterprises (start-up, or even pre-start up in some cases, consolidation and growth) and with their specific needs. This landscape also corresponds with a strategic reorientation that is perhaps best illustrated by the current shift from philanthropy to venture philanthropy, from gifts to investment, on the part of numerous large foundations and donors, for example. It is also illustrated by the development of new financial products designed to meet the specific and tailored needs of social enterprise that reflect a changing perception of social enterprises. Most significant is the rapid growth of ethical or socially responsible investment (SRI) and the potential this represents as a source of finance for social enterprises that now includes both screening and pro-active investment. Institutional funds are also entering this market. Several large pension funds in the United States, for example, have taken the lead, providing important lessons for cautious institutional fund managers elsewhere who continue to associate social enterprises with high risk investment beyond the legal boundaries set by fiduciary responsibility.

The need for financial innovation complements the traditional sources of funding that are tapped for social enterprises. These include government (at all levels) via direct involvement (grants, subsidies) or indirectly via enabling public policy making it easier to attract investment (tax incentives, public procurement, and so on), philanthropy, financial institutions including conventional banks, credit unions, financial cooperatives and mutual societies as well as individual investors. A relatively well developed micro-credit (finance) market already exists with important demonstration effects for the expansion of alternative credit/investment into hybrid social enterprises. Much as the micro-credit market emerged to provide access to loan capital for marginalised groups and individuals "red-lined" by conventional financial institutions, the new investment market serving social enterprise is also innovative, calling for the invention of new investment products, broader investment criteria for existing financial actors and behavioural shifts among actors already engaged in supporting civil society initiatives that meet the objectives sought by these new social purpose businesses.[8]

The role of government

The role of government in facilitating this type of investment activity has been important in several countries and has taken many forms, including legislation to establish intermediaries to reduce the perceived risk often associated with investing in these enterprises. The absence of standardised evaluation tools, coordinating mechanisms and adequate information contribute to this concern. Moreover, intermediaries increase the capacity to attract investment capital, to develop secondary markets and to facilitate the co-ordination of this emergent social investment market that remains highly fragmented at the moment. These are some briefly stated highlights or flashpoints of a new investment sector that is emerging to capitalise social enterprises. There are a number of examples of government support and early and more recent policy milestones that could be found from Belgium, Canada, the United Kingdom and the United States (Table 2.1).

Table 2.1. Selected policy milestones in Belgium, Canada, the United Kingdom, and the United States

Country	Date	Policy
Belgium	2003	Universal Banking Service Act
Canada	1980s	Labour Sponsored Investment Funds (LSIFs) in Quebec (this required both provincial and federal legislation and fiscal measures).
	1990s	Active participation of the Government of Quebec in the development of solidarity finance and development capital
	2007	Formal launching of FIDUCIE in which the Governments of Quebec and Canada participated
United Kingdom	1832	Building Society Act
	1979	Credit Unions Act
	1994	Community Development Loan Funds and the Local Investment Fund
	2000	Recommendations of the Social Investment Task Force
	2002	Community Investment Tax Relief (CITR)
	2003	Futurebuilders England
	2004	Community Interest Companies (CICs)
United States	1976-77	Community Reinvestment Act
	1986	Low-Income Housing Tax Credit (LIHTC)
	1990s	Creation of Community Development Financial Institutions (CDFIs). They were officially recognised by the government agency, CDFI Fund (created in 1994)
	2000	New Markets Tax Credit Program (NMTC)

Innovative precursors in the financing of social enterprises

In mapping this activity, it is important to emphasise the legacy contributed by an already existing and established social finance or social investment sector not previously referred to as such, but that has, until now, provided finance for cooperatives, community based initiatives and not-for-profit enterprises and organisations. Many of these have a long history. Many are active and powerful players on financial markets and compete with private banking and major financial players. In countries such as Canada, the labour movement has also participated by establishing labour solidarity funds with diversified financial products to meet socio-economic objectives in underserved markets and, in many cases, by influencing economic development strategies through their investments in sectors and regions contributing to the maintenance and/or creation of jobs, economic revitalisation as well as the promotion of high performance sectors in the knowledge economy, for example (Mendell, Lévesque and Rouzier, 2003). These established social finance and investment institutions are engaged in financial innovation either by developing new products themselves, or by entering into partnerships with civil society organisations, other financial players, and/or government. And finally, regional, national and international networks of these financial actors explore the expanded role of existing institutions and provide an important means to share information.

Despite this activity and the welcome supply of new financial resources, there are many challenges. This new financial market remains unstructured, segmented, incoherent and generates significant asymmetries, not the least of which is a supply driven agenda that does not always correspond with the needs of the enterprises seeking capital investment (Mendell and Bourque, forthcoming).[9] The absence of a coordinating mechanism to bring these actors together in any systematic fashion results in information asymmetry as many researchers following this activity point out (Nicholls and Pharoah, 2007; Bibby, 2008, Commission on Unclaimed Assets, 2007). At other times, the challenge is greater still. The disequilibrium between the demand for, and the supply of, social investment or finance arises because available financial products do not always match the specific needs of social enterprises. There is, for example, a great deal of loan capital available and too little equity or quasi-equity, resulting in disequilibria in both the loan and equity markets for social enterprise. The supply too often exceeds the demand for loan capital; in the case of equity, the reverse is true, with much unmet demand. This poses serious problems that can ultimately threaten the sustainability of these enterprises. Many social enterprises are heavily indebted and prevented from consolidating or expanding due to the unavailability of long term or patient investment capital.[10] For the time being, designing such products remains a challenge, though innovative examples do exist. The volume of available capital is not the problem in many instances.

Social investment is fast keeping pace with developments in conventional financial markets, creating hybrid products, new legal forms and financial innovation that reduces risk for investors and generates larger pools of capital. Social enterprises can access financing via numerous means: enterprise lending through public loan and grant programmes; public refinancing and guarantees; mainstream banks; specialist intermediaries (including micro-credit and equity-type investments); specialist finance (targeting the social economy, sector specific finance and funding for SEEs; and integrated financial services at the local level (credit and loan co-operatives, community or local development funds, regional venture capital funds) to name a few (European Commission, 2001).

Context variability

In the United States, despite a minimal welfare state, social enterprises paradoxically have access to more targeted government programmes, finance capital and innovative financial products. The United States has also introduced legislation that both requires existing financial institutions to invest in underserved markets and attracts private investment into social and/or community based enterprises. The Community Investment Act (CIA), passed in 1977, and the New Markets Tax Credit Program, launched as part of the Community Renewal Tax Relief Act of 2000, have created significant pools of capital; in the former case by way of enforcement, obliging banks to invest in community initiatives, in the latter, by creating tax incentives for private investors (New Markets Tax Credit Coalition, 2007).[11] Additionally, intermediaries in the United States have played a pivotal role in successfully delivering investment into communities. The large network of community development financial institutions (CDFIs), for example, has performed a vital role in reducing the information and coordination problems addressed earlier.

The United Kingdom has, in many ways, surpassed the commitment of the United States to social enterprise and community based initiatives in recent years. The Social Enterprise Unit, established in 2001, which is now integrated into the Office of the Third Sector within Cabinet, and the numerous innovative programmes and a fiscal framework promoting social investment, are now examples for other countries. In this chapter, it is noted that it is only the Community Interest Company (CIC), an innovative new legal form established in 2004 that addresses what can be referred to as the 'grey zones' of the social investment market, namely the "how" and "where" to invest that has generated confusion for prospective investors. The CIC is a hybrid intermediary that protects investors, both private and public, and assures the flow of investment into social enterprises. This is a fascinating illustration of innovation in financial and commercial markets. Established to serve the public interest, CICs are obliged by law to retain their investments through an asset lock. But to attract investors, they are permitted to issue shares and pay dividends (Nicholls and Pharaoh, 2008; Hebb, Wortsman, Mendell and Neamtan, 2006). The commitment to this activity in the United Kingdom is best illustrated through the transfer of responsibility to the Cabinet Office with an assigned minister. This, it is submitted, should serve as an important example of the necessity to move out of a silo approach to social enterprises (previously located in Trade and Industry) to a horizontal space that reflects the inter-sectoral nature of the issues addressed – social, economic and environmental – by these enterprises. This is a recurring theme in the canvas of experiences in different countries confirming the need for innovation in policy, in legislation and in institutional structures to support this activity within, and outside, the boundaries of government.

In Canada, the federal and provincial governments have been the principal source of capital for SEEs through subsidies and grants, though these have been reduced or targeted to project and programme delivery. Credit unions across the country have always played an important role in supporting what we may call the "old" social economy (co-operatives, principally); however, they are now engaging with social enterprises, that include co-operative, non-profit and privately owned social purpose businesses. In Quebec, the commitment to collective ownership is very strong and social enterprise is synonymous with the social economy. This is not a rigid adherence to a particular legal form but rather to the commitment to democratic governance. This question will be returned to later as it is an important issue that is being addressed among actors committed to democratic governance, but who also recognise that this can also be achieved through, for example, multi-stakeholder governance (Hebb, Wortsman, Mendell and Neamtan, 2006; Chertok, Hamaoui and Jamison, 2008).

It is beyond the scope of this chapter to explore the large range of innovative models emerging throughout Europe. Instead, selected country innovations in the policy domain and/or within the social investment community that are keystones to consolidate and coordinate this rapidly growing but highly segmented investment market internationally are being high-lighted. Complementary to the need for enabling policies are intermediaries both to reduce risk and to provide a structure to embed this activity. For social investment and/or finance actors, the availability of networks has also been important, especially as this sector becomes more complex and variegated. Several networks exist, both formal and informal.

Formal networks or federations are becoming increasingly important for several reasons, including the establishment of a coherent alternative financial market. The creation of the *Fédération Européenne des Banques Éthiques et Alternatives* (FEBEA) in 2001, for example, has brought together numerous financial institutions that finance the social economy and social enterprises across Europe. There are now several networks of micro-finance institutions, such as the Opportunity Finance Network in the United States, the European Micro Finance Network or the *Réseau québécois de crédit communautaire* in Quebec (Box 2.1). A challenge identified by many micro-credit actors is the need to scale up their activities. These networks have been essential to the innovative creation of secondary markets for micro-credit, for example, increasing the capital available for the numerous micro-credit institutions within these networks (Mendell, Lévesque and Rouzier, 2003; Nicholls and Pharaoh, 2007). Created in 1989, the International Association of Investors in the Social Economy (INAISE) has played an important role as an informal international network for many years that provides an international space for dialogue and exchange, sharing of information, technical support, and so on, among numerous actors internationally. In Quebec, solidarity finance institutions have expressed the desire to create a formal network for many of the reasons outlined above. The principal wish, however, is to benefit from the economies of scale that such an organisation would generate, as this would reduce the duplication of many activities that each institution undertakes by creating common resources where possible. Moreover, the presence of such a federation would also generate important political capital, allowing a single voice to press for enabling policies.

An evolving financial landscape for social enterprises

Innovative trends for financing social enterprises

In addition to the traditional sources of finance reviewed in the prior section, a vast array of strategies and instruments for financing social enterprises has emerged in the past decade as well as a new vocabulary to describe these activities. Social investment or finance, solidarity investment or finance, ethical investment, socially responsible investment, community based investment, program related investment (PRI), economically targeted investment (ETI), mission investing (MI) or venture philanthropy are some of the concepts and terms to describe these activities. Added to this are terms such as social capital markets, for example, to describe the allocating mechanism through which these activities flow. While, on the whole, these terms point to a new phenomenon, namely, a new form of financial investment, they create confusion. Some of these activities are the evolution of more traditional forms of financing social enterprises as, for instance, the new venture philanthropy that represents a shift in orientation by foundations and donors from gifts to providing a hybrid form of venture capital that integrates social and economic return. Others, such as patient capital or quasi-equity refers to new, long-term investment products or the CIC, which meets the investment needs of social enterprises by offering secure investment opportunities, while preserving the public good served by social enterprises through the enforcement of an asset lock. These, and other such examples including the recent launching of collateralised loan obligations (CLO) by micro-finance intermediaries to access large pools of capital, or the development of an ethical trading market by issuing shares through a matched bargain or swap process, can all be characterised as social innovations (Davidson, 2007).[12]

Box 2.1. Innovation in micro credit finance

New partnerships between governments, international organisations and the private sector, as well as product innovation to increase the supply of micro finance, are examples of scale, greatly increasing the supply of micro finance internationally. An interesting illustration of such innovation is "Private Equity in Microfinance", a new product developed by Geneva-based micro investment intermediary, Blue Orchard. To finance this new equity, Blue Orchard will issue a bond of approximately USD 106 million, backed by loans to various microfinance institutions. This bond will be available to investors worldwide through a sale managed by Morgan Stanley, the US investment bank. Microfinance institutions based in Latin America, Eastern Europe and south-east Asia, will be able to use this funding to make loans to individual entrepreneurs in their countries. Similarly, the Non-profit Enterprise and Self-sustainability Team (NEsST), has created a venture fund to meet the growing need for 'front-end' investment that includes both financing as well as technical, capacity-building support for social enterprises from start-up to self-sufficiency.

For more information visit www.blueorchard.org and www.nesst.org

The nature of available investment instruments and products, from loans to quasi-equity and equity, and the numerous actors involved has produced a complex landscape. What is ultimately a new form of financing is, in fact, a mixture of innovation and repackaging or shifting of existing practices, as venture philanthropy most clearly demonstrates but is present in other forms of activity as well. Moreover, as noted earlier, numerous new concepts and terms contribute to this complexity as they are not always clear and do not always speak to a particular financial tool, but rather describe the behaviour of individuals and/or organisations and institutions engaged in this activity (Kinder, 2005).[13] In many cases, terms such as "conscious", (Triodos Bank, 2006) "ethical" and/or "socially responsible" investment or "affirmative financing" (Borzaga, 2005; Hebb, Wortsman, Mendell and Neamtan, 2006) are simply synonyms for pro-active investment choices although they can also give rise to segmented markets.

Until recently, ethical investment referred exclusively to negative screening, to the rejection of enterprises producing goods harmful to the environment or in violation of human rights. This continues to guide the investment decisions of individuals seeking a financial return while maintaining a concern for social, environmental and ethical issues. The "Socially Responsible Investment" (SRI) label that captures ethical investment opportunities is now widespread and numerous funds screen stock-market portfolios or work with companies to improve their corporate practices (Triodos Bank, 2006).

No longer on the economic margins, SRI currently represents 13% of savings in the United States and 7% in the United Kingdom that is managed in a responsible way. Moreover, SRI is present at various levels: a majority of these investments are made at the local level (via micro-finance institutions); at national or regional levels (via financial organisations and banks); and at the international level (via guarantee funds or solidarity investment companies). In addition to the plethora of socially responsible financial products, they also perform better than traditional ones, especially in the long run. Borzaga (2005) concludes that this reflects the positive reputation of socially responsible firms, the lower level of internal and external social conflicts, and the prevailing climate of trust. Although at the moment socially responsible behaviour is primarily an individual decision, it is influencing the increased adoption of socially responsible behaviour by corporations and industries sensitive to the growing importance of social responsibility for customers and investors (Borzaga, 2005).

Table 2.2. Socially responsible financing

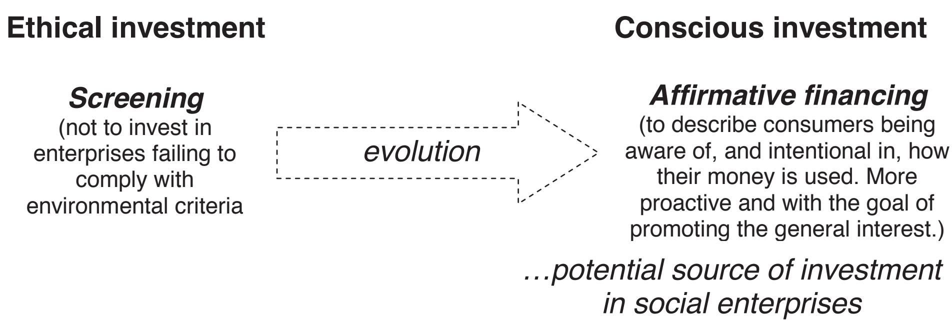
	Form	Activity	Actors
Responsible indirect investing ("placement responsible")	**Portfolio screening (exclusionary or inclusive)**	Investments in financial markets using exclusion or inclusion filters based on environmental, social and governance (ESG) criteria.	Ethical funds, foundations
	Shareholder engagement (or activism)	Shareholders that utilise their role to influence the practices of enterprises.	Pension funds, awareness raising organisations, some ethical funds
Responsible investing (pro-active/direct)	**Development capital**	Risk capital with socioeconomic goals (i.e. job creation, local and regional development, and environmental).	Investment tools developed by associational actors (labour solidarity funds, cooperatives and credit unions)
	Solidarity-based finance (social finance)	Financing of community economic development and social enterprises.	Micro-credit, financial cooperatives, hybrid innovative financial funds

Source: Adapted from *Chantier de l'économie sociale* (2006) and Mendell and Bourque (forthcoming).

Other terms such as “sustainable”, “responsible” and “social banking” are now part of the vocabulary and are often overused, generating confusion and uncertainty among those interested in screening their investment activity. Today, references to ethical investment include both screening/vetting and pro-active investment adding to this confusion. That said, proactive ethical investment, has raised consumers’ awareness of how their money can be placed in sectors of activity that contribute to the well-being of society. Social enterprises have the potential to access this form of investment by individuals, companies and institutional investors.

The above typology is useful to illustrate how SRI has moved from negative screening to proactive investment. It is included as it also distinguishes between portfolio and direct investment behaviour which lies behind the term "socially responsible finance" used in Quebec to differentiate between these. More generally, the evolution of the SRI market is often presented as a shift from "ethical" investment that describes screening to "conscious investment" to capture direct, proactive or affirmative financing (Figure 2.1).

Figure 2.1. Evolution of the social investment market



Six areas of innovation for finance provision for social enterprises

The power that language and vocabulary has had in this evolving market for social finance cannot be underestimated. As many terms associated with this new form of investment activity speak increasingly to promoting sustainable livelihoods, it is also capturing the attention of the media and the general public. Indeed, the recent Nobel Prize awarded to Mohamed Yunus has contributed to this, increasing the public awareness of the role of micro-credit, in particular. Also, individual savers are able to respond to humanitarian concerns through new savings vehicles created by numerous financial institutions. This dovetails with the growing desire to consume responsibly. Labelling has become very important as a means to identify both goods and savings opportunities that meet these desires on the part of a growing public.

Financing social enterprises fits into this new era of social consciousness that empowers individuals to express their choices through their consumption and savings behaviour. It empowers individuals to invest their retirement funds in secure ethical instruments and it enables financial institutions and intermediaries (both emerging and existing) to channel investment capital to social enterprises. The map is evolving; the number of actors is numerous; analysts following these trends are generating a glossary to distinguish these new instruments and products (Chantier de l'économie sociale, 2006; Nicholls, 2007; Commission on Unclaimed Assets, 2007). From among the panoply of new products and strategies which have been described that include proactive investment choices in all sectors of economic activity, it is possible to have identify at least six new products that are potential sources of financing for social enterprises: solidarity finance; venture philanthropy; institutional investment; individual investment; quasi-equity and equity instruments (mainly patient capital) and social capital markets (Table 2.3). There are, of course, also the conventional financial institutions, including the increasing number of banks willing to serve these enterprises as well as government, through grants, guarantees or innovative partnerships with social finance actors and/or through public policy tools.

Solidarity finance

This is defined as the "art of managing money in its different forms - savings, investment, credit, account management - in the public interest, thereby encouraging individuals through their actions as savers and investors, to assist others".[14] The formal solidarity finance movement originated in Europe ("*finance solidaire"* in French), although conceptions of "solidarity" vary considerably across national contexts and cultures. For instance, while the notions of solidarity ("*solidaire*") and ethics ("*éthique*") are distinct, in countries like Spain and Italy, "ethics" or "ethical" best capture this activity ("*ética*" and "*etica*" respectively), since solidarity implies charity. In Quebec, solidarity finance refers to investment activities in the social economy (from micro-credit to patient capital), thus exclusively to investment in collective enterprise. To further complicate the landscape, in Quebec, development capital is distinguished from traditional risk or venture capital to refer to investment with socio-economic objectives, but not restricted to the social economy.

The distinction between private and collective ownership remains important as has already been noted. In Quebec, this has generated an additional category to differentiate "alternative" financial/investment activity in private and collectively owned enterprise more generally subsumed under the umbrella of social investing in most countries (Mendell, Lévesque and Rouzier, 2003) (Box 2.2). Countries such as Belgium and France have well established mechanisms of solidarity finance, while others are only introducing this activity and have yet to settle on a definition.[15]

There are two main types of solidarity financial actors: solidarity financial institutions or solidarity-friendly financial institutions. While they can be distinguished by the type of projects they support, they share some key characteristics: on the supply side, the central role of citizens and the availability of financial tools similar to mainstream financing; on the demand side, the variety of projects supported (social and work integration and job creation; innovative solidarity activities (e.g. fair trade); social housing; North-South co-operation; solidarity financial institutions partnerships, and so on.).

Until recently, solidarity finance, at least in those countries in which this activity is not new, has primarily been expressed through savings choices by individuals. However, the growing field of solidarity and/or ethical finance, also represents an important supply of capital for social enterprises and also meets the criteria sought by socially responsible investors (whether through placements or through pro-active investments), opening this activity to a broader social investment market.

Box 2.2. The alternative financing network

The Alternative Financing Network (Réseau de Financement Alternatif or RAF), founded in 1987, brings together non-profit associations seeking to promote ethical and solidarity-based finance. It has 70 member associations involved in the social economy, environmental issues, efforts to combat exclusion, human rights, education and training, etc. The network carries out research and conducts campaigns aimed at alerting savers and investors, political authorities, financial institutions, the voluntary sector and academic circles to ethical and solidarity issues in money-related matters.

The network also develops both ethical and solidarity-based financial products: savings accounts, unit trusts and life insurance policies. Solidarity products include shared-return products, with a solidarity commission paid back to the network's member associations. It invested more than EUR 240 million in 2003.

The RFA is in contact with local authorities that invest in ethical funds. It is currently conducting a survey of local authorities in order to ascertain their expectations of socially responsible investment, prior to launching a massive awareness-raising campaign targeting such authorities, inspired by the solidarity weeks organised by Finansol in France. The RFA has very actively lobbied the Belgian government to move towards a universal banking service, with positive results. Other campaigns have also been conducted. In 2004, the campaign against bank investments in the armament industry led to the enactment of a law prohibiting unit trusts from investing in anti-personnel mines. A 2004 private bill seeks to ensure that environmental aspects are taken into consideration in companies' annual accounts and management reports. Another private bill calls for the granting of official aid invested abroad to be subject to social and environmental responsibility criteria. Yet another private bill demands tax concessions for investments promoting sustainable development.

To learn more visit the Alternative Financing Network's website at www.rfa.be

Venture philanthropy

Philanthropy has traditionally been a major source of funding for socially oriented activities and organisations. The interest in social enterprise, as noted earlier, is best illustrated by the rapidly growing venture philanthropy sector and its transformation of the venture capital model into a social investment strategy to include blended returns (Howard and Giddens, 2004; Grenier, 2006; John, 2006). "Social venture philanthropists" (SVP) treat their grants as investments. Through the implementation of new investment strategies that combine the provision of finance, business advice and monitoring, social venture philanthropists are creating new methods to redirect what used to be considered as maximum-risk, no-return charitable funds. They also note that this shift in financing social enterprises from gifts to investments represents a new means to recapitalise foundations. Because the culture of philanthropy is embedded in these foundations, the question of risk is not dominant, which results in different and often contradictory calculations of risk (Nicholls and Pharoah, 2007). Whether supporting program-related investment (PRI), mission-related investment (MRI) or economically targeted investment (ETI), numerous instruments for supporting social enterprises have been developed by foundations with different levels of performance and return on investment requirements.[16]

Several large foundations pioneered mission investing with PRI in the 1960s and 1970s. It was not until the 1990s that other smaller foundations followed. Today, most foundations engage in this type of activity. In selecting investment opportunities, venture philanthropists prioritise the innovative entrepreneurial aspect of the initiatives they will support, further complicating the capacity to evaluate risk and return. Venture philanthropy raises important questions including the reduced donations available and, in some cases, pressure on enterprises providing social services generally supported by foundations and philanthropic organisations to commercialise their activities to access this investment capital. Like the many players in the growing social investment market, venture philanthropists have contributed to the work on evaluation and performance measurement by developing new tools or adapting existing ones to systematically calculate the blended returns they expect.

A recent comprehensive study by FSG Social Impact Advisors on mission investing in the United States, surveyed 92 US foundations that have made USD 2.3 billion in mission investments over a period of 40 years. The study raises important challenges common to other social finance actors, in particular, the necessity to establish intermediaries to assist in "deal matching" between investors and potential investees. It also raises the critical need for enabling fiscal policy that has been key to the capacity of foundations to invest at below market rates. These investments qualify as programme-related and count as part of the annual payout requirement of foundations (Cooch, Karamer, Cheng, Mahmud, Marx and Rehrig, 2007).[17] Foundations such as Calvert in the US, have developed Community Investment Notes to increase the liquidity available for community based initiatives, such as affordable housing, micro-credit, small business development, community facilities and social innovations. Investments are pooled in a managed portfolio of low-cost loans to more than 200 leading non-profit organisations and social enterprises internationally that are engaged in alleviating poverty around the world. This is one of many examples selected to demonstrate the capacity to innovate. Risk reduction is key to this process, hence the attraction of a product backed by a large foundation. Calvert has introduced its own SRoI so that investors can track the impact of their investments.[18]

Institutional investors

The need to capitalise social enterprises has not been met despite this array of new investment tools or the openness of existing tools to social investment. The largest potential source of capital is from institutional investors such as pension or mutual funds, insurance companies, or traditional banks which manage large portfolios of capital. This pool of institutional investors remains largely untapped. The availability of institutional funds is constrained by legal forms and by strict adherence to fiduciary responsibility, limiting this form of investment considered high risk. The problem of image and perception of social enterprises is especially true among institutional investors. That said, there are important precedents to draw upon such as several large institutional funds in the United States (California Public Employees Retirement System - CalPERS[19], TIAA-CREF), France (*Caisses de dépot et consignation*) and Québec (*Caisse de depot*) that include non-financial social criteria in their investment decisions and the obligation by several pension funds, to demonstrate their participation in SRI. Still, operationalising this commitment remains a challenge notwithstanding the numerous structured, credible and mainstreamed SRI opportunities available, strongly suggesting that while the growing SRI movement is attractive, it is still not fully understood.

Many institutional funds already invest in economically targeted investments (ETI), in emerging domestic markets or underserved capital markets (Hebb, Wortsman, Mendell and Neamtan, 2006; Manley, Hebb and Jackson, 2008). These examples are extremely important to dispel the view that such investment is a breach of their fiduciary responsibility. A survey in 2006 by the Teachers Insurance and Annuity Association, College Retirement Equities Fund (TIAA-CREF), one of the largest financial services companies in the United States, serving institutional and individual clients in the educational, medical and cultural sectors, revealed the growing interest of subscribers in knowing about the environmental and social impacts of their investments. Subscribers called for more information on how their personal values could be reflected in their investment portfolios without compromising their economic returns. Investing in social enterprise would certainly meet the "collateral benefits" that pension fund ETI must demonstrate.[20] The findings of this survey and the financial capacity of institutional funds are indicators of the capacity to access this source for social enterprise investment. The work to be done includes providing information, careful "packaging" and creating the means to broker these investments.[21]

In Canada, the province of Manitoba has passed legislation to include non-financial criteria in investment decisions taken by institutional funds, opening the possibility for institutional funds to invest in social enterprises.[22] The ability to evaluate the performance of these enterprises remains a barrier despite the numerous new indicators and evaluation tools now available. The most reliable sources of information are the numerous stories of the impact of social enterprises on their local communities.

Intermediaries and new financial products are critical to permit institutional investors to play a more active role in capitalising social enterprises. This is less complicated than it appears, as experience in some countries shows. Once again, the need for financial intermediaries is raised to enable these large players to engage with social enterprises.[23] Community partners are also critical to the successful outcome of these investments. Experience increasingly confirms the necessity for partnerships between community-based organisations and financial actors. For large institutional funds to participate, the importance of these two forms of mediation cannot be over-emphasised.

Individual investors

These are a source of finance although their presence is uneven across countries. Two groups of individuals can be included in this category. The first refers mostly to socially motivated high-net-worth investors[24] (HNWI) whose money is managed by powerful financial advisors through expanded portfolios to cater to this new investment market. Angel Investors in the United States are willing to invest in social enterprises. They are part of the Investors Circle (IC), whose mission is to provide long term capital for sustainable economic development. Since 1992, they have invested USD 100 million in 163 businesses including community development enterprises and women and minority owned businesses. A 2002 study by Harvard Business School and McKinsey & Company found that companies in which IC invested generated competitive returns (, Wortsman, Mendell and Neamtan, 2006). Moreover, organisations such as Social Venture Partners International, Social Ventures Network and Co-op America back Angel Investors and philanthropic organisations that wish to invest directly in social enterprises (ibid, p. 29). They are now joined by individual, small-scale investors. By constructing information networks, these "citizen investors" belong to an accountability circle that allows them to bypass corporate management or institutional investors for information regarding portfolio investment opportunities (Davis, Lukomnik and Pitt-Watson, 2006).

Equity and quasi-equity finance

A hybrid type of debt finance that nevertheless shares some characteristics with equity capital in that it meets the needs of social enterprises for long-term investment capital. Because social enterprises that are collectively owned do not permit the sale of shares, or, more generally, because shares of social enterprises are not traded on capital markets, quasi-equity allows for capital to remain in the enterprise without conferring ownership. Quasi-equity takes many forms including repayable grants, subordinated and unsecured debt (Commission on Unclaimed Assets, 2007).[25]

The availability of quasi-equity allows social enterprises to finance growth and to invest in capital equipment and real estate (passive assets) that short term debt does not permit. This is critical to developing the capacity and sustainability of these enterprises. As stated earlier, the many debt instruments available at the moment do not respond to the urgent need for long-term capital investment essential for the consolidation and growth of these enterprises. The specific conditions that this form of investment takes depends on the agreement reached between investors and borrowers (for instance, Futurebuilders England recently launched a finance option whereby the investment is repaid on the basis of a percentage of the social enterprises' annual gross revenue that has been previously negotiated).

An ambitious initiative to create quasi-equity or patient capital has been spearheaded by the *Chantier de l'Économie sociale* in Quebec (Box 2.3).[26] Not only has it responded to the need to capitalise SEEs with an innovative financial product (a form of security or debenture), it has done so by building the infrastructure necessary to embed this type of investment activity. The call for intermediaries in the segmented market that thus far characterises the growing social investment sector was understood in Quebec. In addition to seeking investor/partners, it immediately established a multi-stakeholder intermediary including all partners in this initiative -

government (federal and provincial), the labour movement and the social economy. Each of these actors participates as investors and as trustees of this intermediary. Furthermore, the initiative was undertaken by a network of social economy networks, bringing the potential investees to the table. The *Chantier*, this network of networks, is also a trustee in this intermediary, effectively co-ordinating the supply and demand for this type of investment thereby removing important obstacles and asymmetries identified by the numerous participants in this evolving new financial sector internationally.

The need to pool risk was recognised from the outset, thus creating the practical and immediate need for an intermediary. Initial support by the federal government leveraged participation by the two large labour solidarity funds in Quebec as well as the provincial government. The presence of government at the table is fundamental to this initiative, greatly reducing information barriers and the transactions costs for both the social actors and government. This is an important example of how financial and social innovation requires institutional change. In this case, a multi-stakeholder deliberative organisational model provides opportunities for government to collaborate in the co-design of a new institutional architecture and the co-construction of new policies to address social and economic objectives. Unlike numerous examples of do-it-yourself (DIY), this is the outcome of a well-conceived integrated plan of action to assure deal flow and rates of return for investors and access to much needed long term capital for SEEs. Many of the obstacles that limit the development of this market were addressed in the design of this intermediary. Today, the FIDUCIE is engaged in the development of a secondary market. A co-ordinated strategy has avoided the segmentation which so characterises this sector, however large the potential capital pool is within individual countries and internationally.

Some important lessons learned from the FIDUCIE include the meticulous preparation process from conception to implementation that required several years, the multi-stakeholder approach to design such a specific and complex financial tool and most importantly, the consensus-building, collective decision-making, and determined leadership that were key to this initiative.

Box 2.3. FIDUCIE by the Chantier de l'économie sociale

In February 2007, the FIDUCIE of the Chantier de l’économie sociale began its activity in the financing of social economy enterprises (not only social enterprises). For several years, SEE directors expressed the need for financial products other than traditional grants and loans, and at the same time, discussed ways to retain long-term capital in their businesses. They wanted new products that would take their social mission into account. As for private and institutional investors, many of them were reticent about engaging in the social economy. This, despite convincing evidence of lower write-off rates in SEEs and business longevity twice that of traditional private businesses. The FIDUCIE is a response to these multiple needs. It is positioned as an intermediary between the financial market and SEEs. Its aim is the mutualisation of risks, which translates into lower financing costs for enterprises. The FIDUCIE works with an impressive network of stakeholders, allowing it to evaluate projects in a realistic and careful manner. The FIDUCIE offers a product to complement those available on the market already: "patient" capital, in other words, loans with a 15 year capital repayment moratorium. These investments are offered in two forms: operations patient capital - to finance costs related to working capital, marketing of new products, and the purchase of equipment - and real estate patient capital, to finance costs that are directly linked to the acquisition, construction, or renovation of real estate assets.

The FIDUCIE's initial supply of capital came from Economic Development Canada and a number of investors including the FTQ's *Fonds de solidarité*, the Québec government and FONDACTION, *Fonds de développement de la CSN pour la coopération et l'emploi*. With this initial fund of CAN 52.8 million, the FIDUCIE can now support the development of SEEs.

In 2007-08, CAN 2.9 million will be invested in ten SEEs that operate in different sectors and regions across Québec. These investments will generate a total investment of CAN16.3 million, enabling the creation and consolidation of over 342 jobs.

For more information visit http://fiducieduchantier.qc.ca

Ethical or social capital markets

These are emerging to increase capital pools to finance social enterprises. The development of a social stock market is not a new idea (Box 2.4). What is clearly an alternative and potentially powerful financial market that can compete with mainstream capital markets requires appropriate mechanisms to raise both the awareness and the confidence of potential investors. Despite the numerous criticisms and examples of failed attempts to launch such a system, the idea of a social finance exchange, for example, continues to interest many social investors. As illustrated by Hartzell (2007) and Nicholls (2007), the market for equity share offerings for social enterprises in the United Kingdom exists, although the number of these organisations that trade is very limited (there are seven social enterprises currently engaged in equity trading in the United Kingdom, although none of them participate in traditional stock markets). An alternative full-blown social stock market does not presently exist, although the ETHEX (Ethical Exchange) initiative backed by Triodos Bank is an important step in developing this market.

Some offerings called EPOs (ethical public offerings) or APOs (alternative public offerings) now make this possible. Several social enterprises followed the lead of Traidcraft in the United Kingdom when it launched its first ethical share offering in 1984. Buyers and sellers were brought together by Triodos Bank on a "matched bargain" basis structured by a securities firm. Since that time, the ETHEX initiative has allowed for several share offers.[27]

The question of ownership is frequently raised and in certain regions, such as Quebec, the commitment to collective ownership remains firm. In one example in the United Kingdom, the decision to launch an APO also meant the restructuring of the enterprise from a non-profit to a multi-stakeholder structure, allowing for private investment.[28] This is the subject for debate among actors in different cultural and institutional settings. Among the obstacles currently cited that hamper the development of a financial market for social enterprises, is the lack of performance measurement standardised methods. Notwithstanding the larger debate about what the real "return" of social enterprises is, there are new indexes such as the Dow Jones Sustainability Indexes (DJSI) or the FTSE4Good Index Series.[29]

In 2006, ethical investments reached almost USD 3 trillion in the United States and GBP 11.6 billion in the United Kingdom. This sector of financial investment is outperforming mainstream financial markets (Nicholls, 2007) and social enterprises have contributed significantly to the development of this activity. However, the absence of a coordinating mechanism limits the development of a coherent market. Alex Nicholls once again raises the critical need for an intermediary space (*ibid*). The example of carbon exchanges and an incipient social stock market through the increasing number of APOs, alternative indexes, and matched bargain swaps developed by Triodos, are examples of how markets can be created (Nicholls and Pharaoh, 2008). Increasingly, the need for information, standardisation and coordination is critical to co-ordinate what is still a highly segmented market replete with uncertainty.

Box 2.4. Social innovation in secondary markets: the case of social stock exchanges in Brazil and the United Kingdom

Although there are no full-fledged examples of social stock exchanges, an innovative and successful exchange in which social enterprises and investors meet so as to build a stronger sector while providing returns on investors' capital exists in Brazil. Moreover, an in-depth study is being conducted in the United Kingdom to test the feasibility of such an idea.

The Bolsa de Valores Sociais (BVS), or Social Stock Market, was conceived by Celso Grecco about a decade ago and it operates within Brazil's largest stock exchange, Bovespa, since 2003. BVS harnesses the structure of existing financial markets to generate new avenues for social financial investment. The BVS has created a mutually-benefiting trading environment where "social profit organisations" (as Grecco has named them) and investors can meet and exchange. An innovative trait of BVS is that it offers investors a portfolio of certified, credible social investment opportunities, and investors measure their return in social terms, holding the organisations accountable through regular progress reports. Therefore, BVS has innovated not only by providing access to capital for organisations with a social mission but also by spreading the notions of social investor and social returns. All 30 organisations initially posted for investment have been fully funded, representing USD 2.2 million.

An additional advantage of BVS is that it demonstrates the power of partnerships between social capital markets and existing financial markets, which have not traditionally supported the development of these emerging forms of "alternative" trading. The direct partnership with Bovespa enables overcoming the language and cultural barriers that financial investors who are unfamiliar with the social sector face when working with these organisations. Despite the capacity of BVS to raise capital for organisations with a social mission, other traditional exchange market traits, such as a tradable price, still need to be implemented.

In the case of the United Kingdom, representatives from the government, the social enterprise and the financial sectors, as well as private foundations were involved in preliminary discussions on how to set up a stock exchange for social enterprises. Finally, the Social Stock Exchange Ltd was launched by social investment experts Pradeep Jethi and Mark Campanale. They plan to create a market aimed at enterprises with annual turnovers of more than GBP 500 000 that have been trading for three years or longer. Research financed by the Rockefeller Foundation is under way to profile social enterprises (more than 1 200 so far) and investors, assess market interest and examine the potential social impact of an active Social Stock Exchange. In the opinion of Antony Bugg-Levine, managing director of the Rockefeller Foundation, "a UK-based social stock exchange has the potential to create the leading global platform that will enable impact investors to invest in companies and non-profits that generate social value as well as financial return."

For more information on the Brazilian case: "A Stock Exchange for Do-Gooders" (Newsweek, 9 June 2008. Available at: www.newsweek.com/id/139436); Celso Grecco's profile on Ashoka's website (www.ashoka.org/node/3890); "The Social Stock Exchange – a Unique Initiative and a Global First", Available at: www.unglobalcompact.org/docs/news_events/9.1_news_archives/2004_04_08/sse_bovespa.pdf

For more information on the United Kingdom case: Third Sector Online (Social stock exchange on the horizon", 5 December 2007, and "Social stock exchange to begin in 2009", 4 April 2008, by H. Warrell).

Table 2.3.Synthetic overview of evolving sources of finance

Source	Examples
Solidarity finance	• Solidarity finance network (Quebec). • Finansol (France, 30 000 solidarity subscribers in 2001; 200 000 in 2005), INAISE, FEBEA, Réseau financement alternatif (Belgium, 1987), Fineurosol (2005).
Venture philanthropy	• Program-related investment and social venture philanthropists (SVP) acting as investors in social enterprises (*Venture Experiment Program* by the Rockefeller Foundation, the *Acumen Fund*, etc.).
Institutional investors	• Pension and insurance funds (shareholder activism) . • Donor-advised funds (DAFs): Pioneered by *Fidelity's Nonprofit Charitable Gift Fund* (donor activism). • *Calvert Community Investment Notes* (1995, partnership between the Calvert Group and the Ford, MacArthur and Mott foundations).
Individual investors	• Angel investors. • HNWIs. • 'Diaspora' financing. • Individual savers and investors.
Equity and quasi-equity instruments	• Patient capital, like *Fiducie* in Canada. • Blue Orchard's *Private Equity in Microfinance* and *NEsST*.
Social capital market	• The *Bolsa de Valores Sociais* (BVS) in Brazil • The *Social Stock Exchange Ltd*. in the United Kingdom • The *Ethical Exchange* (ETHEX) initiative backed by Triodos Bank ETHEX.

A financial architecture for social enterprises: from social finance to sustainable finance

Social finance as a "grey zone" of action

This chapter has provided an overview of the numerous sources of finance for social enterprises and the social economy in selected OECD countries. The portrait is complex, bringing together "old" and "new" actors in finance, modifying existing financial products and creating new ones to serve the hybrid needs and objectives of these enterprises and activities. Despite the growing capacity to describe the many initiatives underway by a large number of researchers and analysts worldwide, a synthesis is yet to be developed that captures the growth and evolution of this activity in a systematic manner. For now, efforts are underway to document and classify these initiatives into categories that are fluid and often overlap. Common to them all is the growing interest among many financial actors to invest in the public good, calling for new investment strategies and tools. Non-market social and environmental criteria, while difficult to measure, are driving this new market. This is particularly interesting given the grey zone in which this activity operates.

A clear definition or understanding of social enterprise, so often cited as a problem, is not a sufficient deterrent to reduce interest in supporting this new business form with enabling financial instruments and to be prepared to accept sub-market rates of return in many cases. Nor are the profit/non-profit silos that contribute to confusion given the new economic role assigned to non-profits and the social objectives adopted by private social enterprises. Institutional barriers, including legal form and ownership structure, not only make it difficult to accurately represent social enterprise as a new business model, but limit its ability to access different investment products, as has been pointed out. Financial innovation has produced new long term quasi-equity and/or patient capital products to address the inability to issue share capital, transforming a barrier into a challenge in this new financial market. These barriers can also be interpreted as cultural. The incompatibility of an existing investment framework tied to outmoded and fixed categories that do not correspond to the new reality of social enterprises and their investment needs, requires cultural adaptation of the financial, legal, accounting and policy communities internationally to this new reality before the appropriate and enabling tools can be designed.

The many obstacles that reduce the capacity to develop a coordinated market for social finance are also found on the demand side. For social finance to become sustainable finance, an integrated approach has to be adopted that is distinct from traditional capital markets. Investors in capital markets focus on returns, tracking the performance of enterprises and sectors, with some exceptions.[30] Because of the hybrid nature of social enterprises and the constraints posed by institutional barriers, perception and underdeveloped markets, simply tracking the performance of these enterprises by potential investors is insufficient despite the increasing adoption of a different calculus for expected returns (triple bottom line, blended value, public good, and so on). The investor community can contribute to the viability and “investibility” of these enterprises more directly through a variety of means, including participation in multi-stakeholder settings (local and regional development intermediaries, for example) or collaborating with networks of social enterprises (sectoral or inter-sectoral). In other words, by integrating both sides of the market - demand and supply - investors have better access to their potential market, thereby reducing both the perceived and actual risks of investing. But more importantly, the development of a social capital market takes a different and significant turn if it is designed as a process of co-construction within integrated networks of social finance and social enterprises. Not only would this reduce transaction costs considerably for investors, such a process would also provide much needed support and infrastructure for social enterprises (Gair, 2006).[31] In addition to the institutional and legal barriers already identified, technical assistance, business development and development of markets are needs expressed by these new enterprises.

There is evidence of the success of implementing such a strategy of co-construction. In Quebec, for example, the creation of new financial tools for the social economy and social enterprises has occurred within multi-stakeholder, inter-sectoral and territorial institutional settings that have designed financial instruments to correspond with the needs of collective enterprises. At the same time, those engaged directly in finance continue to work closely with these enterprises to develop markets through a variety of means, now that these instruments are in place. There are however, still two major concerns: *i.)* that the growth of the social finance market will outpace the capacity for social enterprises to effectively meet their goals and generate returns to investors if they are unable to develop markets for their goods and services, and; *ii.)* how to develop social enterprise as an alternative business form that challenges the predominance of private, market-driven enterprise as the only viable model.[32] Therefore, not only do the financial actors need to co-ordinate their activities through intermediaries, networks or federations to reduce many of the asymmetries that currently characterise this emergent market, as has been suggested, but growing evidence confirms that they must also work in close proximity with the social enterprises in which they will invest. The success of social finance investors obviously hinges on the success of these enterprises that, in many cases, have yet to fully establish markets for their goods and services.

Table 2.4 summarises some of the investment barriers, challenges and proposed ways to meet these challenges. Those most commonly cited have been selected and proposed recommendations are listed as well as those already documented in the literature.

Table 2.4. Investment challenges and barriers

Investment barriers	How to meet these challenges?
Risk	• Enabling policy environment • Links with local and regional authorities (subsidiarity reduces risk) • Pooling of risk (*i.e.* co-financing strategies) • Credit enhancement • Creation of intermediaries • Co-construction of supply and demand. (new institutional spaces for social finance and social enterprise) • Partnership (multi-stakeholder) • Knowledge creation and sharing
Measurement and evaluation tools	• Measure the Social Return on Investment (SRoI); Blended value; Double and triple-bottom performance; Social accounting (Enhanced Value Added Statement, EVAS) ; Return on Tax-Payer Investment (RoTI), to measure direct indirect and induced effects of government supported interventions) • The *Dow Jones Sustainability* Indexes (DJSI, 1999); The *FTSE4Good* Index Series (2001)
Image of the sector	• Supporting federations and networking (credibility, cross-investing, counselling, and so on.) • Professionalisation • Communication strategies
Recognition of diversity of investment tools	• Create investment vehicles that respond to a diversity of needs (from micro-credit to patient capital)
Time	• Address the burden of short-term indebtedness • Flexible instruments
Lack of appropriate legislative and institutional frameworks	• As social enterprise is a social construction, a legal framework is required that recognises its specificity (if considered an exception in most laws dealing with cooperation) • Fiscal advantages • Horizontal policy environment at national, regional and local levels

Institutional innovation in the social finance sector

This chapter has explored innovations in finance with specific reference to the tools required to meet the financial needs of social enterprises. A recurring theme, however, has been the need for institutional innovation that has been approached from several angles, such as the need for intermediaries, for federating or networking the many actors involved and for involving the social enterprises directly in the development of this new investment market. While specific reference was made to Quebec and the recent emergence of FIDUCIE as an interesting and important illustration of the importance of an integrated approach, calls for networking and inter-sectoral collaboration echo among the numerous actors who recognise that this is indispensable to the development of a social capital marketplace (Wall Street without Walls, 2008).[33] The model herein proposed transcends many already existing networks both nationally and internationally, particularly within the micro-credit sector, that demonstrate the increased capacity networks provide to member organisations and the benefit derived from lateral relationships among actors. But the need for an integration of investor and enterprise networks at local and meso levels is less present, and much needed, to harmonise the needs of social enterprise with corresponding financial instruments, and to work collaboratively to develop markets for these enterprises to flourish. Most vital is the increased capacity to argue for enabling innovative and integrated policy measures. A silo approach is not appropriate as has been emphasised throughout this chapter. Tax legislation, tax credits, and subsidies for those sectors that will always require active government funding are among the existing policy tools available to governments to enhance and scale up social enterprises. Procurement is a measure increasingly adopted by many governments at all levels. Fiscal measures can also be applied to enable social finance to attract investors, but other important policy tools include various forms of credit enhancement, through loan guarantees, for example. And, as stated numerous times, legislative innovation is a critical policy piece that has yet to produce satisfactory results. Without these elements, we are left in a strange world of understanding what social enterprises are not, rather than what they are. New legislation based on broad multi-stakeholder consultation has to affirm the structure and mission of these enterprises as it does for the investment community.

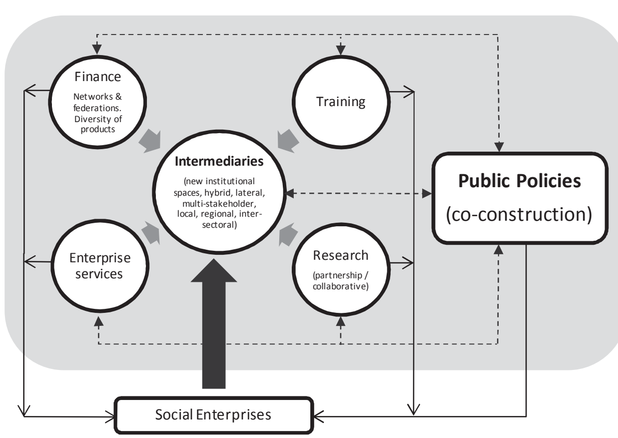
In summary, some specific policy measures that could be supported by governments at all levels should include:

- Offering fiscal incentives to attract investors, including traditional tax credits and subsidies and enabling tax legislation.
- Offering multiple forms of credit enhancement (e.g. through loan guarantees).
- Developing public procurement measures that include socio-environmental criteria.
- Developing legislative innovation based on broad multi-stakeholder consultation.
- Supporting the creation of, and participation in, networks or federations nationally and internationally.

- Spearheading and monitoring innovative institutional arrangements (e.g. public-private-community partnerships (PPCPs) between civil society, government and financial institutions and public-social enterprise joint ventures).
- Promoting a transversal or horizontal space for social enterprises within government structures to reflect their inter-sectoral nature.
- Specifically for social enterprises, offering support services, financial advice, labour market training for employees and support for scientific research on crucial topics for the field.
- Specifically for emerging social finance intermediaries and the investor community as a whole, offering support and training systems including technical assistance, business development and participation in the co-construction of markets.

It is possible to visualise in chart form the elements of an integrated and systemic approach to social finance that calls for institutional innovation (Figure 2.2). Many of the obstacles identified above can be addressed in this context, especially cost and risk for investors as social enterprises have access to extensive support services, financial advice, labour market training for employees, and a research community working in partnership with actors in these new and hybrid institutional spaces. Most significantly, investors transform a primarily client list approach, which they are often forced to assume in what are still more typically fragmented and differentiated markets. At a recent conference on developing social capital markets in Canada, participants explored "new sources of investment for social transformation".[34] To achieve this objective, institutional innovation is likely to be essential.

Figure 2.2. The co-construction of social finance: a systemic approach



Conclusions

The objective of this chapter is not to provide a comprehensive overview of the available sources of finance provision to social enterprises. Instead, the aim is to analyse the leading trends in social finance that could potentially support the development of social enterprises in OECD countries. By identifying the possible sources of financing for social enterprises, this chapter has explored the conditions that enable their emergence, consolidation and development as well as the benefits for and/or constraints on social enterprises.

Regardless of the breadth of instruments available, the real potential of social enterprises will only be realised if they are integrated into a systemic approach to social exclusion, labour market transformation, and territorial (place-based) socio-economic development strategies, which requires enabling public policy. Social enterprises must be recognised for their capacity to create socially inclusive wealth by all potential funders, although the ways in which this contribution is measured will differ based on the type of return sought by the financing organisation (market returns, below-market returns, for example). The issue of financing social enterprises is not, therefore, to be addressed from an isolated perspective that focuses on financial transactions between lenders and borrowers (or recipients), but rather in the context of the integrated systemic approach proposed in this chapter.

From an analytical perspective, the embedded nature of social enterprises in specific socio-political and economic contexts allows for a better understanding of the nature of support social enterprises might access. While, in many countries, this context is more permeable today, given the search for solutions to reduce poverty and social exclusion, how social enterprises might fit into an alternative economic development paradigm is not only determined by this permeability, or lack thereof, but primarily by the actors who are driving this new business model. Research should, therefore, have the double aim of describing the sector (i.e. taking stock of innovative instruments developed by the various providers of finance) and analysing its transformative capacity.

This chapter has emphasised the context-specific nature of the evolution of social enterprises. That said, the need for international comparisons is indispensable, not only to share knowledge and expertise, but also to ensure that social enterprises are not presented as homogeneous and undifferentiated both within and between countries. Their financial and investment needs are complex, reflecting the different sectors of activity in which they are involved, their stages of development, capacity to generate trading income, and so on. It is through networking nationally and internationally that the emergent and rapidly growing social finance sector can benefit from other experiences to design tools and instruments that correspond with their specific environments. Also noted is the important role played by federations such as the FEBEA and EMA (European Micro-credit Association) and large networks such as INAISE. But transversal networks such as IRIS, an inter-sectoral "network of networks" of responsible economy initiatives, founded in January 2007, have gone much further in this regard by integrating social finance, social enterprises, fair trade actors and different levels of government – local, regional, national and supra-national - thereby engaging in direct dialogue with public institutions on strategies of social inclusion and poverty reduction.[35] This innovative network of networks also promotes mutual training and support while sharing best practices among members. In many ways, IRIS has created the hybrid, institutional space that is necessary at local and regional levels. These are more than dialogic spaces; they institute processes of collaboration. How to translate what are often loose networks into institutionalised arrangements remains difficult in this continually evolving environment. That said, the need for instituting processes of collaboration is recognised by numerous actors, analysts and observers. It also calls for rethinking roles played by communities, researchers, the private sector and government. The "who does what" needs to be carefully constructed in this new environment. Processes of collaboration must be institutionalised.

Government is demonstrating interest in and capacity to re-arrange established institutional arrangements. The role of government has been questioned for more than two decades. Deregulation and reduced engagement in the public domain have not succeeded in resolving problems of poverty and social exclusion that have increased throughout this period. As such there have been an increasing number of proposals for the implementation of public-private partnerships (PPPs) in many countries. Governments at all levels have a privileged position for nurturing innovative organisational engineering. This now includes the possibility of developing public-private-community partnerships (PPCPs) between civil society, government and financial institutions, for example. Once again, there are precedents for this and, in many cases, the architects of these new arrangements are social actors. Governments are buying in because of the clear value added in institutionalising these relationships. Another possible arrangement could be public-social enterprise joint ventures for those social enterprises engaged directly in social service provision and/or work integration of disadvantaged populations.

Institutional innovation on the part of government and an enabling regulatory and legal environment ultimately depend upon political commitment. In the case of countries of Central and Eastern Europe (CEE), for example, some lessons learned highlight the need to avoid relying on a unique type of financing, such as micro-credit. In high-risk market conditions such as the ones characterising most transition economies, such reliance can generate a “debt trap” in the absence of enabling public policy to permit micro-credit to leverage larger and more stable sources of financing, both public and private. Moreover, the rapid accumulation of wealth and philanthropy in some of these countries, often seen as the principle means to support social inclusion actions via social entrepreneurs, may also create perverse results without appropriate enabling social and economic policy. These caveats confirm the need for careful monitoring of these strategies that are being adopted too quickly in many instances. For social finance to play a role in these still fragile economies, they must both be integrated into an economic transformation strategy and carefully monitored. Whether such monitoring comes from peers or from public agencies is to be evaluated based on each national context.[36]

Similar concerns must be raised in the context of other OECD countries where too often, social enterprises are limited to activities for training and work integration. Lessons in the United States are important in this regard as the CDFI movement and the growing network of community finance institutions supporting community based initiatives demonstrate. Paradoxically, it is also in the United States that social enterprise is identified with a social purpose business model or with non-profits providing social services that develop capacity through trading activities. The community link is, of course, present but the focus is on individual enterprises and/or individual entrepreneurs. While many of these enterprises are anchored in their communities, they are not part of an integrated development strategy and risk slipping into those silos that potentially limit their transformative capacity.

In this chapter, numerous sources of financing for social enterprise have been identified - both those that currently exist and those that are potential sources of capital but have yet to engage in this market. Research confirms the complexity of this evolving social finance landscape and the many conditions necessary for it to achieve its goals. To summarise, these include the need for a diversity of sources and products to avoid the pitfall of relying exclusively on one instrument and to allow for the leveraging of capital, which is so important for the consolidation and growth of these enterprises. The discussion in this chapter has repeatedly returned to the importance of intermediaries and to the need to create networks and federations. International cooperation and the sharing of knowledge are contributing to the evolution of this activity and to a better understanding of the broader needs of social enterprises that must be met. A study by the United Nations Development Program (UNDP) on how to promote social enterprise in CEE and the Commonwealth of Independent States (2006) emphasised the need for technical assistance. For a social capital market to take shape, standardisation, evaluation and innovative measurements that reflect the nature of these enterprises are critical. Research and education are also indispensable. Numerous university programmes on social enterprise, social entrepreneurship and social finance have been created in recent years that both increase research capacity and have begun the important work of introducing these new organisational forms into business schools and social science programmes.[37] Finally, there cannot be enough emphasis on the need for policy, but especially for policy innovation. Indeed, fiscal measures exist that can be applied to this activity, but as has been underscored, often even those fiscal measures are limited because of legislative barriers, for example. The same holds true for much of what is currently on the policy menu, thus creating a need for innovation. This work must be done and it must be done in tandem with the growing interest in social enterprise and social finance. The cost of not doing this is high. This means it is necessary to work inter-sectorally and horizontally to reflect the hybridity of these activities; it means working outside the box.

It is difficult to overemphasise the need for a broad approach to avoid pigeonholing social enterprises into discrete and limited activities. Because many governments are enthusiastically embracing social enterprise as an innovative means to reduce poverty, there is growing concern that this will be reduced to activities for the disabled (Defourny, 1996). Local authorities often make funding decisions contingent on the level of disadvantage addressed by these enterprises, and so on. The tasks ahead are numerous. It is submitted that the most important objective for researchers, analysts, observers and those directly involved, is to work on the many issues raised simultaneously. Only then is it possible to conceptualise a model for social transformation that includes new forms of financing for new forms of business. There is a need for policy reform - even the most ardent defenders of the welfare state agree that new modalities to preserve its underlying values and commitments need to be invented. If social enterprise and the financial instruments that are emerging to capitalise their activities are perceived as part of a renewed commitment to social citizenship and equity, the challenge ahead is to build the social, financial and policy architecture to meet these objectives. The 21st century then becomes a moment for creativity and innovations as social enterprises and the social finance sector are integrated into a political economy of citizenship. Needless to say that perceived risk, still the principal obstacle facing social enterprises seeking financial investment, will be considerably reduced in this new, enabling environment.

Notes

1. Abundant literature has appeared lately on these terms and their interaction on both sides of the Atlantic. We suggest Kerlin (2006), Nicholls (2006) and Defourny and Nyssens (2008) for a complementary discussion.

2. Notions such as corporate social responsibility have joined socially entrepreneurial initiatives (Nicholls, 2007; Austin et al. 2007).

3. ARUC-ES stands for "Alliance de recherche universités-communautés en économie sociale" or Community-University Research Alliance in the Social Economy.

4. The EMES European Research Network gathers 19 university research centres and individual researchers working together around the third sector and social enterprise. Active since 1996, it has published six major books to date that have been translated into French, Japanese, Korean, Portuguese, and Spanish, EMES also publishes a Working Papers series available to download online at www.emes.net).

5. At the end of the 1990s, more than 30 % of the population in the European Union was a member of a social economy organisation. Cooperative banks represent 17 % of the bank market and insurance mutuals and cooperatives hold around 30 % of the market. These organisations represent 8.5 millions FTE jobs or 7.7 % of the employed civil population (Laville et al., 2005).

6. These refer to social enterprises that (1) respond to market failure and/or "institutional void" by developing new products and services (2) contribute to the reconfiguration of markets to generate new or increased social value and (3) challenge institutional arrangements through political action (Nicholls, 2007).

7. Numerous articles are appearing in the media and specialised communication channels drawing attention to the risk of mission drift or the lack of a long-term, sustainable vision for social enterprises if emphasis is on the business dimension. Cf. The Limits of Social Enterprise. A Field Study & Case Analysis (Seedco Policy Center, June 2007, available at www.seedco.org/publications/publications/social_enterprise.pdf); Social Enterprise in the Balance (Pharoah, C., Scott, D, and Fisher, A., 2004, Glasgow: Charities Aid Foundation); "The distinctive challenge of

educating social entrepreneurs: a postscript and rejoinder to the special issue on entrepreneurship education" (Tracey, P. and Phillips, N., 2007, Academy of Management Learning and Education, 6(2): 264-271); "An Enterprising Failure. Why a promising social franchise collapsed" (Paul Tracey and Jarvis, O., 2006, Case Study, Stanford Social Innovation Review).

8. Some traditional banks participate in these new business environments. There are several examples; we cite only a few such as the RBC in Canada that has established partnerships with social investors or the Charity Bank in the United Kingdom that has partnered with government. Credit unions, mutuals and cooperative banks have always played an important role in serving disadvantaged communities and are now poised to enter this new market. Notable examples include the Raiffeisen Bank in Germany (1864), the Mouvement Desjardins in Quebec (1900), the Groupe Crédit Coopérative in France (1893), Banca Etica in Italy (1994), CREDAL in Belgium (1984) and the Fondation Macif in France (1983). These are but a few examples of better known large institutions; it is by no means an exhaustive list.

9. We have observed this in Quebec where there is a great deal of financial innovation that is welcome and has created, in fact, invented, new financial products to meet identified needs. Still, there are markets that remain underserved for a variety of reasons, most often associated with eligibility and/or nature of finance available lack of information, and so on (see Mendell and Bourque, forthcoming). The very useful work of Alex Nicholls on social investment and ethical markets confirms how representative these asymmetries are in the United Kingdom and in the numerous countries in which these financial innovations are emerging (Nicholls, 2007; Nicholls and Pharoah, 2007).

10. We are using patient capital, long term investment, quasi-equity to refer to the need for "equity-type" financial products to distinguish these from share capital "equity". This is fertile ground for financial innovation and has resulted in the establishment of interesting hybrid intermediaries such as Community Interest Companies in the U.K. and the Fiducie du Chantier de l'économie sociale in Quebec as two examples.

11. The NMTC program expects to generate USD 19.5 billion in investments by 2008 (New Markets Tax Credit Coalition, 2007).

12. BlueOrchard Finance issued its first stand-alone CLO in 2006 creating a new asset class (Davidson, 2007); Triodos Bank lists shares on their own Triodos ETHEX market through a matched bargain market managed by Brewin Bolphin Securities Limited. This is not a recognised investment exchange and yet each issue has been fully or even oversubscribed. www.triodos.co.uk

13. cf. Kinder (2005: 23-24) for and interesting discussion on nomenclature.

14. cf. FINEUROSOL, the network of solidarity finance organisations in Europe launched in 2005 and supported by the European Commission (www.fineurosol.org). We have slightly modified the translation of this statement into English by FINEUROSOL.

15. At the practical level, there are two mechanisms of solidarity finance: savings capital whereby a percentage of savings capital is invested into organisations or projects having a social, cultural or environmental added value, and/or savings income whereby solidarity savers voluntarily give (share) all or any part of profits generated by savings to organisations or projects with a social, cultural or environmental added value. cf. www.finansol.org and www.fineurosol.org

16. While common understandings of these terms do not exist, the Foundation Center (www.foundationcenter.org), defines program-related investments (PRIs) as investments made by foundations to support charitable activities that involve the potential return of capital within an established time frame. PRIs include financing methods commonly associated with banks or other private investors, such as loans, loan guarantees, linked deposits, and even equity investments in charitable organisations or in commercial ventures for charitable purposes. Mission-related investing (MRI) refers to the investments made by foundations to directly advance their core missions, in coordination with their grant-making through instruments that include deposits, fixed-income securities, senior and subordinated loans, preferred and common stock, and private equity. As for economically targeted investing (ETI), it allows pension and other collective funds to invest in economic revitalisation (urban and regional regeneration) and social projects (housing development, for example) while assuring solid returns on investment.

17. The US Department of the Treasury's Internal Revenue Service allows for a special tax exempt status to foundations for their program-related investments. As the IRS explains, "the investments, to be program related, must significantly further the foundation's exempt activities. They must be investments that would not have been made except for their relationship to the exempt purposes" (cf. www.irs.gov).

18. cf. www.calvertfoundation.org

19. CalPERS' goal is to invest 2% of its portfolio (USD 200 billion) in California's underserved capital market (Hebb et al., 2006, p. 29).

20. TIAFF-CREF currently has more than USD 435 billion in assets.

21. cf. www.tiaa-cref.org. An interesting American example is AltruShare Securities, a "unique social enterprise in financial services" that combines business skills with community investment initiatives. AltruShare is the

first institutional brokerage firm to specialise in community investment and the first Community Investment Enterprise in the United States. It is a for-profit business that generates income for underserved communities. It is an interesting example of institutional innovation combining for-profit with non-profit activity. By brokering these investments, it fulfills an important coordinating role (cf. www.altrushare.com)

22. In 2005, the United Nations Environment Programme Finance Initiative (UNEP FI) commissioned a study by the international law firm Freshfields Bruckhaus Deringer to explore whether social and governance issues are permitted or restricted by existing laws and regulations governing institutional funds. This study confirmed the prevalence of a perception problem, this time associated with the laws governing these funds and that, in fact, there are several examples in different parts of the world where these funds are required to comply with both specific laws and general duties assigned to these funds. In the United States they found that the focus is on returns realised across a well-managed portfolio as part of a rational investment strategy allowing for a great deal of flexibility.

23. A recent example in Canada involving the Public Service Alliance of Canada Staff Pension Funds, a very large public sector union and Alterna Savings, a credit union, will generate capital to invest in low-cost housing. This is an important example of how a deal was brokered between a large pension fund and an existing financial institution (credit union) to generate investment capital. And it was simple since it only required the sale of a fixed income security, a Guaranteed Income Certificate, backed by the credit union. The pension fund now owns a security; the financial institution acted as an intermediary in this transaction. But that is not the end of the story. As this is a new market for social housing, yet another intermediary that represents the community is called for. In Quebec, for example, this need has been met by establishing intermediaries at the local level. The Chantier de l'économie sociale has acted as a vital inter-sectoral intermediary for social economy enterprises greatly increasing the capacity to raise capital. The absence of intermediaries raises the transactions costs of these investments and is a deterrent in engaging in this activity.

24. Individuals with minimum asset portfolios of USD 5 to USD 10 million.

25. cf. FIDUCIE of the Chantier de l'économie sociale at http://fiducieduchantier.qc.ca/?lang=eng

26. see Nicholls, 2007.

27. Triodos proposes the initial price and then tries to match registered sellers with any registered buyers.

28. While such an enterprise is now "private" in legal terms, this restructuring reinforces the hybrid nature of social enterprises whose clear mandate is to achieve a blended return. A stakeholder structure falls under a limited legal form that unfortunately cannot capture or accommodate an organisational innovation. Just as social cooperatives were created in Italy and social purpose businesses in Belgium and in Finland that do not question ownership, to name but two examples, we have a new challenge. The solidarity cooperative, a Quebec adaptation of the Italian social cooperative now exists, just as the capacity for labour solidarity funds to invest in the economy and benefit from tax incentives also is the result of enabling legislation. And so on. These are not impermeable barriers.

29. Launched in 2001, the FTSE4Good Index Series gathers more than 450 companies which are reviewed periodically to assess the extent to which they respect criteria on environmental sustainability and universal human rights (cf. www.ftse.com). Launched in 1999, the DJSI are the first global indexes tracking the financial performance of the leading sustainability-driven companies worldwide. Based on the cooperation of Dow Jones Indexes, STOXX Limited and SAM the DJSI provide asset managers with reliable and objective benchmarks to manage sustainability portfolios (cf. www.sustainability-index.com).

30. We referred to the labour solidarity funds in Quebec, for example, that we call "development finance" or "development capital" because of the engagement with the enterprises in which they invest and their commitment to local and regional economies. We suggest that this is similar to social finance in that the enterprises selected must satisfy socio-economic criteria such as job creation, environmental protection and/or economic development.

31. As Gair (2006) points out, investors act based on three elements that include the risk/return profile, organisational lifecycle and co-financing strategies (other investment sources). In this light, in order to develop a social investment market for social enterprises, investors' risk/return profiles must be aligned with the risk/return goals of social enterprises. The phases and cycles in the life of social enterprises need to be understood and the various contextual factors brought into the long term analysis. Financing represents one of those factors but not necessarily the most decisive for the sustainability of the organisation (Gair, 2006).

32. In Quebec, the Chantier de l'économie sociale is the "node" for an integrated approach to the development of the social economy through the development of numerous enabling tools, including labour market training, enterprise services, partnership research with university researchers and, of course, finance. In the case of the Fiducie, for example, all these tools assist in guiding the investments undertaken. Moreover, because the Fiducie works directly with local intermediaries, it

can more easily identify problems and help to address them, thereby increasing the capacity for enterprises to access this new source of long term capital investment.

33. In Canada, the recently formed Causeway, a national coalition bringing together foundations, the credit unions, and networks of social enterprises to explore the development of such a market. In the United States, a very important initiative is the creation of Wall Street without Walls in 1998 modelled after Doctors without Borders, that brings together expertise in finance to guide and support community based economic initiatives. Among their many achievements was the ability to get a Standard and Poors rating enabling USD 50 million issued by a community development loan fund in Minneapolis (cf. www.wallstreetwithoutwalls.com).

34. "Exploring new sources of investment for social transformation" was the title of a conference organised by Tides Canada Foundation, Ashoka and Vancity Credit Union. Social Capital Market Roundtable #2, March, 2006.

35. The IRIS Network links European and international networks representing different families of responsible economy initiatives: responsible finance (FEBEA, INAISE), Fair Trade (IFAT), responsible consumption (ASECO, URGENCI) and Social Integration Enterprises (ENSIE), with the participation and support of institutional partners (the Council of Europe and the Trento Autonomous Province, Italy).

36. ILO's Project Social Finance for Support to Self-Employment and its publication "Microfinance in south-eastern Europe: How small business helps to create jobs" provide a good overview of some transnational initiatives carried out in Bulgaria, Romania and Serbia. Cf. www.ilo.org/public/english/region/eurpro/budapest/employ/socfin.htm

37. There are numerous examples. We cite only the Institute for Social Banking in Germany that has developed a Masters in Social Banking supported by INAISE members, banks and foundations of the School for Social Entrepreneurs in various cities of the United Kingdom, the Centre for Social Innovation (Stanford University), and Harvard University Business School. For an overview of educational programs, see the "Social Entrepreneurship. Teaching Resources Handbook" recently published by Ashoka (www.universitynetwork.org).

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Chapter 3
Networks as Support Structures for Social Enterprises

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One of the key characteristics of social enterprises – businesses which seek not to maximise profits, but to provide a service to society by trading in the market – is the strength of their relational element. The quality of the services they provide derives essentially from the rich interrelationships that their various stakeholders enjoy. An individual involved with a social enterprise is typically not playing a single role, for example as an investor, customer, employee or client, but has an active voice in its direction and how it fulfils its mission. This richness extends to the relationships that social enterprises have with other organisations, such as public authorities or other businesses. They have a propensity to build networks, whether to exchange information, to improve their practice, to dialogue with government, or to address new challenges – for instance by setting up new enterprises. This means that they need external support of a specific type.

This chapter discusses a number of good practice cases which provide support to social enterprises. The cases are divided into four clusters: 1. identity / culture / representation / quality; 2. business support; 3. trade sectoral development, and; 4. local development. The chapter closes with a brief review of the main lessons learned as regards good practices. These lessons will be presented in the form of guidelines addressed to those who, through suitable policies, can support the development and consolidation of support structures for social enterprises.

Introduction: the importance of support structures for the development of social enterprises

Across Europe, social enterprises have experienced considerable development over recent years despite striking differences in their form and the rules that govern them (Defourny and Nyssens, 2008).[1] This growth trend, together with the significant discrepancies that still remain between European countries, has given rise to various schools of thought surrounding the key driving factors behind their development.

Identifying what has caused the development of social enterprises is not an end in itself, but it can provide an answer to specific questions. For example it helps explain whether the conditions which have supported their creation are cyclical or structural in nature, and whether they can be extended to the national level or if they need to be tailored locally. It can also be useful to explain the origin and the current state of social enterprises, and to identify possible emerging trends and thus sketch out one or more future scenarios, at least for the near future.

Among the explanations put forward, one in particular attributes the development of social enterprises to their ability to network or to define strategies and suitable support structures for the creation of inter-organisational links which will grow ever more widespread, solid and articulated. Such inter-organisational structures perform highly diversified tasks, such as setting up new enterprises, representing them to public and private institutional partners, and promoting quality and innovation policies. This reference to the networking capacity of social enterprises as one of the possible development factors presents at least three points of interest:

1. Firstly, it represents an endogenous factor. It expresses the internal ability of the sector to define its own pathway independently, rather than reacting to influences that are more dependent on exogenous variables, such as welfare systems, changing regulations and social transformations, from which social enterprises seem somehow to derive.

2. Secondly, it closely relates to the legal-organisational form of social enterprises. This allows for a clear-cut characterisation of the experience, when compared to similar organisational forms, such as those of the third sector / social economy (other types of co-operatives, voluntary organisations, charities, and so on). Here the networking phenomenon seems less developed, and alternative development models tend to prevail (e.g. mergers among co-

operatives, especially in the consumer goods and agricultural sectors).

3. Lastly, the spread of inter-organisational relational systems among social enterprises suggests that this factor has reached a significant "specific weight" – both for the number of existing networked organisations and for the functions and tasks they cover – not only in explaining but also in significantly guiding the development of such enterprises, both locally and more widely.

What support for social enterprises?

Before reviewing the good practices identified at international level, it is necessary to understand the peculiarities of social enterprises. This analysis provides some important hints as to their business support needs. The underlying theory behind this chapter's analysis is that in order to make the most of the intrinsic qualities of social enterprises, specific support structures are needed, as regards to both their structure and the activities they carry out.

Most of the business support needs of social enterprises, including the various aspects of business management, are the same as for conventional businesses. After all, every business needs to be soundly managed so as to comply with regulatory requirements, make a trading surplus, and stay accountable to its stakeholders. However, social enterprises have specific features that create complex needs demanding diversified solutions.

This means that while all business support agencies should know about social enterprises and be prepared to support them, there is also a place for support agencies that specialise in the social economy. Experience within the EQUAL programme[2] shows that collaboration between generic business support organisations (such as Chambers of Commerce) and specialist ones (such as co-operative federations) can be very fruitful, and can lead to a higher standard of business support being made widely available at national level (European Commission, 2007; Austin, Gutierrez, Ogliastri and Reficco, 2007).[3] As we will stress in the following pages, the aim should be to create a 'braided' system of support, which includes both generic and specialist components.

The following points provide a non-comprehensive description of the distinctive attributes of social enterprises. Special attention is given to the way in which business practices serve the achievement of the social objective. It should not be forgotten that discussion involves factors which are both internal to the organisations and dependent on their external environment.

The common good as an objective. Typical of social enterprises is the pursuit of objectives which go beyond the interests of their owners. The profits generated benefit a wider group, such as individuals, local communities and social groups, regardless of possible ownership rights (e.g. as members of the social enterprise).

Relational nature of the goods produced. Social enterprises produce goods and services where the proximity and relation to the recipients are crucial to the nature and quality of the good itself. As a matter of fact, the beneficiaries of these goods are often socially excluded and live in insecure conditions. This makes it difficult to reproduce exchange models based on the figure of a "consumer" who has the information and economic resources necessary to rationally satisfy his or her needs. Activities such as care, education and support for job integration are non-tangible goods whose production requires a relationship system made up of various subjects: the producer of the good, the "consumer" or indirect beneficiary of the good, the financial backer of the production, the promoters of use, and so on. In the same way, the use of such goods is not meant for the direct recipients only, but also for the people, groups and communities who benefit indirectly from it, for example, in the form of a better quality of life, deeper social cohesion, security, psychological well-being(Borgaza and Defourny, 2001).[4]

Resource mix as means of support. Social enterprises do not only do business through monetary trade or within "trade arenas". They obtain the resources necessary for their survival and development through multiple and complex forms of exchange: resources derived from market trading combine with resources of a different nature which vary according to the particular objectives they pursue and the activities they carry out. These include financial contributions and donations from public or private bodies, voluntary work, the free loan of infrastructure, and so on. Thanks to these "supplementary" resources, social enterprises are able to act in areas where commercial exchanges would not be sustainable because of the lack (or scarcity) of paying demand from the beneficiaries, or because of the lack of interest from other investors (Evers and Laville, 2004).[5]

Local scope. Given the relational nature of the goods produced and the ability to attract various resources for support, social enterprises tend to focus on local interventions. Even in the traditional forms of the social economy, the local dimension of the interventions often represents a distinctive trait, and for social enterprises it becomes a priority which dictates their actions and objectives. Their rooted presence in a defined and limited area allows for a quicker and more precise appraisal of the needs to be addressed and, at the same time, for the recognition and enhancement of all the useful resources available.

Multi-stakeholder governance. Social enterprises are organisations where the collective aspect is central in defining the social and business development plan of the enterprise. The objectives, the goods produced, the scope and the working resources are driven by a commonly established need that is to include different people and organisations in terms of representativeness and heterogeneity of interests and visions. That is why social enterprises often have governance systems which allow for multiple forms of membership (employees, voluntary workers, sponsors, beneficiaries, and so on).[6] Social enterprises are thus organisations which involve different stakeholders, because their objective of promoting the general good cannot be achieved once and for all and is not led exclusively by a sole player. It is a process to be co-shaped in daily practice by representing the various positions and interests in the territory. It is thus not by chance that social enterprises are often small bodies as to the number of people involved. A limited size, among other factors, helps to preserve a significant relational system – one that is neither bureaucratic nor anonymous – both within the organisation and in its relationships with other actors, and above all with the beneficiaries of its activities.

Capital and ownership structure. An important difference with conventional businesses is that the working capital of social enterprises is generally not in the form of equity shares. It will often be in the form of value shares or loans, and will have limitations placed on voting rights and dividend distributions. In addition, considerations of corporate social responsibility will often lead to a high level of financial transparency. This implies a very different financing strategy and financial management.

Emerging bodies with an issue of legimisation. Social enterprises are emerging bodies, search to legitimise their status, even though in some European countries they have reached such a proliferation and recognition that an institutionalisation process could be envisaged. However, in general, social enterprises are confronted with more structured bodies than their own (public bodies, commercial companies, and also the other organisations of the social economy), to which they often find themselves subordinate. Such subordination takes the shape of financial dependence (e.g. on public funding), organisational isomorphism (in the adoption of management tools typical of for-profit organisations and of public administrations) and limited ability to put forward and promote their political and cultural programme (because they are too focused on daily management). This phenomenon is further accentuated by the fact that social enterprises operate in highly dynamic and uncertain sectors, as regards changing needs and the availability of resources to support business initiatives (even those with social purposes). On the other hand, these same sectors, for instance social security and education, are undergoing epoch-making transformations, in respect of the role of the agencies traditionally active in these fields (such as public administrations), and there is significant room for innovation.

A classification of support structures

The analysis set out in the previous pages has helped identify the elements which clearly characterise the social enterprise initiatives which have been spreading throughout Europe in recent decades.

Despite the differences, which are sometimes significant, in terms of the forms this phenomenon takes, it is clear that social enterprises build their specific identity around the central factor of relationality. This relational nature translates, in practice, into a remarkable ability of social enterprises to create connections among different actors – individuals and organisations – both within their own "organisational boundaries" (for example in the ownership structure), and externally, with other institutions. In other words, for social enterprises, networking is not one strategic developmental choice among many others, but an important constitutive element. Of course, such relationships vary according to the characteristics of the parties involved and the nature of the goods and resources exchanged.

On the basis of such observations, the following section will review good practices for support structures where development stems from the promotion and strengthening of network connections among social enterprises, between these connections and public and private actors. The following aspects of support structures will be investigated: regulatory and socio-economic environment; general purposes of the initiative; resources used; organisation and governance; main results achieved and the possibility to reproduce them in other situations. Finally, the information gathered will be summarised in guidelines for policy-makers.

Many initiatives for the support of social enterprises already exist in Europe and elsewhere. The first step in our analysis is to sketch out an interpretation grid in order to identify the most innovative initiatives as examples of good practice. The grid also outlines some crucial functions in the development of social enterprises.

- The first function is the definition and promotion of elements of identity of social enterprises deriving from different cultural traditions. The support structures will then be able to represent and promote quality policies for the goods produced and also for the system of social enterprises itself (cluster 1).
- The second deals with development support activities aiming to launch new social enterprises or restructure existing ones. In this

case, the support structures are called on to innovate in supplying the traditional business development support services (consultancy, training, and so on) in the light of the peculiarities of social enterprises and of the socio-economic environment in which they operate (cluster 2).

- The third function is supporting the development of social enterprises in specific areas of activity by differentiating their activities in order to increase competitiveness. The real innovation here is to detect the expansion possibilities of the social enterprise beyond its traditional niches, like social services or job integration initiatives for the disadvantaged (cluster 3).
- Lastly, the fourth function used to classify support structures for social enterprises tackles their involvement in local development processes. The "general good" objective proper to these companies makes policy-making activities an important intervention area. Support structures must therefore also be active on this front (cluster 4).

Cluster 1: Identity / culture / representation / quality

The United Kingdom Social Enterprise Strategy

The British government's social enterprise strategy has brought together what were previously a number of loosely allied but disparate movements to form a more coherent force that can tackle social change on a significant scale.

Context

Several of the component parts of the social economy, notably the co-operative movement and the voluntary sector, are relatively strong in the United Kingdom. Comparative statistics show the United Kingdom to be among those countries with the larger shares of economic activity and employment within the social economy (EESC, 2007).[7] However, certain types of social economy organisations, such as worker co-operatives and social co-operatives, have not grown very fast in the United Kingdom. What has grown fast in recent years is the number of businesses identifying themselves as "social enterprises".

The British government's definition of "social enterprise" stands out from accepted usage in continental Europe, in that it is very outcome-oriented and permissive. It makes reference neither to the content of trading activities nor to ownership or stakeholder participation, but focuses on the sole criterion of non-profit maximisation. The definition reads: “A social enterprise is a business with primary social objectives whose surpluses are principally invested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners.” Business objectives are seen to be multiple, and profit distribution is not prohibited so much as limited. This definition thus encourages businesses to create new and fluid combinations of altruistic and profit-making motivations. It expresses the government’s intention to create a movement of reform within the mainstream business sector, as much as to support the growth of a separate, and possibly marginal, sector defined in a more rigid or ideologically “purist” way. A second item on the government’s agenda is the reform of public services. It seems to utilise an entrepreneurial approach as a way to increase the quality and user-responsiveness of public services, which can avoid some of the deleterious effects of contracting-out to purely commercial companies.

Description of initiative

The Labour government that was elected in 1997 responded to the pent-up pressure from its natural constituency to take action to promote the co-operative and social economy, but this took several years to bear fruit and followed a problem-oriented route. The first step in the process was the 1999 report of social exclusion Policy Action Team 3 on “Business”. The Treasury then undertook a “cross-cutting review” of the role of the voluntary and community sector in service delivery. Patricia Hewitt was appointed Secretary of State for Trade and Industry in September 2001, and the Social Enterprise Unit was set up within the Department of Trade and Industry in the following month. It immediately convened eight stakeholder groups to assess the task at hand. The groups worked very fast, and in February 2002 reported on laws and regulations, research, business support and training, finance, promotion, impact evaluation, best practice and public procurement.

The three-year strategy was launched in July 2002 with the publication of “Social Enterprise: a strategy for success” (Department of Trade and Industry UK, 2002).[8] The foreword contributed by the Prime Minister demonstrated the government’s determination to act. It set targets in three domains: creating an enabling environment, making social enterprises better businesses, and establishing the value of social enterprise.

In 2005/6 a Minister for the Third Sector was appointed, and the unit was combined with the Active Communities Unit of the Home Office, which dealt with voluntary organisations, to form a new Office of the Third Sector (OTS) (Office of the Third Sector, 2008).[9] The OTS has some 50 staff divided into five teams. It is located within the Cabinet Office, the co-ordinating department reporting directly to the Prime Minister.

The strategy was reviewed in 2006 and updated in the form of the "*Social Enterprise Action Plan – Scaling New Heights*". This action plan focuses on engendering cultural change, improving the supply of advice and finance, and improving relations with the public sector. This leads to the following activities:

- Fostering a culture of social enterprise.
- Ensuring the right information and advice are available to those running social enterprises.
- Enabling social enterprises to access appropriate finance.
- Enabling social enterprises to work with government.
- Ensuring delivery.

Financing and resources

The strategy has been financed by the United Kingdom central government, using a number of different budgets. In the first stage of the strategy's implementation, these included the Phoenix Development Fund (BEER, 2008)[10] and Support for Enterprising Communities.[11] Following a Bank of England review of finance for social enterprise (Bank of England, 2003),[12] 23 Community Development Finance Institutions (CDFI) gained accreditation for "Community Investment Tax Relief" (CITR),[13] and were capitalised through a competitive 'challenge fund'. A EUR 187 million investment fund called "Futurebuilders" (Futurebuilders England, 2008)[14] was developed to improve public service delivery through long-term investment in the voluntary and community sector. A significant boost to this financial support came from the EQUAL programme, which fortuitously came on stream at the same time as the strategy was being implemented, and ran until 2007. In addition, bodies from the social economy such as Co-operative Action[15] have supported other synergetic work (The Co-operative Fund, 2008).

Carrying through the 2006 Action Plan also draws on a range of departmental budgets for business support, and it is not always easy to quantify the share that is destined for social enterprises specifically. Some identifiable elements are an equity fund (GBP 10 million), grants to strategic partners (GBP 3 million plus), "Futurebuilders" (GBP 215 million), business support (GBP 5.9 million plus resources from regional development agencies (RDAs) and Business Link), Youth Sector Development Fund (GBP 100 million), and the Department of Health social enterprise investment fund (GBP 100 million).

Funding of the full OTS programme as set out in the third sector review is GBP 515 million (Office of the Third Sector, 2007).[16]

Governance

The "Social Enterprise Strategy" was implemented by the Social Enterprise Unit, at the time part of the Department of Trade and Industry. It has been followed up by the "Social Enterprise Action Plan" which is implemented by the Social Enterprise and Finance Team (headed by Hilary Norman) within the Office of the Third Sector. The OTS is a government department responsible to the Minister for the Third Sector (Phil Hope) and to the Prime Minister (Gordon Brown).

A key part of the work of OTS is to work in partnership with the sector itself. The Social Enterprise Coalition (SEC) was set up to form a dialogue partner that could work with government to promote the emerging social enterprise sector. It acts as an umbrella that brings together the pre-existing federal bodies for the different families of social enterprises: co-operatives, social firms, development trusts, and so on – as well as individual social enterprises and their partner organisations. It carries out a range of representational and promotional activities including the vital functions of publishing a newsletter and organising an annual conference ("Voice").

The process of devolution in the United Kingdom means that the Scottish, Welsh and Northern Irish executives, as well as England's nine Regional Development Agencies (RDAs) have also been given the responsibility of developing strategies to support social enterprise. For instance, the Scottish Social Economy Strategy – "Better business" – "A strategy and action plan for social enterprise in Scotland"[17] was launched in 2007, with cross-party support (Communities Scotland, 2007). Its aims are to reduce poverty, create jobs and develop businesses. It links with the "Futurebuilders" programme, which is investing in social enterprises to improve the delivery of public services. The strategy has funding of EUR 2 million in 2007, which it is hoped will be renewed annually, bolstered by some EUR 160 000 from EQUAL. It has four priorities:

- To raise the profile and prove the value of social enterprise – using such tools as social return on investment (SRoI).

- To open up new markets – for instance through trade fairs and "meet the buyer" meetings, which have proved cheap and effective.
- To broaden the range of finance available – for instance by combining grant, loan and "patient capital".
- To improve business support – for instance through dedicated enterprise development support for social enterprises in both highland and lowland Scotland.

The strategy process is being cascaded downwards, and local social economy partnerships are being set up in Scotland's 32 local authority areas.

The nine English RDAs co-ordinate their contributions to the national plan through a Steering Group of Social Enterprise Policy Leads, which is chaired by South East England Development Agency (SEEDA). A 2008 progress report[18] notes that they have moved on from raising awareness of the potential of social enterprise to providing information and support for specific sectors (SEEDA, 2007). For instance, the East Midlands have worked on sport enterprises and the North-East on public procurement. As regards to business support, work in the regions is to be supported by the OTS EUR 7.5 million Third Sector Business Support Capacity Building Fund, which will operate over three years.

Impact

The government's determined action met with an enthusiastic response from most of the organisations that were already active in the sector, though there have been misgivings from both co-operatives and voluntary organisations, which fear dilution of their respective principles and operating methods. On the one hand, some parts of the co-operative movement feel that ownership and democratic control are central features of the sustainability of social objectives (for instance, by inhibiting asset-stripping takeovers). On the other hand, some voluntary organisations, which deliver services on a charitable model, fear that they will be forced to act like businesses, which they find to be inappropriate. There is an underlying tension between the proponents of a "free market" approach, who believe that the outputs of an enterprise are the sole measure of its social objectives and that light regulation will bring more benefits, and those who believe that value issues such as social justice, participation and democracy are inherently important and cannot be ignored. An index of this concern is that the issue of excessive executive pay in community interest companies was raised in the United Kingdom parliament. A written answer given on 30 April 2008 noted that Community Interest Companies (CIC) must declare Directors' salaries, and these must be consistent with community benefit (Parliament UK, 2008).[19] The bringing together of charities and social enterprises under the same OTS regulatory umbrella means that the fissure will remain a live issue.

The more risk-friendly culture that the government's policy is encouraging is likely to lead not only to faster growth of some social enterprises but also to a higher failure rate. There have also been instances of high-profile social enterprises (such as Green & Black's, an organic chocolate producer) being bought out by large corporations, provoking fears that the profit-motive might start to predominate over the original social objective. It is possible that this will damage public trust in the social enterprise "brand". However any bad publicity will most likely be manageable. It is more likely that the traditional families of organisations in the third sector will continue on their own paths, while learning from each other. In addition new hybrid forms of organisation will continue to grow up.

The statistics show that the social enterprise sector is growing fast. The government estimates that there are 55 000 social enterprises, which turn over GBP 27 billion (EUR 40 billion) per year and contribute over GBP 8 billion (EUR 12 billion) annually to GDP. However some of this apparent growth is the result of self-definition, as it is based on a survey, which asked whether businesses looked at themselves as social enterprises. Before the term "social enterprise" was popularised, only some would have defined themselves as being within the "third sector" or "social economy, while many would have had no concept for what they were doing. The effect of the social enterprise strategy has thus been as much to revolutionise consciousness as to stimulate business start-up or growth.

Transferability

The approach taken thus far is unique in its comprehensive and non-prescriptive nature. There is much to be learnt from the way it has taken an output-oriented approach and in particular how it has generated effective collaboration among different government departments, the lack of which is often a major stumbling block in the way of progress in the social economy sector.

Conclusions & policy recommendations

The remarkable thing about the rapid growth of the social enterprise sector in Britain is that it is the product of an act of political will by the government.

The United Kingdom social enterprise strategy is novel because it is:

- Original: the first such strategy in British history.
- Ambitious: aimed to achieve a step change in the standing of social enterprises.
- Proactive: created a concept and brought allies on board.
- Determined: launched with Prime Ministerial backing and supported by a dedicated unit in the civil service.
- Comprehensive: addressed the main barriers to the sector's progress.
- Integrated: each strand of the strategy complements the others.
- Participative: the action plan was built through stakeholder consultations and a set of working groups, and much of it is delivered through the sector's own democratic representative body, the Social Enterprise Coalition (Social Enterprise Coalition, 2008);[20]
- Accountable: kept allies on board by publishing a progress report[21] and has commissioned an independent review (Office of the Third Sector, 2007).
- Partner-oriented: used EQUAL funding synergistically along with national and private sector resources.

Strategies and tools for network quality in social co-operative consortia in Italy

Social co-operative consortia are the most common support structure for social enterprises in Italy. First established in the late 1980s, today they number almost 300 and operate in all Italian regions. One of the main innovations introduced in recent years is that the member organisations use a set of tools to qualify themselves as members of the consortium. Network tools work mainly at two levels: the definition of a common identity, which increases the value of the distinctive social enterprise culture (mission statement, strategic development plans, codes of ethics, and so on) and the quality of the goods produced, not only by the single enterprise, but by the network as a whole (social budget, service charter, quality certification, and so on).

Context

Social enterprises in Italy are a consolidated phenomenon. The most common organisational and legal form is the social co-operative, which has existed for more than 25 years and is active in health, social and educational services and in work integration for the disadvantaged. According to the latest figures from the Italian Institute of Statistics, at the end of 2005 there were 7 363 social co-operatives in Italy, which represents an increase of 33.5% since 2001. These enterprises have roughly 244 000 paid employees. Furthermore 34 000 volunteers work with social co-operatives because they recognise the social purpose of such organisations. All these resources put together generate a turnover which is far from negligible, almost EUR 6.4 billion. Given these dimensions, more than 3.3 million people benefit from the activities of social co-operatives.

Apart from social co-operation, a further evolution of the phenomenon cannot be discounted, thanks to the adoption of a new law (Law no. 118/05 and subsequent decrees including Decree no. 155/2006) which authorises the setting up of social enterprises using other legal forms (not only co-operatives, but also associations, foundations and commercial companies) and in different sectors (culture, education and training, social tourism, environment, and so on).

Description of initiative

One of the factors which supported the establishment and consolidation of social co-operation – therefore the longest lasting form of social enterprise in Italy – is a widespread network of relations among these organisations at both national and local level. Among the numerous types of network, social co-operative consortia have over time gained a prominent position both in terms of quantity and of the role they play in development and innovation. From an organisational perspective, consortia are networks built around a second-level agency which carries out diverse activities in favour of its member enterprises, while from a legal point of view consortia are social co-operatives whose members are not people but organisations. The sector law (no. 381/91) provides that at least 70% of the members are social co-operatives.

Consortia still show significant growth, and at the end of 2005 there were 284 (an increase of 44% since 2001). Created as from the mid-1980s, this particular type of support structure has accompanied the development of social co-operation though all its stages: the pioneer stage (which by convention can be fixed as lasting until the approval of the 1991 law), the pre-expansion stage (1990s), and the current phase of maturity (from 2000 onwards), marked by a growing level of visibility and institutionalisation.

Financing and resources

Consortia fund themselves through a mix of resources which vary considerably. Financial resources are drawn partly from the yearly membership fees paid by the member organisations, but are derived essentially from the sale of goods and services to member organisations and external clients. Non-financial resources, that is human resources, consist primarily of personnel (managers and other staff members) seconded from the member organisations to the consortia. Member organisations thus take on themselves an important share of the network management costs.

Governance

The main characteristic of a consortium is to be a support structure created and governed by the organisations that directly benefit. The social co-operatives that are members consequently have a direct influence on the strategies and activities carried out by the structure they own.

An analysis of the activities of consortia is an important indicator to verify the real extent of their engagement in supporting the development of social enterprises. The data available show an evolution in which consortia tend to gradually refine their activity, mainly turning to the production of services which more and more affect the inner entrepreneurial dimension and the "nodes" of the network. This is possible thanks to the ability to conceive, promote and manage projects and to the autonomous support and development of businesses, primarily in the public welfare market (for example by acting as general contractor). Internal networking activity is growing and consortia seem to respond by developing knowledge management systems, for instance by supporting exchanges of information and experience on production and management processes among their members. The consequence of these development dynamics is a closer focus on business activities and, subsequently, on "political and ideological" activities. Here, particular importance is given to the promotion of the sector to economic and social actors, by highlighting its peculiarities and by setting up forms of co-operation, for instance in the planning of territorial policies. Professional services on the other hand seem to be much less widespread – consultancy on administrative processes, personnel selection, assistance in the purchase of supplies, and so on. This demonstrates a clear orientation of consortia towards becoming development support organisations rather than simple service agencies.

In the light of this, social co-operative consortia have the following main objectives:

- Redefinition of their mission, trying to show that consortia, as social enterprises, contribute to the general good of specific territorial communities.
- Identification of a core business directly managed by the consortium's structure and of a series of other activities, even major ones that the consortium carries out by means of partnership agreements with other public and private bodies.
- Tendency to formalise and make the network's internal connections more stringent in two ways. First, hierarchical structures need to have a "vertical" approach to the network's connections (e.g. co-operative groups), also outside the local dimension. Second, relations of interdependence between member enterprises and external partners need to increase in order to produce complex goods which require a high level of specialisation and structured co-ordination (e.g. the creation of a work and social inclusion "industry" which involves various social enterprises, public bodies and for-profit companies).
- Opening of the governance system of consortia, not only in numerical terms, but first and foremost through the membership of other public and private partners, not only of social co-operatives. By so doing a multi-stakeholder structure is created which is typical for social enterprises.
- Use of a network perspective in the adoption of policies and quality management systems, through the promotion, in the "nodes" of the network, of important tools for planning (mission and development plans), monitoring (quality certification, credits) and economic and social reporting of the activities (social accounts).

Impact

The main impact indicator refers to the advantages created for the member organisations in terms of economic and social performance. Recent studies[22] have shown that social co-operatives which are members of consortia have a better economic and employment performance than non-members, and also establish connections with other local players (Centro Studi CGM, 2005).

Transferability

Policies to develop consortia have always interested the main representation and co-ordination organisations. As a matter of fact, the consortium phenomenon is not homogeneous. On the contrary, significant differences emerge. Firstly, not all social co-operatives join consortia (around half of the total number). Secondly, consortia tend to concentrate in the centre-north of Italy, where the socio-economic context and the social enterprise sector are more developed, thus widening the gap with the disadvantaged areas (in southern Italy).

Over recent years, several initiatives have been developed, one after the other to set up and consolidate consortia in the less-favoured areas. Twinning has been encouraged between established consortia and new ones, and the exchange of financial resources and of know-how has been supported by way of market transactions and trust-based relationships prompted by the presence of national structures. As a result, the presence of consortia has gradually been balanced in all Italian regions and the number of member co-operatives has grown, even if not substantially.

Conclusions & policy recommendations

For the time being and for the near future, consortia of social co-operatives will have to be supported in their main challenge, which is to marry two diverging tendencies. On the one hand the institutionalisation of social enterprises as a business phenomenon which has passed the pioneer stage. On the other, the confrontation with the growing heterogeneity of the forms that social businesses are and will be able to take (legal form, scope of activity, organisation, governance, and so on), thanks to the recent regulatory changes. In this sense, the following recommendations can be made:

- To recognise that one of the valuable aspects of consortium membership is a specific model of social enterprise, which, precisely because it belongs to networks of this kind, can pursue more effectively its economic and social objectives (To support consortia, not only as representations of their members' interests and as suppliers of development agency services, but also as structures which can integrate member organisations (and external partners) in supply chains of goods of general interest which can provide solutions to complex needs.
- To classify consortia as centres of excellence where innovation is born, distributed and shared.

Cluster 2: Business support

Business and employment co-operatives

Business and employment co-operatives (BECs) represent a new approach to providing support to the creation of new businesses. The first BEC was started in France in 1996, since then a further 55 such enterprises operating in 100 locations across the country have sprung up. They have so far helped 4 000 entrepreneurs. The idea has also been adopted in Belgium, Sweden, Quebec, Morocco and Madagascar.

Context

Business and employment co-operatives are a new style of business incubators that take advantage of co-operative principles to foster peer support among new entrepreneurs. They have created interest in various areas of policy-making:

- Economic development in rural areas, as BECs are a good way to support the so-called SOHO-SOLOs (small office/home office workers), professionals who migrate to the countryside to carry on their business at a distance – and in so doing bring valuable skills, economic activity and social life back to depopulated areas.
- The regularisation of informal work.
- Demography and concern about how to raise the activity rate to counter the effect of an ageing population. BECs can help excluded groups such as ex-offenders to restart their working careers, and allow older people to work part-time.

Description of initiative

Like other business creation support schemes, BECs enable budding entrepreneurs to experiment with their business idea while benefiting from a secure income. The innovation BECs introduce is that once the business is established the entrepreneur is not forced to leave and set up independently, but can stay and become a full member of the co-operative. The micro-enterprises thus combine to form one multi-activity enterprise whose members provide a mutually supportive environment for each other.

A BEC thus provides budding business people with an easy transition from inactivity to self-employment, but in a collective framework. Intending entrepreneurs pass through three stages (Box 3.1):

1. They remain technically unemployed but develop their business idea under the wing of the BEC.
2. If it looks like being a success, they become a "salaried entrepreneur" with the security of a part-time employment contract.
3. They become a self-sufficient business, sharing in the ownership and management of the co-operative.

BECs allow a small business person to achieve control over their working life, but with the support of a group of people who are facing the same problems and want to pool their enthusiasm and expertise. They help to overcome one of the most discouraging features of becoming self-employed – isolation. They thus lower the bar for becoming an entrepreneur, and open up new horizons for people who have ambition but who lack the skills or confidence needed to set off entirely on their own – or who simply want to carry on an in dependent economic activity but within a supportive group context.

BEC clients are in all sorts of activities from cookery, industrial cleaning, furniture restoration and organic horticulture to violin making, jewellery, translation and web design.

Box 3.1. The three phases of entrepreneurship in a BEC

- **Stage 1 – Supported entrepreneur**

Initially, the 'candidate business' works up his idea while remaining unemployed in legal terms. He or she continues to receive unemployment benefit while developing a marketable product or service, testing the market and establishing a client base. The BEC handles the business administration and accounting.

- **Stage 2 – Salaried entrepreneur**

The entrepreneur agrees a part-time employment contract with the BEC, and in return pays over 10% of sales. He or she continues to build up the business, as well as receiving training and administrative support. Meanwhile he or she benefits from social insurance cover. The salary grows as the business grows.

- **Stage 3 – Member entrepreneur**

When the business is self-supporting, the entrepreneur can choose to join the BEC as a full voting member, and take part in its management, continuing to pay an administration charge of 10% of sales. Optionally, the business can spin off as a totally independent entity.

Financing and resources

BECs, in general, rely on a combination of earned and grant financing. The earned portion is derived by levying a service charge of 10% of turnover on the member businesses. This is complemented with grant income from local authorities that wish to encourage entrepreneurship. This usually concerned the *Conseils régionaux* as it is at this level that responsibility for business start-up support lies. At national level, the federations receive grant income from various government departments including the *Délégation générale à l'emploi et à la formation professionnelle* (DGEFP)[23] as regards training, the *Délégation interministérielle à l'innovation, à l'expérimentation sociale et à l'économie sociale* (DIIESES)[24] as regards the social economy aspect, the *Délégation interministérielle à la ville* (Div)[25] as regards urban regeneration and *l'Agence nationale pour la cohésion sociale et l'égalité des chances* (ACSé)[26] as regards the inclusion of minorities (*Ministère du Travail, des Relations Sociales, de la famille et de la Solidarité*, 2008; *Ministère du Logement et de la Ville*, 2008) . Other financing is provided by the *Caisse des Dépôts et Consignations*,[27] the *Fondation MACIF*[28] and other foundations (*Caisse des Dépôts*, 2008; *Fondation Macif*, 2008).

Governance

BECs are established as independent co-operatives, and in France are legally SCOPs (workers' co-operatives). Membership includes the support staff and those entrepreneurs who have established themselves and taken up the option to become members. The majority of BECs are members of the national network *Coopérer pour Entreprendre*, which has trademarked the name. It is progressively establishing a regional structure (three regions are currently established). A smaller network based in the Rhône-Alpes region, COPEA,[29] has around 20 member 'activity co-operatives' and there are also several unaffiliated co-operatives of this type (*La cooperative d'emploi et d'activité*, 2008).

Impact

The 55 members of the BEC network currently comprise some 2 600 supported entrepreneurs, 1 100 salaried entrepreneurs and just over 100 full co-operative members. Their combined turnover is around EUR 16.5 million. Two-thirds of entrepreneurs start off as unemployed, two-thirds are aged between 30 and 50 and 53% are women.

Transferability

BECs are a very transferable experience. Apart from the 55 BECs in France, there are eight in Belgium (COOPAC, 2008),[30] ten in Sweden, and individual BECs in Morocco, Poland, Madagascar and Quebec.

Conclusions & policy recommendations

It is important to understand that the conditions under which people will start their own business are complex. Motivations are far from being purely or even mainly economic. In the modern world, the decision to start an enterprise is as much concerned with lifestyle, self-realisation and control of working conditions as it is about profitability. In order to spread entrepreneurship to a larger share of the population, and to reach more non-traditional business people – it is notable that over half of BEC beneficiaries are women – it is necessary to offer as wide a range as possible of different and complementary support tools. These should include support for both high-tech and low-tech businesses, and for the collective style that business and employment co-operatives represent as well as more individualistic entrepreneurs.

Barka Foundation: from family to community

Barka, a small family foundation started in 1989 to support the most excluded people, has become a major actor in the Polish social economy. Barka represents a living laboratory of social innovation, which is experimenting with a complex system of social economy initiatives addressing the multiple needs of excluded people (social re-integration, work, housing and so on) and promoting local development.

Context

Since the fall of Communism, Poland has progressed through a profound transformation of its social, economic and political structure. Social economy initiatives have also experienced dynamic growth. Presently, the sector includes a diverse range of institutions, some emerging from the traditional non-governmental sector and others more closely associated with the private sector:

- Over 17% (19 000 organisations out of a total of 60 000) of NGOs take advantage of the possibility of running an income-generating business activity (EESC, 2007).[31]

- An estimated 16 000 co-operatives currently operate in Poland in a variety of domains ranging from housing and medical services to consumers co-operatives.
- Over 140 social co-operatives have been founded since the adoption of the new act on social co-operatives in 2006.
- Over 50 Social Integration Centres (CIS) have been established since 2003 to provide employment to people from marginalised groups.
- 50 Employment Activation Units (ZAZ) offer transitional employment specifically to the physically and mentally disabled with the aim of helping them to re-enter in the open labour market.

All these initiatives have benefited from a steadily improving set of legal frameworks that have been established to regulate various types of value-led activity.

One of the first important acts was that on Activities of Public Benefit and Volunteering,[32] which innovated by clearly stressing the virtues of partnership between the public authorities and non-profit organisations. It also made reference to the as yet unrecognised principle of subsidiaries and gave priority to activities undertaken by citizens' organisations over those of the governmental or local authority.

Then, in 2003-04 the institutional and legal recognition of social entrepreneurship of low-income groups was attained with the enactment of two more acts: the Social Employment Act and the Employment Promotion and Labour Market Institutions Act. These acts are especially important because they permit entrepreneurial activity in the course of the work integration of long-term unemployed people. In order to address the problem of the exclusion of unskilled people, the Social Employment Act creates a new form of social economy organisation, the Social Integration Centre. These centres may be created by both non-governmental organisations and local authorities, and are recognised as such for periods of three years.

A further step forward was taken when the Social Co-operatives Act was approved in April 2006. This law is inspired by the Italian "type B" social co-operative, and provides for non-profit social enterprises, whose objective is the professional and social reintegration of persons with minimal qualifications.

Description of the initiative

Having played a pioneering role in lobbying for this enabling legislation, the Poznań-based Barka Foundation is now one of the leading organisations for the initiative's implementation.

It started in 1989, providing diverse types of services to excluded people, such as training, housing, work opportunities and social support. In 2004, the Barka-Kofoed School (inspired by the Kofoed School in Copenhagen) obtained the status of "Centre of Social Integration", where educational, therapeutic and support groups are run, as well as courses for professional requalification in trades such as sewing, building, carpentry, cleaning, and courses in foreign languages, computers, child care and support for elderly and handicapped persons. The workshops fulfil a double function that is both educational and entrepreneurial. At the same time as educating their trainees, the workshops engage them in trade, production and delivery of services for the local community and the school.

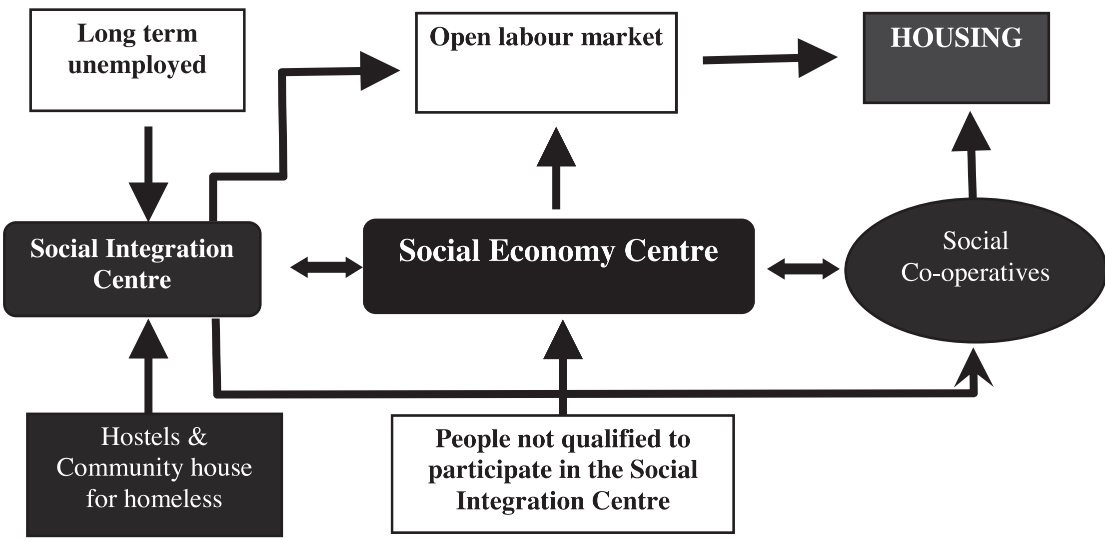
Subsequently, diverse forms of entrepreneurship were developed both in rural and urban localities, especially in areas unattractive to the business sector. These forms of small entrepreneurship set off a process of professional reintegration and economic autonomy of previously excluded people. These activities include running second-hand shops, workshops for renovating used furniture, building and transport, rickshaws and converting former state farms into organic farms.

In the mean time, the Barka Foundation evolved from an organisation directly implementing activities to one which animates diverse groups and initiatives for the social and economic integration of the weakest groups. Barka therefore became a network of autonomous organisations ideologically connected to a philosophy and set of values that have crystallised over 18 years of activities. Today, the Barka network is constituted by:

- 20 social integration centres.
- 25 social co-operatives.
- 30 social integration clubs.
- 22 associations.
- Three foundations.
- Three social economy centres.

Thanks to the support of the EQUAL programme,[33] the Barka Foundation has created three model Social Economy Centres (SECs), located in three contrasting environments: a big city (Poznań), a small town (Drezdenko in Lubuskie region) and a rural district (Kwilcz in Wielkopolska region). SECs are the centre of a complex system aiming at providing different kinds of support to all the categories of excluded people fostering, in the meantime, local development and social entrepreneurship (Figure 3.1).

Figure 3.1. A representation of the social economy



The Social Economy Centres have various tasks:

- **Recruitment and information:** selection of final beneficiaries, information on the project, and the completion of surveys for final beneficiaries.
- **Work agency:** analysis of the local work market, mediation and guidance to promote the employment of final beneficiaries in commercial companies and social enterprises.
- **Vocational counselling and training agency**: planning of training schemes, implementation and supervision of training courses with special attention to vocational training and training in the creation and management of social co-operatives.
- **Development agency:** identifying local markets for social co-operatives, testing various possibilities of co-operation between social co-operatives and other local community actors, co-operation

with partners (mainly with the business sector and financial institutions), support to groups and emerging social co-operatives, evaluation of business plans, advice regarding the creation of social enterprises by non-governmental organisations and assistance in searching for possibilities of financing them, promotion of products and services made by the enterprises, and testing of various possibilities for financing.

- **Aid fund:** local financial scheme to support to social economy.

Financing and resources

Social Economy Centres were created thanks to the contribution of the EQUAL programme. EQUAL funds covered the creation of the centres (premises, equipment, and so on) and training and salaries of staff during the first two years of activities.

In order to keep the centres running, from the beginning, Barka searched for new funding sources. As they were founded so recently, most Polish social co-operatives are unable to pay for the services they receive. Therefore, public money is still a necessity. European (mainly Structural Funds), national, local funds and private donations are constantly raised and matched in order to allow the centres to continue their activity.

Governance

The system of support is implemented on the basis of the idea of solidarity and mutual help and on the participation of socially excluded persons and groups. This system aims to introduce a new model of co-operation between institutions and social groups. In the three experimentation areas of the SECs, local partnerships include associations, foundations, local authorities and employment. To include all relevant stakeholders, educational organisations involved in social and work integration of social excluded people (included housing and sport associations, parishes and NGOs representing local communities). Their interaction and way of working is based on solidarity and aimed at local development and the revitalisation of communities.

Impact

At the more local level, Barka produced solid results in terms of employment, social inclusion and local development. The project "Social Economy in Practice" was particularly successful. Five local partnerships were created and formalised trough protocols of agreement in Poznań (three districts), in Drezdenko (small town) and in the rural province of Kwilcz.

After less than two years of activities, the three SECs have promoted the creation of 25 social co-operatives, which provide employment to 150 socially excluded people.

At the national and international level, Barka was widely acknowledged as an outstanding example of social entrepreneurship. It was awarded several international prizes and was visited by many delegations from across the world.

On the national arena, Barka represented and still represents a fascinating source of social innovation and an inspiring experiment for policy-makers.

Transferability

The project's results can be easily replicated in other countries and cultures provided that specific legislation enabling the creation of social economy enterprises (SEE) is already in place. Otherwise, NGOs will have to go through the process of lobbying for new regulations and creating new laws regulations. Without doubt however, the project could be replicated in other Central and Eastern European countries, where the systems of social support and legislation are similar to Poland.

Barka is presently working both in neighbouring countries, such as the Ukraine and Belarus, and in Western European countries such as the United Kingdom and Ireland where it collaborates with local institutions and NGOs to promote the social and employment integration of Polish immigrants.[34]

Conclusions & policy recommendations

Over recent years Barka has represented a test-bed and a learning laboratory for social economy initiatives to grow and operate independently in the mainstream. The following lessons can be drawn:

Support structures. Second-level support structures are needed to ensure the development of a viable social economy. These structures may have various different legal forms and compositions but a broad participation of all the stakeholders is essential. Support structures should be embedded in the local context and should invest in local development. They can play a major role in many issues that are crucial to the development of the social economy, such as business development, training, the identification of market niches, finance, social audit and public procurement. It is important that governments provide an appropriate legal form for support structures which meets the needs and suits the characteristics of social economy organisations. Support structures should attain financial sustainability using mixed sources of funding.

Partnerships. Both formal and informal partnerships are essential. Collaboration between the social economy, government, trade unions and local authorities is important to achieve formal recognition and to transform pioneering initiatives (such as Barka) into recognised economic organisations.

Access to finance. Social enterprises face major difficulties in accessing finance. Banks are often not willing to lend money to organisations that cannot provide some of the guarantees that are traditionally requested. Public authorities should support investment in commonly-owned equity as well as guarantees, loans and grants. The Structural Funds can be an interesting means of setting up microcredit/venture capital schemes, perhaps in partnership with private/social ethical investors. Private sponsors can also provide useful resources but they often rely upon partners' credibility. Local authorities have a specific role to play here as brokers between local and national actors.

Cluster 3: Trade sectoral development

Social franchising

Social enterprises in several countries are achieving success in replicating – essentially copying with due regard for local circumstances – a proven business idea. Some of these have adopted the term "social franchising" but this should not be taken to imply strong centralised and top-down control. On the contrary, the aim is to make unused local resources productive by building a critical mass in the market place and through mutual aid. It is thus a process of local capacity building.

Context

Mechanisms are needed through which business ideas which have realised social objectives can be replicated (copied) in new places or with different target groups. This will enable learning from experience, reduce the risk of failure and perhaps bring economies of scale into play. The codification of a business model and the licensing of its use subject to certain conditions, is usually known as franchising. A franchise enables the inventor of a model to recoup some of their costs from people who subsequently pick up and benefit from the idea. It is a way of establishing a liquid market for intellectual property. The idea of franchising can be applied just as well to social enterprise ideas as to conventional business ideas and a number of trials are in progress. Some adopt a “patented” approach, whereby a price is attached to the intellectual property, while others take an “open source” approach and endeavour to spread the practice more quickly by reducing entry costs.

Description of initiative

Social enterprises that have a wide distribution by using social franchising include:

Sunderland Home Care Associates (SHCA). Founded in 1994, SHCA is now the biggest home care provider in the city of Sunderland in northeast England. It serves 500 clients and employs over 200 people, who deliver around 3 700 hours of care each week (on average the employees work about 20 hours per week). All but about 20 of the staff are women and this flexibility of working time is an important factor for them, especially those who have familial responsibilities. The company has also diversified from home care. One service it offers is academic support, which is a service paid for by the local education authority, through which students with disabilities receive assistance in attending lectures and completing other study tasks. SHCA also provides short-term cover in residential care homes when they face a staff shortage.

Quality is a key competitive factor, and SHCA’s employee-owned structure enables it to attract a high-quality workforce and to offer them high-quality jobs, with above-average terms and conditions and workforce training. This builds loyalty. The low staff turnover of only 3.5% a year means it can provide a high level of continuity of care.

SHCA has set up Care & Share Associates (CASA)[35] as a vehicle to replicate the same model in other towns such as North Tyneside, Newcastle and Manchester – work which has so far created 130 new jobs (CASA, 2008). This steady process of growth through multiplication will be sustained through a central structure. CASA will keep a 10% shareholding in each new care enterprise it spins off. These will then pay an annual licence fee of around GBP 35 000 (EUR 50 000) plus a small percentage of their turnover (around 0.25%). Each federated company will also hold shares in CASA, thus ensuring an overall coherence to the group.

The Le Mat Association.[36] Grown from the example of one hotel founded in 1986 as a social co-operative, the Let Mat Association has grown into a European federation of social hotels, which issues a free handbook in three languages and runs training courses. Access to its expertise means that its members benefit from lower risk, a shorter start-up period, a joint marketing effort, commercial assistance, benchmarking, quality control, training, cost reduction, increased client loyalty, better year-round utilisation and other synergies. At the same time, members retain their identity as independent enterprises (Le Mat, 2008).

CAP Markets[37] (from "handicap"). These are a fast-growing German chain of 60 small neighbourhood supermarkets that have taken over premises made redundant by the growth of hypermarkets. Run by a co-operative of sheltered workshops, the shops typically have a sales area of 500 m^2, stock 7 000 lines and employ eight to12 people apiece, two-thirds of whom are handicapped. They deliver a number of benefits. CAP Markets create jobs for handicapped people, aiding their integration through direct contact with customers, bring about local regeneration by providing accessible facilities for people without cars and counter exclusion by offering services such as home delivery of meals or postal services. Their commercial success is based on a close relationship with the retailers' co-operative that supplies much of their produce. They also have three sources of financial support under the law on the integration of disabled people.[38] This provides for the "Three Cs": access to capital, specific consultancy expertise and compensation for the lower productivity of their workforce – which are paid for from fines levied on companies that fail to employ their legal quota of handicapped people (Cap Market, 2008)

Vägen ut! (Way out!). This Swedish consortium has developed a successful model of halfway houses for recovering drug addicts. The two existing houses in Göteborg, each housing eight people, are acting as models for others shortly to open in Örebro and Sundsvall. Five other houses are in the pipeline and beyond a threshold of 15 houses, the system will be financially self-sufficient. The business model sees all income to the houses originating from the rental of places to the prison and probation office and municipality. These organisations pay a flat monthly fee per bed, plus a EUR 1 000 entrance fee. There is no commercial income. In turn, each house pays a gradually rising fee to the franchisor, starting at EUR 500 per month per house, rising to EUR 1 500 after five years. The start-up phase was supported by EQUAL and the European Social Fund.

Financing and resources

Franchising is a technique applied to scale up businesses which are commercially profitable. To this end franchisees do not require anything other than commercial financing or working capital, which can be borrowed. However, in the case of social franchising, the "productivity gap" that results from the deliberate policy of employing people with a disability or other labour market disadvantages will usually still requires compensation, through public subsidy. Nevertheless, numerous cost-benefit studies of active labour-market policy have shown that there is a large saving to the public purse if a person is employed under a subsidy scheme compared with being passively supported to remain economically inactive.[39]

Despite this, some social firms succeed in trading profitably without being compensated specifically for this productivity gap by combining a number of revenue streams in the same activity. For instance, revenue streams attached to collecting refuse, reducing landfill, and selling renovated furniture could be amalgamated.

Governance

The individual franchised businesses (franchisees) are normally established as independent enterprises, usually as co-operatives or non-profit companies. Franchisees then sign a contract with the franchisor, which is also a co-operative or non-profit, and pay licence and service fees as agreed, depending on economic performance. It can also be that the franchisees and the franchisor are members (and shareholders where shares are in issue) of one another.

Impact

As a franchise spreads, it can generate a significant number of jobs more quickly than conventional one-off start-ups. For instance, the CAP Markets provide some 500 jobs and the CASA care companies some 400. There are also qualitative impacts For instance, the CASA achieves a lower staff turnover which leads to a higher continuity and therefore a higher standard of care. The CAP Markets are assets for urban regeneration as they become part of their local neighbourhoods, responding to the needs of local customers and selling a proportion of produce. They also improve the environment by reducing car use.

Transferability

Social franchising has proven to be applicable in a wide range of businesses and across a range of European countries.

Conclusions & policy recommendations

- Cost-benefit studies show that work integration social enterprises (WISEs) produce a generous profit for society as a whole. The savings they generate in reduced benefits claims and other costs such as health and policing costs far outweigh the grants they receive.

- Taking a trade-sector approach to developing integration, enterprises can spread development costs over a larger number of enterprises and at the same time reduce the risk each new business faces.
- Social franchising has been developed as way of codifying a business idea so that local groups can replicate it, while safeguarding their democratic and empowerment structure. They then contribute to building a critical mass that enables further enterprises to open. In the "open source" model, the know-how is available at no cost, while in the "patented" model the intellectual property is subject to a licence fee.
- Social franchising offers the benefits of reduced risk, common brand, training, mutual learning and many other synergies.

Reuse and recycling social enterprises

The European Union directive on waste electrical and electronic equipment (WEEE)[40] obliges manufacturers to take back their time-expired products (European Union, 2003). A whole new industrial sector has thus been created to reuse or dismantle and sort the resulting scrap. It is work that is well-suited to integration enterprises. The Re-Use and Recycling European Union of Social Enterprises (RREUSE) network links 900 member enterprises which employ 40 000 people across ten European countries. Taking the process a step further, 15 of its members have recently launched a pan-European trading body, SerraNet EEIG.

Context

In the European Union, 31.7 million people, 8.5% of the population between 15 and 64, are excluded from the labour market because they are long-term unemployed, discouraged, disabled, ill or have care responsibilities. There is a paradox in that people lack jobs and poverty is increasing, while the public budget supports their passivity and does not encourage proactivity. This is particularly unbalanced given the number and variety of socially useful tasks that could be undertaken. In particular, the growing cost and environmental impact of waste disposal has led to European legislation obliging the makers of electrical and electronic goods to take back and safely dismantle their used products. Combining these two opportunities has led to a burgeoning sector of social firms.

Description of initiative

In the field of reuse and recycling, social firms have created an international association, RREUSE, and an EEIG (European Economic Interest Group), called SerraNet. In the first stage, 17 member organisations in ten European Union countries, which together represent some 40 000 individuals, joined together to create a European federation called the "Re-Use and Recycling European Union of Social Enterprises" (RREUSE) (RREUSE, 2008).[41] Its member enterprises are involved simultaneously in both recycling electrical and electronic waste (WEEE), and in the integration of disadvantaged people into the labour market. One of its achievements has been to establish a set of standards for the safe dismantling of hazardous electrical and electronic waste. Dismantling by hand is not only labour intensive but is safer than mechanical shredding, which can release hazardous substances.

The member enterprises typically achieve economic viability by combining revenue from various sources to achieve a number of different results. These might include:

- Allowances for training disadvantaged people.
- Grants to defray the administrative costs of running a labour market integration operation.
- Environmental protection income for reducing the use of landfill.
- The sale of renovated goods to the public.
- Voluntary labour, including the services of board members in managing the enterprise.

RREUSE is made up of national federations such as NetSer[42] in Finland. The "Network of Social Economy and Recycling/Reuse" (NetSer) is a co-operative of four member social enterprises, operating in 100 Finnish municipalities (NetSer, 2008). It provides them with information, contracts, joint purchasing and selling, logistical support, a webshop and international business links. Work integration social enterprises in Finland have established themselves as a significant sector through good practices of networking and co-operation among themselves and at European level through RREUSE.

Its counterpart in Austria is Reparaturnetzwerk Österreich (Repa Net)[43] which comprises of five enterprises in different *Länder* of the country which employ 90 people and repair 4 000 items of equipment a year (Repa Net, 2008). These initiatives repair, recondition and sell used electrical equipment, dismantle those items that are beyond reuse and design and make products such as jewellery from mobile phone keypads and plant pots from washing machine drums. They provide both permanent and temporary employment for long-term unemployed and handicapped people and personal support and career development advice to help them to join the primary labour market. Of the WEEE processed, 10% is reused, either as second-hand equipment or in the form of spare parts, while 90% is broken up, sorted and sold as waste fractions. This reduces the proportion of waste to between 3% and 8%, of which 0.6% is hazardous waste.

RREUSE has been very effective as a vehicle for exchange and representation. However, it is a non-profit association under Belgian law, and not designed to conduct commercial activities. To tap into the potential to sell reused and recycled products across Europe, some RREUSE members decided to establish commercially-oriented structures. One trading activity envisaged is the creation, marketing and sale of a wide range of products from member enterprises across Europe via the web and through catalogues.

In 2006, 14 social firms founded a European Economic Interest Group, SerraNet EEIG (Social Enterprises' Reuse and Recycling Activities Network). They are based in ten towns spread across five European Union Member States, from Andalucía to Lapland. Through the adoption of this innovative solution for transnational work, the partners aim to strengthen the social economy by creating an adequate basis for long-term collaboration. The EEIG is seen as an efficient model both for organising the transfer of good practice on a stable basis and for implementing joint business activities in the long term.

Financing and resources

RREUSE is financed by members' subscriptions and has also completed grant-funded projects for the European Commission.

Governance

Membership of RREUSE is voluntary and the individual social firms retain their autonomy. They are constituted in a wide variety of forms depending on national and regional legislation in force. In some cases, legal forms are available that encourage entrepreneurial behaviour, while in others, subsidy regimes are overly rigid.

Impact

RREUSE has enabled work integration social enterprises in the reuse and recycling sector to maximise the effectiveness of lobbying, particularly at European level. This was of particular benefit in ensuring that reuse was made the top priority in the drafting of the European Union's Waste Electrical and Electronic Waste (WEEE) directive. With their double economic and social bottom lines, WISEs were then well-positioned to expand in this sector when the directive was adopted.

Transferability

The principles of sectoral consortia are transferable to all business activities. However RREUSE has been particularly successful given the large impact that European legislation plays in this field.

Conclusions & policy recommendations

A trade-sector approach to developing work integration social enterprises can work.

In the reuse sector, these enterprises provide training in new vocations as well as offering services to public and private customers. They rely on the creation of three-way partnerships: networks with public authorities create growth opportunities, manufacturers sign contracts to recycle their products, while liaising with local chambers of commerce avoids any accusations of unfair competition.

They also rely on tapping multiple sources of finance to support multiple activities.

Underlying this is a strategic approach based on gaining intelligence of impending legislation and acting to safeguard the interests of social enterprises.

Cluster 4: Local development

"Companion" – a new brand for a system of support for co-operatives and social enterprises in Sweden

Context

The Swedish CDAs (Co-operative development agencies) are a unique example of an organisation that for three decades has been able to preserve and adapt its structure to changing contexts and to maintain a balance between community and association, centre and periphery, and entrepreneurship and public service.

The first CDAs were inaugurated in the early 1980s as an essentially spontaneous process of local self-organisation within a highly structured institutional environment. The traditional Swedish model assigned a central role to the maintenance of full employment through an active labour market policy. This was governed by social partners and directly managed by public authorities without any outside providers.

In the early 1980s, two phenomena showed the limits of this model. On the one hand, the need to fight depopulation and the migration of unemployed from the countryside to metropolitan areas favoured the development of local initiatives. On the other hand, a surge in youth unemployment pushed the government to adopt a new programme, which, for the first time, involved social economy actors and introduced new models of partnership and matching financing arrangements.

In this context, the first rudimentary CDAs were created and backed by local funding. In 1986, the government launched a national Co-operative Programme to promote and fund the creation of CDAs. By the time the programme became operational, the situation had changed (youth unemployment had decreased and traditional co-operative sectors lost interest), and so newborn CDAs were left without a clear mission and were essentially forced to reinvent themselves, shaping new practices and looking for new tasks, members and sponsors. In doing so, they laid the cornerstone for a new model. At the local level, a reorientation towards new fields of operation was facilitated by the realignment of the health and welfare system in the late 1980s (through the introduction of co-operative forms of service provision) and closer co-operation with municipal authorities, which became increasingly involved in the care, welfare and labour market fields. At the national level, informal modes of co-operation were established, primarily through the government consultative body, the Co-operative

Council. Exchange of experiences and tools also took place informally. This process was supported both by a national organisation founded by the CDA workers, the FKU, and Koopi, the Co-operative Institute.

Description of initiative

Presently, there are 25 local branches of *Coompanion* (the new brand name of the CDA system) which are federated at the national level. The local agencies are fully independent and are generally constituted as co-operatives, whose members are co-operative enterprises, voluntary associations, local authorities, non-formal educational organisations and trade unions. At the national level, *Coompanion Sweden* is a federation of the regional CDAs with a limited mandate. The national body is financed by a member/service fee paid by the members.

Coompanion's mandatory activities include the dissemination of information to the public and the provision of initial counselling services free of charge to the general public and would-be co-operative entrepreneurs. Beyond this, the goals and activities of the CDAs are not regulated, and they are fully independent and free to launch additional projects or to undertake paid-for consultancy.

Recently, many of them have actively participated in the EQUAL programme, which fosters the creation of social enterprises and their support structures. CDAs work mainly at the local level in collaboration with local authorities and all the other actors concerned, but they are also involved in national and international projects. An important working tool is the web-based course and discussion forum *Lärka*[44] that links the CDAs and is open to their consultants and board members (Larka Portal, 2008). The forum facilitates learning and methodological development as the organisations explore new fields of activity.

At the national level, the role of Coompanion Sweden is to lobby national government and to co-ordinate priority actions decided by the General Assembly.

Informed by the experiences learned from EQUAL, the national federation recently put social enterprise at the top of its priority lists. From an operational point of view this means:

- The implementation of a few big projects funded by the national government to promote the creation of social co-operatives.
- Participation in policies to promote social co-operatives as a tool to integrate disadvantaged people into work.

- The creation of a working group to train local consultants.
- The creation of a national platform to promote social enterprises in collaboration with other concerned actors.

CDAs and their consultants act primarily as social entrepreneurs and knowledge brokers, that:

- Design and/or diffuse new organisational models.
- Mobilise potential financing bodies.
- Facilitate the formation of supporting coalitions and partnerships between them.

The CDAs will be active in promoting social enterprise by using the European Social Fund 2007-13 in particular.

Financing and resources

One important element of the success and impressive performance of the system can be identified in its financing mechanism, which provides local organisations with a robust institutional base.

The procedural framework for the creation of a new CDA and the rules for defining eligibility for public support anticipated the European Union's matching financing mechanisms. To establish a CDA, a local founder association has to collect matching financing from its members or other local organisations. Once financing is secured by the founders, the CDA is entitled to receive state co-financing. Central financing sets a general budgetary framework, and defines Coompanion's mandatory tasks. Together, local and central funding form the CDA's baseline operating budget, which provides for the employment of a skeleton staff, and finances the mandatory activities.

The principles that apply to the inauguration of a CDA also apply (with some minor modifications) in the allocation of public support in the years that follow. In other words, a CDA is expected to mobilise matching financing each year to qualify for a budgetary allocation - an arrangement that creates an institutional safeguard for the CDA's local embeddedness. However, this situation makes CDAs a permanent hybrid between a project and a permanent institution (Stryan, 2004).[45]

Governance

The governance of the system is another reason behind its success.

Since its beginnings, the system has functioned as a community of practice. Beyond associating organisations and public bodies, *Coompanion* is first and foremost (both historically and demographically) an organisation that associates its co-operative consultants, producing and spreading knowledge and competence across the entire group. The strong bonds, friendships and shared identity that link the group of consultants (and large sections of the CDAs' Boards) form the organisation's initial human and social capital. Thanks to frequent informal meetings and common projects, the system has succeeded in preserving this important feature, even as the group grew and the membership changed.

Impact

Over the last 20 years, *Coompanion* has become a major player in local development and the creation of social enterprises and co-operatives. CDAs are an effective form of providing both services and tools to the social economy and have developed broad and sustainable regional partnerships. CDAs can also be used to develop additional support structures such as new networks, associations and institutions. The model is successful in both urban and rural areas, even if the priorities are often different. Social enterprises were from the beginning more popular among urban CDAs, while in the countryside the focus was on traditional co-operatives. However, in rural areas, the need to establish social enterprises has also been acknowledged as an important factor for labour market integration.

From a political perspective, *Coompanion* has been supported by both left and right wing governments and also by economic actors. In 2006, the government introduced work integration as a major priority of its programme. Thanks also to the good results of the EQUAL programme, NUTEK (the national agency for business development) in collaboration with *Coompanion* submitted a programme to recognise and support social enterprises as a work integration tool, thus creating substantial opportunities to develop the sector.

Transferability

The CDA model could be used in other countries. It was created and still exists (although in an attenuated form) in the United Kingdom, is developed as a national system in Sweden and has spread to the Baltic countries, Poland and Slovakia. At the international level, contacts are in place with Vietnam and with Latin American countries where the co-operative movement is already well established.

Conclusions & policy recommendations

Several of the elements that characterise the *Coompanion* system could constitute important lessons for policy makers. The interest and willingness of the traditional co-operative movement (which is very strong and spread across Sweden) and the support and funding provided by the public sector are both preconditions for the success of the system.[46]

The funding mechanism is a very peculiar feature of the system, but it is strongly linked to the Swedish context.

The partnership model can be easily transferred to different contexts. Two levels of partnership characterise the CDAs' action. The "internal" partnership is constituted by *Coompanion* members, who represent the various actors in the sphere of local development. Recently, local *Coompanion* branches have also developed broader partnerships encompassing all the economic and social actors in the area they cover. The first example of this type of platform, now replicated by various CDAs, was promoted by Stockholm CDA in the framework of the EQUAL project SLUP (SLUP, 2008).[47] The "Platform for local development with social economy" was created in 2000 and is now linked to the public sector and the government's mainstream development planning process. It involves more than 40 organisations, including two banks, and operates through six working groups. These regional platforms seem to get a boost from funding from the European Union Structural Funds.

It is also worth noting the loose structure of the organisation and the strong personal links that identify the system as a community of practice. According to Yohanan Stryan, Professor at the Södertörns Högskola, *Coompanion* can be defined as a nascent community of practice that has shaped to accommodate itself. This community is perpetuated by way of cultivating trust, reciprocity, channels of communication and venues for interaction on one hand, and the joint pursuit of new initiatives and recruitment potential they create, on the other.

Regional development co-operatives support co-operative development and employment in Quebec

Context

Over the past 12 years, Quebec has witnessed a remarkable expansion of collective entrepreneurship, through the creation and expansion of co-operative and non-profit social enterprises, widely known as SEEs. Several thousand new businesses and tens of thousands of new jobs have been created in a wide range of economic sectors. Support for collective enterprise is integrated into local and regional development policy and has resulted in a wide range of initiatives responding to community needs, such as tourism, culture, new forms of agriculture and new technologies. Several sectoral policies have created opportunities for the creation and expansion of SEEs in areas such as recycling, homecare, day-care, housing and the workplace integration of marginalised populations. New financial instruments designed specifically for SEEs have helped support this important development.

Collective entrepreneurship has historical roots in Quebec. For example, the largest financial institution is the *Mouvement Desjardins*, a financial co-operative. Several initiatives to support co-operative development anticipate the "rediscovery" of the social economy in 1996. The most important initiative is the creation of a network of regional development co-operatives (CDRs).

The first regional development co-operative was created in 1974 in the Outaouais region. After having convened a Co-operative Summit in 1980, the Quebec government supported the creation of a network of regional development co-operatives to facilitate the creation and the capitalisation of co-operatives, particularly worker co-operatives.

Description of initiative

There are presently 11 regional development co-operatives in Quebec. Their role is to support the creation of new co-operatives, to support the consolidation and expansion of existing co-operatives and to promote the co-operative formula as a tool for regional and local development. Since 1998, regional development co-operatives have been part of the Federation of Regional Development Co-operatives.

Regional development co-operatives (CDRs) offer support, guidance and expertise to groups who wish to create a new co-operative, to consolidate an existing co-operative or to redress a co-operative facing difficulty. They also support workers who are interested in taking over a traditional enterprise. Their mission is to assure the creation of new co-operatives and the protection and creation of sustainable jobs in their respective regions.

The CDR network brings together over 1 080 co-operatives members and has contributed to the maintenance and creation of 11 000 jobs over the past ten years.

Financing and resources

Regional development co-operatives are financed by the government of Quebec, through the Ministry of Economic Development, Innovation and Export Trade. Since 1991, the level of funding has been based on the number of jobs created or maintained and the participation of other regional partners. The funding programme is managed by the *Conseil québécois de la coopération et de la mutualité* (Quebec Council of Co-operatives and Mutual Societies).

Governance

The Boards of Directors of regional development co-operatives are comprised of a majority of representatives of co-operative networks, including large financial and agricultural co-operatives. Several regional development co-operatives have integrated local and regional economic development agencies into their governance structure. Ten of the 11 existing regional development co-operatives are members of the Federation of Regional Development Co-operatives, which is in turn a member of the CQCM (Quebec Council of Co-operatives and Mutuals). All regional development co-operatives are also members of social economy regional poles, that work in partnership with the *Chantier de l'économie sociale*, a national organisation devoted to the promotion and development of the social economy.

Impact

Regional development co-operatives are credited with having created or maintained over 11 000 jobs over the past ten years. However, it is difficult to measure the impact using this criterion alone, as they have also been involved in other activities at a regional level. They have for example been active in promoting an entrepreneurial culture among young people, through a broad initiative called "Youth Services Co-operatives" and through the management of a small network of agents devoted to the promotion of co-operatives directed at young people. Some CDRs are also involved in supporting economic initiatives that have taken on hybrid forms of ownership. They also have the mandate to facilitate co-operation between co-operatives in different sectors and to promote the co-operative model to the wider population.

Another measure of impact is the survival rate of new co-operatives, which has been shown through repeated studies to be twice the rate of traditional private SMEs.

Transferability

This model cannot be directly transferred without certain favourable external factors. The most important is the existence of a network of co-operatives present across a national territory. The second condition is the desire by co-operatives from different economic sectors and at different stages of their development to work together to create new and to consolidate existing co-operatives.

However, certain aspects of this model are transferable. The need for government financing to support and accompany SME development is widely recognised, though the types of structures vary from one country to another. This is equally true in the area of support for the development of SEEs, be they co-operatives or non-profits.

The major transferrable elements are: the decentralisation of support for collective enterprises to regional and local levels, the reliance on non-governmental partners and existing networks to create and manage these instruments, the reliance on local and regional networks to promote the co-operative model and the development of an entrepreneurial culture amongst young people.

Conclusions & policy recommendations

The regional development co-operative model represents an interesting response to the regionalisation of economic development tools over the past few decades. It has allowed the co-operative movement to adapt its development strategies to regional realities and to open up to new sectors. However, the success of this Quebec experience has been conditioned by a broader emphasis on the social economy, which was recognised as an integral part of the socio-economic infrastructure of Quebec in 1996 in the context of a government-led Summit on the Economy and Employment. This recognition opened up new opportunities for co-operative development through its inclusion in a new local development policy, which was adopted in 1997. As a result, local development centres have become important actors in supporting the creation of new co-operatives in collaboration with CDRs. New financial and sectoral instruments have also contributed to the success of regional development co-operatives. On the other hand, the Quebec government's funding strategy, based on the number of jobs created or consolidated, has had some detrimental effects. Particular difficulty should be noted in relation to the mobilisation of resources to support co-operatives through the first few years of existence, when they are particularly fragile.

Conclusions: guidelines to assist social enterprise support structures

The foregoing analysis allows some final conclusions to be drawn on the role of support structures for social enterprises and in particular on the possibility they, in turn, require support with targeted policies.

Initially, when considering how business support for social enterprises should be organised and delivered, it is important to bear in mind that it is not sufficient just to give sound advice on how to develop a business. One of the principal virtues of social enterprises is that they can contribute to the policy objectives of a higher labour market participation rate and a more inclusive labour market. If they are to do this, it is not only the technical quality of support offered to businesses that is important, but the context in which it is delivered. The issues of at whom such advice and support are targeted, where they are delivered, and how and by whom, are critical. The job of opening up the path to social entrepreneurship starts long before the business idea is discussed. It is necessary to nurture a culture of inclusive entrepreneurship, by, for instance, encouraging diverse role models of what constitutes a successful business, and by including social entrepreneurship in school and university curricula. Secondly, it is necessary to ensure that appropriate sources of finance are available that meet the needs of enterprises which aim to solve social problems rather than strictly to maximise financial return.

Why then should support structures be supported themselves? The answers to this question can be found here in the form of recommendations addressed to those who, directly or indirectly, are involved with such organisations.

A bottom-up approach and a strategic vision

Social enterprises are often supported by bottom-up structures which result from a wide network of relations between organisations and individuals and which can be activated rather effectively around specific activities and initiatives. Through such structures it is possible to engage in innovative thinking and discussions around the social economy, and more generally with a new way of doing business.

These organisations usually come into being around a development project which focuses on a specific area, community or social group. The vision behind the actions of support structures includes not only the specific interests of the social enterprises which promoted them, but also more general interests which go beyond the individual network. They are therefore an ideal partner of public administrations in policy-making activities.

A braided support system

This essentially means taking a simultaneous horizontal and a vertical approach. Firstly, to ensure that as wide possible range of potential social entrepreneurs can take the first risky steps towards setting up a business, and that all business advice agencies, chambers of commerce, local authority business advisers, and so on possess a basic level of awareness and competence in social enterprise issues. All front-line business advisers should also know not only about sole proprietorships, partnerships and share companies but also about co-operatives and the various other types of social enterprise that exist. They should know when it might be appropriate to recommend them and be able to recognise when their knowledge is exhausted and they should refer to a specialist adviser.

This specialist support is required to back up generic business advisers. It will often tend to have slightly different cultural assumptions from conventional business advice. For instance, the service will typically be more sensitive to issues of diversity and equal opportunities, and give more weight to the social and environmental dimensions of business performance. In practice, it will often be offered by federal bodies within the social economy which allows an effective quality feedback mechanism from the client base as well as by specialist professionals such as lawyers and accountants.

Make use of peer support among businesses

Solidarity, which is a value of the social economy, implies that social enterprises will often be happy to share their skills and knowledge, to help others to follow in their wake. This principle is demonstrated by the support that start-up businesses in a business and employment co-operative give to one another, as well as by the principle of social franchising. In both cases, co-operation among businesses yields synergetic gains, where the whole is greater than the sum of the parts.

Support access to larger markets

Many social enterprises trade wholly or predominantly with the public sector – something which is to be expected of enterprises that are active in resolving social problems. Because of the way they can combine different types of resources by, for instance, trading income, contract income, grant income, donations and volunteer time, and can produce added value in different ways by, for instance, creating social capital or by generating savings in public spending, they can be highly effective and efficient partners in the delivery of public services. Yet the practice of working in partnership with social enterprises to improve the quality of services to the public, and to gain better value for money from public spending, is insufficiently widespread among public sector commissioning and procurement officers. The relevant knowledge and skills in the public sector, as well as the capacity of social enterprises to bid for contracts, need to be improved.

Support structures as motors of social enterprise development

Support structures play an important promotional role for social enterprises, a new business player which is gaining ground all over Europe, but which is confronted by substantial regional differences – economic, social, legal or otherwise. Without the intervention of such structures there is a risk that social enterprises will only thrive in given territorial niches or sectors of activity, which will only partially legitimise this innovative business form.

This can clearly be seen at the European level, where social enterprises are developing almost exclusively in given countries, while in others they seem to be ignored. Support structures could contribute to overcoming this strong internal differentiation, for example by disseminating the scientific definitions of social enterprise, so building a common understanding. However, support structures are not evenly distributed, but tend to be concentrated in the areas where social enterprises have already established their presence and have a strong integration capacity. Therefore, to avoid the perverse effect that support structures actually aggravate, the uneven development of social enterprises, it is necessary to plan suitable measures to transfer and disseminate examples of best practice. In this way, the traditional bottom-up projects (usually implemented in the medium and long term) can also be supplemented with top-down initiatives by the public administration, and also by the most important networks of support structures at national and European level. A few examples are pathway models, exchange laboratories, stand-in management and twinning among structures with different backgrounds.

Light and flexible structures

All the structures examined usually have a “light” organisation and for the time being they do not run the risk of bureaucratisation and selfreferencing which results from the need to focus primarily on survival and not on development possibilities for social enterprises. Furthermore, they are multi-functional structures which can carry out different activities in a flexible way, as the priorities of the case dictate.

These same features can also represent a weakness, especially when support structures face critical points in their life cycle, such as expanding their geographical scope, increasing the number of social enterprises benefiting from their service, facing limitations in funding for innovation or technical skills training, and so on.

Specialised structures within an integrated strategy

The support structures examined thus far show a high level of functional specialisation in comparison to social enterprises because of the overall predominance of a promotional model which safeguards the structure's specific characteristics. Social enterprises are emerging players and therefore not well known or established. Furthermore, they risk being colonised by organisational models and management tools drawn from other realities.

None the less, support structures will be able to relate to similar organisations which do not specialise in working with social enterprises. An exchange between specialist and non-specialist support structures might take place in the business services sector (consultancy, training, planning, quality certification, and so on) and in the completion of local development plans, where participation in the definition and implementation of policy is also required, together with the establishment of a hybrid form of territorial governance (Enjolras, 2005).[48]

The outcome is not fully predictable at this stage, even if the analysis suggests that specialist structures will become gateways to their respective business networks, by means of, in effect, selecting and accrediting external suppliers prior to the signing of a contract, or the creation of a partnership or strategic alliance.

To sum up the various recommendations, there is a continued need to strengthen the support structures because it is through their action that it is possible to intervene in the fundamental development factors for the success of social enterprises. It is about visibility and reputation, about interconnection with other public and private institutional players, the consolidation of the entrepreneurial component and the ability to define and report on the social mission.

Finally, the whole is perhaps best implemented as part of a comprehensive strategy for the promotion of social enterprise. This is the most sure-fire way to ensure that the different government ministries and departments, and the various tiers of government from national to local, work together coherently to address issues that inevitably cross the boundaries between traditional policy domains.

Notes

1. Defourny J., Nyssens M. (eds.) (2008), Social Enterprise in Europe: Recent Trends and Developments, EMES Working Paper 08/01 (downloadable from www.emes.net).

2. Funded by the European Social Fund, EQUAL is a community initiative testing new ways of tackling discrimination and inequality experienced by those in work and those looking for a job. It ran from 2001 to 2008.

3. QUASAR partnership, see http://ec.europa.eu/employment_social/equal/data/document/etg2-suc-quasar.pdf

4. Social enterprises typically generate 'positive externalities' – that is benefits for the community which are not accounted for in the price of the service delivered. For instance in the care sector, their participative nature, the way workers and users are intimately involved in defining the way the service is delivered, means that both users and workers are more satisfied. This results in greater loyalty and lower staff turnover, creating a virtuous circle of improving quality. Similarly, social co-operatives that succeed in creating meaningful work for drug addicts, and thus keeping them 'clean' and out of trouble, can generate saving to the public purse that are many times in excess of their financial cost. See Borzaga C., Defourny J. (eds.) (2001), *The Emergence of Social Enterprise*, Routledge, London.

5 Evers A., Laville J.L. (eds.) (2004), *The Third Sector in Europe*, Edward Elgar, Cheltenham.

6. In this case they differ significantly from the most traditional social economy entities, in which relatively homogenous governance systems prevail. They are built around a well defined stakeholder having a dominat posittion in deciding the strategies and the management approachs.

7. The report The Social Economy in the European Union, prepared by CIRIEC for the European Economic and Social Committee in 2007, states that paid employment in co-operatives, mutuals and associations in the United Kingdom in 2002-3 totalled 1.7 million, or 6.1% of the workforce. This share ranks it 8th among European Union member states. Of these 1.7m jobs, 1.47m are in associations, 190 000 in co-operatives and 48 000 in mutuals.

See www.eesc.europa.eu/groups/3/index_en.asp?id=1405GR03EN

8. www.cabinetoffice.gov.uk/third_sector/social_enterprise/action_plan.aspx

9. www.cabinetoffice.gov.uk/third_sector.aspx

10. The Phoenix Fund encouraged enterprise in disadvantaged communities and in groups under-represented in terms of business ownership. It had a budget of EUR 153 million from November 1999 to March 2008. It contained a number of elements including the Phoenix Development Fund, which funded numerous projects to improve access to business support. Sixteen of these focus specifically on social enterprise (and none exclude it). Other initiatives include the Social Enterprise Visit Programme (SEVP), a pilot social enterprise group in the Academy of Chief Executives' 'Leaders Learning from Leaders' programme and the piloting of 'BRIAN' (Business Research Information Analysis Navigator) to measure a social enterprise's business and social capital. The CDFI Challenge Fund is also funded through the Phoenix Fund. See www.berr.gov.uk/bbf/enterprise-smes/building-enterprise/enterprising-people/Phoenix%20Fund/page37783.html

11. An initiative of the Department for Education and Science (DfES), the Home Office, the Office of the Deputy Prime Minister (ODPM) and the Small Business Service (SBS) which supported research on topics including social enterprises in rural areas, larger social enterprises and enterprise among black and ethnic minority women

12. www.bankofengland.co.uk/financing_social_enterprise_report.pdf

13. www.sbs.gov.uk/default.php?page=/finance/citr.php

14. www.futurebuilders-england.org.uk/

15. www.co-operativeaction.coop

16. www.cabinetoffice.gov.uk/third_sector/third_sector_review/Third_sector_review_final_report.aspx

17. www.communitiesscotland.gov.uk/stellent/groups/public/documents/webpages/otcs_018661.pdf

18. Social Enterprise: Scaling New Heights. National Social Enterprise Action Plan. One Year On: Progress Report for the English Regional Development Agencies,
see www.seeda.co.uk/publications/social_inclusion/docs/seeda-rda.pdf

19. www.parliament.the-stationery-office.co.uk/pa/cm200708/cmhansrd/cm080430/text/80430w0032.htm#column_557W

20. www.socialenterprise.org.uk

21. www.cabinetoffice.gov.uk/third_sector/social_enterprise/~/media/assets/www.cabinetoffice.gov.uk/third_sector/social_enterprise_action_plan_one_year_on%20pdf.ashx

22. Centro studi Cgm (a cura di) (2005), Beni comuni. Quarto rapporto sulla cooperazione sociale in Italia, Edizioni della Fondazione Giovanni Agnelli, Torino.

23. www.travail.gouv.fr/ministere/presentation-organigramme/ministre-du-travail-relations-sociales-solidarite-dispose-tant-besoin/delegation-generale-emploi-formation-professionnelle-dgefp-5619.html

24. www.travail.gouv.fr/ministere/presentation-organigramme/02-ministre-du-travail-relations-sociales-solidarite-autorite-conjointe-avec-ministre-economie-finances-emploi-sur/delegation-interministerielle-innovation-experimentation-sociale-economie-sociale-diieses-5610.html

25. www.ville.gouv.fr

26. www.ville.gouv.fr/politique-de-la-ville/acse.htm

27. www.caissedesdepots.fr

28. www.fondation-macif.org

29. www.entrepreneur-salarie.coop

30. www.coopac.be

31. EESC (2007), The Social Economy in the European Union, European Economic and Social Committee, Brussels

32. www.pozytek.gov.pl/Public,Benefit,and,Volunteer,Work,Act,567.html

33. EQUAL project: Economia Społeczna w Praktyce (Social Economy in Practice) 2005-2007 www.ces.net.pl

34. www.euromi.info

35. www.casaltd.com

36. www.lemat.coop

37. www.cap-markt.de

38. Sozialgesetzbuch IX §132

39. See for example:
www.basta.se/_upload/filer/Introduction_socioeconomic_reports.pdf
and www.sroi-uk.org/index.php?option=com_docman&Itemid=38

40. EU Directive 2002/96/EC of 27 January 2003 on Waste Electrical and Electronic Equipment

41. http://rreuse.org

42. www.netser.fi

43. www.repanet.at

44. www.larkaportal.se

45. Stryan, Yohanan, The Swedish Co-operative Development System: system development and local embeddedness, 2004

46. According to Jan Olsson, a member of Coompanion's board

47. www.slup.se

48. Enjolras B. (2005), Regimes of governance and general interest, CIRIEC working papers, no. 2005/01

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Chapter 4
Social Enterprises and Local Economic Development

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Following many years of development in various forms, a comprehensive and coherent legal framework for social enterprises has recently been introduced as a new legal category in the United Kingdom and in Italy. Their nature, which has been characterised in law by the presence of an explicit social aim, a multi-stakeholder nature of governance, a non-profit constraint and an asset lock, has been partly analysed, though much work is still needed in order to correctly define the economic role of this new typology of firm. Still to be explored in particular is the role of social enterprises in local economic development.

This chapter maintains that the basic economic features listed above are all conducive to a vocational role in the processes of endogenously driven local development, since at least the asset lock and the system of multi-stakeholder governance are best suited to sustain local integration and a bottom-up approach to development.

Introduction

Over recent decades, the number of organisations with an explicit social aim and innovative proprietary structure has increased and the scope of their activities has widened. Non-profit organisations, both in North America and in Europe have become more entrepreneurial and strengthened the commercial activities linked to their social mission. They have often developed as community organisations serving the needs of specific localities (OECD, 1999; Borzaga and Defourny, 2001; Anheier and Ben-Ner, 2003). Mostly in European countries, but also in some American nations, social enterprises are helping to fill the gap left by both the inability of the public welfare system to cover all the demands of social services and other public services and the unwillingness and lack of interest of for-profit firms to enter less profitable activities.

The evolution of social enterprises is traced back to non-profit organisations working exclusively or primarily on the basis of financial donations and volunteer work. The strong growth at the end of last century of both paying demand and support by public authorities, especially via direct subsidies and contracting-out practices, represented the main route through which non-profit organisations acquired an entrepreneurial character. This entrepreneurial spirit was sustained in different and innovative ways, for example by lowering the prices of services and through the distribution of resources to clients and beneficiaries not able to pay for the competitive market price.

During the 1990s, entrepreneurial social ventures acquired a more defined institutional character. In some national systems, such as the American system, social enterprises are not recognised by law explicitly, but an operative distinction is highlighted in the literature singling out the relevance of social entrepreneurship,[1] which concerns the production of both private and quasi-public goods with relevant social implications (Young, 2000; Kerlin, 2006). Ever since social co-operatives were formally introduced in Italy in 1991, across various European countries and some American nations such as Canada, social enterprises developed predominantly as social co-operatives. The final step of this process of institutional evolution is represented by the recent European legal definitions of social enterprise, as implemented in the United Kingdom[2] and in Italy[3] in 2005. This chapter will focus discussion around these two examples. In both countries, social enterprises are institutionalised as cross-ownership forms since they can take the form of co-operatives, non-profit organisations and investor-owned firms subject to the non-profit constraint.

In both laws, social enterprises are characterised by their social aim, a stringent non-profit constraint and an asset lock. The social aim has to be recognised either by a national regulatory agency (as in the United Kingdom) or included in a closed set of sectors defined by law (as in Italy). Social enterprises are expected to produce quasi-public goods[4] with meritorious character. In other words, they produce positive externalities directed towards the improvement of social relations and to the preservation of the historical, cultural and environmental patrimony.

As for the diffusion of social enterprises to date, social co-operatives represent the most widespread form in Italy. They numbered 7 363 in 2005 and employed about 240 000 paid workers, and around 30 000 volunteers (ISTAT, 2007). They served 3.3 million users and customers, while their turnover has reached EUR 7 billion. In the United Kingdom, three years after that the law on Community Interest Companies (CIC) came into force, almost 2 000 companies have been approved by the CIC regulator. However, it should be noted that CICs form only a relatively small proportion of the total volume of social enterprises in the United Kingdom. Social enterprises can be seen as entrepreneurial ventures in a strict sense, though of a specific kind. The identification and implementation of new solutions directed to the satisfaction of the community's needs can be accomplished by setting up specific organisational forms different from public and for-profit forms. These new entrepreneurial entities (social enterprises) need to be economically and financially sustainable over the longer term. Viability is reached through a sustainable equilibrium between costs and revenues, though the pursuit of the profit is not excluded when net surpluses are necessary to make investments and develop entrepreneurial activities.

The nature of the services provided is particularly relevant since collective and common goods and services are often produced in the presence of market imperfections due to information asymmetries, free-riding, market power, and positive externalities.[5] Non-excludability and/or non-rivalry induce under-provision by the private sector[6] because of the difficulty to fix prices in the presence of free-riding, which can cause the non-existence of the specific market. When the public sector cannot cope with the demand for public and quasi-public goods because of financial constraints or because of information asymmetries and contract incompleteness, social welfare is reduced. The under-provision of quasi-public goods is likely to be particularly severe in sectors like health-care and social services.

There have been various analyses of the relevance of social enterprises (Borzaga and Defourny, 2001; Anheier and Ben-Ner, 2003; Borzaga and Spear, 2004; Noya and Clarence, 2007), but few are comprehensive, especially when the role of these organisations in the local economic development process is considered.[7] The main reasons for the relevance of social enterprises in local development are found in the typology of services produced and their positive externalities at the local level. Some of these services may be produced by other organisational forms (for-profit and public), but often at higher costs or in a less effective ways due to contract and market imperfections. In this context, social enterprises are characterised by various institutional features that are just directed to alleviate the shortcomings of public and for-profit provision. Among these, three have paramount importance:

- **The social objective.** This is stated in their statutes, or is implied by the public benefit nature of the sector of operation.
- **Non-profit in nature.** This is underpinned by the imposition of the distribution constraint (by excluding purely commercial interests) and tends to limit the objectives of the organisation to public-benefit and social aims. The constraint also implies the impossibility of selling the organisation and an increased difficulty in delocalising it because of the asset lock.[8]
- **Participation in the ownership of different actors and multi-stakeholder governance.** These factors are widespread in some national systems and entail the proactive involvement of the main actors linked to the organisation in its activities and governance. This way, local and personal ties (Granovetter, 1973; Granovetter, 1985) can directly contribute to the dimensions of the objectives of the organisation and preserve the public interest aim with a consequent impact on local development.

In other words, since most groups of stakeholders are embedded at the local level, social enterprises mainly meet localised needs. This way, they are able to increase social welfare provision at the local level through action which increases income and employment, and promotes redistributive activities. Because of the embeddedness of personal linkages, the satisfaction of localised needs and of the asset lock, the activities undertaken by social enterprises are often relatively immobile. Hence they represent a more rooted and permanent source of development, which are less at risk of delocalisation compared to traditional manufacturing activities for instance.

This chapter consists of seven sections. The first section highlights some of the main features of the legal definitions given by the United Kingdom and Italian laws to social enterprises. The second section discusses the theory of firms to highlight shortcomings that represent obstacles to defining an appropriate economic role for social enterprises. The third section builds on section two by highlighting how property rights and governance can impact on the allocative and distributive mechanisms of an organisation's surplus. The fourth section introduces and critically discusses the concept of local economic development and its historical evolution. The fifth section defines an appropriate role for social enterprises in the endogenously-driven processes of economic development. Section seven presents some conclusions following the discussion of the main policy implications of the diffusion of social enterprises in section six.

The legal framework of social enterprises in the United Kingdom and Italy

Social enterprises now exist in many countries in many different legal forms, with social co-operatives and associations perhaps the most prevalent. To better understand the role of social enterprises, it is necessary deepen the understanding of their institutional features, which have been well-defined in United Kingdom and Italian law. In both, social enterprises are transversal organisational forms characterised by their social objective and not by their ownership type. They can take the form of traditional non-profit organisations, co-operatives or investor-owned firms. All three categories have to respect the constraints imposed by law.

The United Kingdom 2005 law on CICs states that "a CIC is a new type of company, designed for social enterprises that want to use their profits and assets for the public good. CICs will be easy to set up, with all the flexibility and certainty of the company form, but with some special features to ensure they are working for the benefit of the community" (CIC Regulator, 2005). In the United Kingdom, there is not a sectoral limitation to their operation, but the CIC Regulator is tasked to accept or reject any application concerning the start-up of a new social enterprise and decides on the basis of the public benefit aim of the activity. Chapter one discusses this in greater detail.

The features of CICs that are particularly relevant for this study are the objective of the organisation (which is to ensure the development of the local community) and the asset lock. While the necessity to meet community needs is enshrined in the definition of the company, the latter aspect requires more clarification. CICs are asset locked bodies which cannot transfer or sell their assets apart from other asset locked bodies. In simple terms, it means that their patrimony is created and increased by recurring to indivisible reserves of capital, which are exclusive ownership of the organisation. Hence, the patrimony is exclusively directed to the pursuit of the social aim and cannot be appropriated by anybody (trustees, managers, donors, employees, volunteers, users, beneficiaries, local authorities and so on) neither during the life of the organisation nor when it ceases to exist. In this latter case, the residual patrimony has to be transferred to other asset locked bodies.[9] With only very limited exceptions, such as the payment of dividends on suitably capped investor shares and the reimbursement of paid up capital upon liquidation, a CIC's assets cannot be paid back to its members unless they are themselves asset locked bodies. They can nonetheless use their assets to cover losses since CIC are intended to be firms with limited responsibility in the full legal sense of the term. Goods and services need to be bought and sold at their market value. This means that the Regulator will not permit inflated raw material, labour and managerial skills costs and the sale of goods and services at lower than market prices to persons or organisations linked to the specific CIC so as not to deplete the value of the locked assets. However, this requirement can be broadly interpreted. For example, a CIC will be allowed to sell its assets to other asset locked bodies and provide services to clients at less than market value when it needs to increase cashflow for liquidity reasons. The treatment of commercial and other economic relations between CICs and other asset locked bodies such as charities is different. In this case, the risk of private appropriation through higher labour costs or lower output prices is absent. Moreover, goods and services may be sold at less than market value on the basis agreements between different organisations concerning, for example, the use of labour services supplied by volunteers resulting in a reduction of production costs.

Dividends paid by CICs on investor shares are subject to a cap which is 5% higher than the Bank of England base lending rate. This cap is calculated on the paid up value of the shares and hence includes any premium paid above the face value. The only exception is represented by the payment of dividends to other asset locked bodies, which is free from any constraint. A second constraint is represented by the aggregate dividend cap, which is equal to 35% of distributable profits. No more than 35% of the total net yearly surplus can be appropriated by the owners of a CIC's shares even if this limitation reduces the remuneration of shares below the interest rate approved by the organisation. In other words, the two constraints (the dividend cap and the aggregate dividend cap) need to be met at one and the same time. A final constraint is represented by the ability to carry forward unused dividend capacity from year to year. This possibility is accepted by the law but only up to four years following the accounting period in which dividends where not fully paid. Hence, dividends that respect both the initial two constraints and that are not paid in a specific period can be added to the dividends calculated in the following four years.

As for Italian law (No. 118/2005), as confirmed by the legislative decree No. 155/2006, social enterprises are defined as: "private organisations … that carry out an organised economic activity aiming at the production and exchange of goods and services with public utility, directed to the accomplishment of general interest ends." Italian social enterprises cannot be controlled directly or indirectly by public bodies or by private for-profit firms. As stated, they can also only work in a closed list of sectors as defined by law. The list includes mainly health care and social services, together with cultural and educational services, and environmental protection.[10] The asset lock is also present in the Italian system in a very similar form as for CICs. Differences are of minor relevance since, as in the United Kingdom case, social enterprises do not redistribute profits or reserves of capital. The preclusion concerns direct distribution to financial supporters and members, but also the indirect distribution to other organisations, managers and workers. Besides, the managers of these organisations (e.g. investors in capitalistic firms) cannot receive any portion of the surplus through remuneration of the invested capital quotas.[11] Direct distribution is ascertained when financers without any controlling powers are paid more than the reference interest rate plus 5%, while the capital invested by controlling stake-holders cannot be remunerated. At the same time, indirect distribution wages cannot be higher than the level established for similar occupations in general industrial relations agreements, unless the higher remuneration can be justified on the basis of specific needs or skills of the workforce.

Profits and other positive net surpluses or capital gains need to be reinvested to pursue the social objective or to increase the assets of the firm. In case of dissolution, the residual patrimony needs to be conferred either to other social enterprises, or to non-profit organisations. In the case of mergers or acquisitions, if the resulting organisation is not a social enterprise, the non-profit nature and asset lock must be preserved, and the resulting organisation should retain a public benefit character.

As for governance, the two national laws concentrate primarily on the definition of the aim of the activities, of property rights, and on the financial and economic constraints that social enterprises must adhere to. Other issues of governance are considered only tangentially and in connection with specific aspects of their operation. Most notably, in United Kingdom law, control over social enterprises is explicitly excluded for financial supporters who have their capital remunerated and for for-profit firms and public bodies in Italian law. Furthermore, multi-stakeholder governance is required by Italian law, which states that social enterprises need to provide adequate engagement with clients (users) and workers. Beyond these important insights, both laws do not deliver a comprehensive framework for governance, but after the initial legislative steps, this issue is likely to be taken up again in future legislative interventions. This chapter follows a similar scheme and does not consider governance a central issue in need of analysis. Various insights, however, will be given, since new evidence is already emerging from case studies. This evidence that shows that many social enterprises have been able to trespass the general framework defined by law and have introduced innovative governance schemes in their statutes. The involvement of different actors in the governance of the organisation, i.e. the issue of multi-stakeholdership, deserves particular attention since most social enterprises require active participation by different subjects to fulfil their social mission. Multi-stakeholder governance is indeed observed in many instances of social enterprises. As it will be explained in greater detail in the following sections, the exclusion of the profit motive, the necessity to involve different actors in the activity of the organisations and control deferred to actors different from investors are likely to be conducive to this kind of governance solution (Depedri, 2007, Sacchetti and Tortia, 2008).

These institutional features strongly support an active role for social enterprises not only in the provision of goods and services of general interest, but also in local development processes. In the United Kingdom, social enterprises are defined by law as community companies. In Italy, social enterprises develop similar strong linkages with the community, since the subjects controlling them are locally-based and usually serve objectives relevant to the local level. Limitations to participation in regulated financial markets also make them dependent on localised financial sources. It is possible to delocalise a social enterprise even in the presence of an asset lock, for example, through mergers and acquisitions, or through the devolution of the patrimony of dissolved activities to other asset locked bodies. However, delocalisation and the creation of trans-local (e.g. regional or national) organisations are rare since stakeholders and administrators are unlikely to be interested in losing control over the asset lock. The asset lock also reduces the ability of owners to sell the organisation to obtain its market value. As a result, the assets at the disposition of the community are increased. The nature of the services produced, which have often a relational character, is also important. The high relational intensity requires the development of personal ties at the local level. Delocalisation would imply a complex process of replacement and the development of new ties. Similarly, it is expected that the multi-stakeholder governance and participation processes will be, in most cases, a sufficient guarantee for the firm to remain locally embedded and to maintain its role in the local system.

Social enterprises in the theory of the firm

Building on previous work (Borzaga and Tortia, 2007), it is possible to improve the understanding of the emergence and the diffusion of social enterprises by going beyond the boundaries of the traditional theory of the firm at least in two respects: i.) by redefining the objectives and nature of entrepreneurial ventures, and; ii.) by giving a more realistic picture of the motivational complexity which drives economic actors. While neoclassical thinking considers firms as mere production functions, the new institutionalist school, which has devoted some attention to the study of organisations controlled by subjects other than investors (Hansmann, 1996), considers non-profit organisations as important given the existence of market failures.[12] For example, in the presence of asymmetric information, customers may be mistreated by for-profit firms through higher prices and reduced quality. Non-profit organisations and social enterprises, given their non-profit nature, have no incentive to increase profits and reduce quality by exploiting information advantages and other market imperfections. Hence they may be preferred by customers and users in many instances since the exclusion of the profit motive favours the development of fiduciary relations (Hansmann, 1996). However, because of the absence of the profit motive driving the entrepreneurial venture they lack adequate incentives to be efficient and are bound to be marginalised as competition and market regulation advance. Both competition and market regulation are understood by new-institutionalist economics to favour the spread of for-profit firms. Increased competition reduces problems linked to the presence of market power since it supports increased production and lower prices. The high-powered incentive represented by the pursuit of the profits increases the efficiency of for-profit firms, which are then favoured in a competitive environment. As a consequence, not-for-profit organisations, since they do not exploit market power in their favour, may be selected against by customers as competition tightens. Regulation, on the other hand, improves the protection of customers against the exploitation of market imperfections (e.g. asymmetric information) by firms by imposing standards of quality that are universally applied. The spread of for-profit firms is again favoured because customers feel protected by the rules and can be confident in choosing them.

Notwithstanding these theoretical arguments, social enterprises can also grow and diffuse when production does not suffer from market failures. Other elements also need illuminating and relate to the different way in which they are able to implement production processes and to create surplus. For example, social enterprises can be able to create trust relations with customers and their governance is based on the involvement of all the relevant stakeholders and on the valorisation of the intrinsic motivations of workers and managers, more than on extrinsic and monetary motivations (Rose-Ackerman, 1996; Young, 1983; Young, 1997; Borzaga, 2003).

First, it can be shown that profit maximisation is not the only possible objective for entrepreneurial ventures. It also cannot be the unique yardstick for efficiency since there is now a large amount of evidence showing that organisations with non-profit objectives can nonetheless grow, substitute public provision and often compete with for-profit firms. The strong implication of this evidence is that a more general conception of the firm is needed; one that considers entrepreneurial ventures as co-ordination mechanisms whose governance is geared to solving economic or social problems through the production of goods and services (Borzaga and Tortia, 2009). Firms can be understood as evolving institutional structures comprised of rules and processes that the evolutionary theory defines as "organisational routines" (Nelson and Winter, 1982; Hodgson, 1993; Hodgson, 2003; Hodgson, 2006).[13] The design of new routines improves the adaptive ability of organisations through better co-ordination between interested actors and a better match between motivations and objectives (Hodgson and Knudsen, 2006).

Second, actors with an active role in the firm are not exclusively driven by economic motives and self-interest, but also by motivational complexity whose defining features are more difficult to pin down than traditional theories assumed (Sen, 1977; Sugden, 1991). Intrinsic, altruistic, relational and process-related preferences (Ben-Ner and Putterman, 1999; Borzaga and Depedri, 2005) must also be considered as drivers alongside pure economic rewards and self-interest. Within the organisation, individual motivations and firm objectives are matched through the implementation of appropriate incentive mixes (Borzaga and Mittone, 1997; Bacchiega and Borzaga, 2001; Bacchiega and Borzaga, 2003) that can be both monetary and non-monetary. Incentives should closely correspond with the set of organisational routines and governance solutions implemented by each organisation. Corporate culture can help to align motivations and incentives. Corporate culture itself can be seen as an individual's acclimatisation to organisational routines and corporate values (Kreps, 1990). It emerges as the main social and psychological underpin and by-product of the organisational framework. Individuals become accustomed to organisational routines and corporate culture through acclimatisation and the learning of both codified and tacit knowledge and processes. They do not need to learn the whole set of behaviours that make up organisational routines, but only those elements which, together with elements learned by all the other individuals, ensure the organisation functions. Hence, routines are to be interpreted as procedural equilibria emerging out of the interaction of differently motivated individuals within the organisation.

Social enterprises represent a peculiar and new synthesis of both aspects, since their essence is found not in the maximisation of the economic value of the activity, but in the satisfaction of social needs. Governance is perceived as a way to serve this specific aim. Hence, organisational routines cannot be exclusively based on the management of self-interested motivations by means of hierarchy, control and monetary incentives. Instead, organisational routines also need to attribute value to non-monetary motivations through suitable processes of involvement of both workers and customers. Both limitations can be overcome by implementing proper incentive mixes based not only on monetary incentives, but also on intrinsic and relational incentives (Borzaga and Depedri, 2005; Borzaga and Tortia, 2006). These incentives should promote organisational objectives that are different from the profit motive.

Given these theoretical premises, while social enterprises are not expected to work across the spectrum of sectors that make up the economic system, it can be stated that their potentials are realised through an improved ability to produce goods and services in public benefit sectors, often of a non-standardised kind and with a high relational content. Social enterprises have already been growing over the last ten years in these areas of activity, as formalised by Italian and United Kingdom laws. They increase the supply of quasi-public (collective and common) goods by perceiving and satisfying needs better than more traditional ownership forms thanks to a different ownership and governance model. They also show an ability to strengthen trust relations and sustain the accumulation of social capital through positive externalities and spills-over that primarily benefit local systems. In this context, the role of the non-distribution constraint rests not with the reinforcement of trust relations in the presence of asymmetric information alone (Hansmann, 1996), but instead with the stabilisation of the firm's activity in the long run. This stability is accomplished by devoting capital to production objectives with a social character. Furthermore, the non-profit constraint creates the basis for the development of an incentive mix which stresses the relational and intrinsic aspects of the firm's activity, not just monetary rewards (Borzaga and Tortia, 2006). In this respect, it represents a signalling device for workers and customers seeking non-traditional productive solutions.

By implementing non-traditional ownership, governance and financial solutions, social enterprises can help increase overall social and economic welfare where neither the state, nor private for-profit firms are able to do so in an efficient and effective way. Their contribution is given both directly by way of the increased production of goods and services which increase output and employment, and, indirectly, by way of positive externalities and accumulation of social capital, which benefit the local system as a whole.

When these conditions are fulfilled and social enterprises are able to serve their role of support to economic development, a cumulative process gains momentum. The increased surplus produced, which benefits a wider range of subjects, creates new resources that can be plugged back into the firm activities by way of reinvestment processes. This process reinforces the effectiveness of the institutional set-up as a whole.

The allocative function of social enterprises

Previous sections showed that social enterprises do not take as their main objective profit maximisation, but instead the satisfaction of socially relevant needs under the constraint of economic sustainability. This shift in the objectives of the organisation can have visible implications in terms of resource allocation and output. This is notable where competition defines prices ambiguously, since in this case, different modalities of allocation and distribution of resources are compatible with the survival and growth of the organisation. When market competition is not perfect, either because of some degree of monopoly, or because of asymmetric information, for-profit firms are expected to increase prices and to reduce supply in both quantitative and qualitative terms. This is because by doing so they are able to increase their profitability. When social enterprises are considered, in the absence of the profit motive, an increase in prices and the reduction of supply are not necessary implications since they are less inclined to exploit market power. Their survival depends more strictly on trust relations with costumers, volunteers and financiers. If prices were increased and quality reduced, social enterprises would be perceived as opportunistic and relations with users and the local community would be damaged. In these cases, relations would be considered instrumental to the pursuit of private ends and the organisation would not be able to gather consensual support by way of trust, reputation and prestige.

Furthermore, the way in which social enterprises allocate their resources can be different from what is traditionally observed in for-profit firms. When an organisation does not maximise its profits, but pursues instead the satisfaction of socially relevant needs, goods and services can be supplied to a wider set of consumers and users since lower prices favour the accomplishment of increased production. This way, distribution can be extended to weak social groups with a low ability to pay.

Additional resources like voluntary labour and donations can be used to increase the supply of public and quasi-public (i.e. common and collective) goods and to support the process of local development. Non-market transactions based on the at least partial distribution of free resources become possible outcomes. Hence, a different allocative behaviour becomes apparent with respect to for-profit firms with positive effects on employment and welfare. The potentialities of social enterprises as community organisations begin to take shape. For-profit firms cannot intervene in the same way just because they are driven by the requirement to increase returns on investments for private appropriation. The focus on private appropriation prevents them from having access to additional resources, such as unpaid and underpaid labour, to pooled resources and to devoting an appropriate part of their value added to social purposes. Hence, only in exceptional circumstances do they tend to allocate any part of their resources to the production of socially relevant goods and services. At the same time, they are less prepared to distribute resources to weak and disadvantaged social groups. By contrast, since the satisfaction of social needs is the main objective of social enterprises, a much bigger slice of their surplus is directed to fulfil it.

It is important to consider, the exclusion of the profit motive and the tendency not to profit maximise. In particular, they should be discussed in conjunction with the ability of social enterprises to overcome the under-supply of quasi-public goods and the presence of various market and contract imperfections that often hinder adequate provision by the public sector and for-profit firms. Social outcomes are obtained largely thanks to the socialisation of resources in the form of socialised capital. They are supported by public subsidies, volunteer work and financial donations, which can be increased by the involvement of different actors in the governance of the organisation. While the socialisation of resources reinforces trust relations and helps to overcome the problem of free-riding (Weisbrod, 1977; Weisbrod 1988), involvement processes can alleviate the problem of contract incompleteness and asymmetric information. This is because the empowerment of different stakeholders allows a better circulation of information and reduces opportunism. Furthermore, the allocative behaviour can be different from what is traditionally observed in competitive markets since goods and services can be supplied to a wider set of consumers and users than market equilibrium would allow. Here, production is increased thanks to lower prices and distribution is extended to weak social groups with a low ability to pay. Additional resources can be used to support the process of local development and the nature of a social enterprise as a community organisation begins to take shape. For-profit firms cannot intervene with the same allocative and distributive modalities, since their main objective is to increase profits for private appropriation. This is hardly compatible with the socialisation of resources and the involvement of non-investor stakeholders. Indeed, in general terms, for-profit firms are forced to increase profits as much as possible in order not to weaken their competitive position and not to reduce the market value of the organisation. Their tendency to privately appropriate any surplus and to exacerbate contrasting interests and asymmetric information (Jensen and Meckling, 1976) put for-profit organisations at a disadvantage in sectors where a degree of socialisation of resources is required and market imperfections are severe. At the very least, for-profit organisations will find more difficulties in obtaining public support, and labour and financial donations.

This is especially true in the case of meritorious goods, which are the most traditional type of goods produced by non-profits and social enterprises (Weisbrod, 1988). Meritorious goods are characterised by the production of important positive externalities, which lead to under-provision by private producers. When donations are not sufficient to guarantee economic sustainability both subsidisation by local authorities and price discrimination[14] may be necessary to meet high fixed costs. Support by the local community is usually granted by the nature of the goods and services produced and by the better utilisation of public money relative to public provision. Public supply finds its main obstacles, beyond budget constraints, in the difficulty to overcome contract incompleteness and asymmetric information due to the limitation of involvement processes. By contrast, social enterprises are expected to reduce costs. To meet this requirement, they must increase efficiency, innovation and productivity, which boost surpluses relative to the public sector.

In summary, the different allocative mechanisms, which result in a distributive function of social enterprises, are affected primarily by renouncing profit as their main objective. The main objective of social enterprises is instead the satisfaction of social needs. The absence of the profit motive also implies a lower propensity to exploit market power and overcome various market imperfections, such as the presence of asymmetric information. The main consequence is that social enterprises distribute resources toward consumers. Social enterprises do not appropriate consumer surplus by means of higher prices and, at least in some cases, distribute resources to individuals who are not able to pay thanks to the ability of social enterprises' to appropriate non-market resources such as voluntary work and grants.

This ability can integrate the redistributive function of public authorities through a better and more efficient use of public resources. This way, poverty and social exclusion are likely to be reduced. Moreover, additional resources are used to produce meritorious goods and services that strengthen social cohesion and trust relations. This favours the accumulation of social capital.

Examples of the different allocative and distributive functions of social enterprises can easily be found both in the United Kingdom and Italy. In these countries, social enterprises may employ volunteers to maintain and restore cultural and environmental heritage sites, through tourism for example, or to integrate the disadvantaged into the labour market. This can take place through the constitution of a protected work environment or through forms of tutorship for young people by experienced volunteers. These activities often show volunteers and other donors pursuing important social ideals such as supporting local communities and the disadvantaged, whilst they help to implement entrepreneurial activities that would not be accomplished without their assistance. Social enterprises can charge fees for their services or sell their products on the market. In some cases, social enterprises may choose not charge fees for the services they produce, such as for the *Misericordia,* in Florence, Tuscany.[15] Medical assistance by specialised physicians is paid for by free contributions by clients and revenues are high enough to cover costs. In other cases, different activities can be conjugated, since social enterprises supporting cultural tourism can buy goods and services from work integration social enterprises.

These consequences of the organisational and allocative structure of social enterprises are expected to have an impact on local development, and will be discussed in greater detail in section five. Before that, it is important to introduce the concept of local economic development.

A new concept of local economic development

The specific linkage between social enterprises and local economic development can be clearly distinguished only when different aspects of development that are underestimated by economic theory are considered. In general terms, the theories surrounding development can be sorted into two streams. The first looks for exogenous explanatory factors of development, such as direct foreign investments, capital transfers, public interventions, innovation spills-over and infrastructures. The second stream focuses instead on endogenous factors, such as social capital, the valorisation of human capital and other resources present at the local level, together with culturally embedded craft traditions. The role of social enterprises is better-positioned in the latter stream, since its focus is not on flows of material resources and investments, but mainly relates to personal relations, social capital, human resources and on the local demand for services. The resource mix is tapped into organisational objectives which are social and embedded at the local level. As a result they concern development objectives that are defined by the same actors that will benefit from the outcomes. In this sense, social enterprises can represent an important instrument for an endogenously driven process of development.

From a historical perspective, the viewing of endogenous factors as important drivers of development is ascribed initially to Marshall (1920). Marshall introduced the concept of “industrial atmosphere” to explain why development took place in English industrial districts following the industrial revolution. Industrial growth was observed only in specific circumstances and in specific places, while it was absent in others. This perspective was extended to development studies only after several decades, when the literature on industrial districts and endogenous development spread. It runs in the opposite direction with respect to exogenous explanations. This is because a central role is given to firms created from scratch, which are small and relatively inward-looking, at least in the early stages of their evolution. Entrepreneurial initiative and the network of relations, together with culture and institutions, have a central role in explaining development. Local resources, together with the institutional framework, are crucial since industrial growth is likely to become reality only when these factors support it.

The literature on industrial districts is now enormous, and it may therefore be sensible to cite only a small number of the most relevant classics to exemplify this fact (Becattini, 1979; Becattini, 1989; Piore and Sable, 1982; Brusco, 1982; Amin, 1999).[16] Authors showed that geographically localised activities can develop synergies when they are working in similar or complementary sectors in terms of the diffusion of new technologies, scale and scope economies, circulation of information, and accumulation of knowledge. In addition, the labour market and the communitarian context in industrial districts assumed an important role in supporting local development. For example, it was highlighted that a high degree of homogeneity in the labour force, and the possibility and willingness of workers to meet outside the job and to move between different firms in the district, favoured the dissemination of innovative knowledge and practices. This resulted in important system effects and network externalities which supported development.

Efforts understand the role of local factors in development processes were none the less centred around the role of a specific type of actor (the small and medium-sized firm) working mainly in manufacturing activities. However, this approach to understanding development is losing its explanatory capability because the significance of manufacturing activities is shrinking in most economies. Contemporary understanding of the development process requires the consideration of other, non-traditional entrepreneurial actors. Indeed, development can be driven by service production and by collective-benefit objectives that favour the accumulation of social capital (Trigilia, 2001). These non-traditional patterns of development were anomalous in the early stages of economic growth since manufacturing was sufficient to guarantee increased production. The demand for public goods was generally satisfied by the public sector and the demand for social services was fulfilled mainly by the family. Hence, the intermediate space between the public sector and private manufacture was largely left unexplored. However, recent data clearly shows the continuous growth of this domain in most industrialised countries, also in terms of its weight in relation to the total product. The production of services has acquired a dominant role in all industrialised countries, and its expansion is driven by the structural evolution of demand towards social and meritorious services (Salamon, 1998).[17] For example, service production and not-for-profit activities are acquiring weight in local development because the globalisation of commercial and financial markets requires a more integrated territorial governance. This governance requires all relevant local actors to sustain a quicker and more effective regeneration of former manufacturing areas and to serve other public benefit purposes such as environmental protection (Greffe, 2007).[18]

When endogenous development is considered, the production of quasi-public and meritorious goods and services with a social character becomes important since these kinds of services are likely to represent important development preconditions. This is because they not only satisfy specific social needs, but also favour the accumulation of human and social capital, and the reduction of negative external effects of economic growth, such as marginality and inequality. The strong growth of the demand for personal and community services is evidence of a shift of the focus of development patterns towards areas of operation which are much nearer to the working of social enterprises.

The impact of social enterprises on local development

The relevance of the role of social enterprises in local development is shown by the matching of their development with the growing demand for public interest services that often have a strong personal and relational connotation. Social enterprises are able to socialise resources for the production of quasi-public and meritorious goods to overcome market and contract imperfections. Multi-stakeholdership is an emerging feature of social enterprises. It derives from the necessity to overcome market imperfections through participation practices. These institutional characteristics form the basis of their embeddeness, which is conducive to local development. The network of personal relations can be integrated with involvement mechanisms at the governance level, while socialise capital can support the satisfaction of social needs in the presence of important externalities and other market imperfections.

Entrepreneurship impacts on the quality of local development by acquiring a new and distinctive social role. It is quite clear that this perspective has important linkages with the literature on multi-stakeholder organisations (Freeman, 1984) and corporate social responsibility (Grimalda and Sacconi, 2005). However, stakeholders are not viewed here as mere defenders of specific economic interests. The different "publics" that have a stake in the process of development will value the fairness of procedures whose implementation is intertwined with involvement processes (Tortia, 2007). Objectives common to all the involved actors acquire a central role beyond the specific interest of individual stakeholders. They find a synthesis in new governance solutions and are supported by socialised resources. This way, organisational impasses and contrasts can be curbed and resolved within the boundaries of the organisation. A holistic view is needed to highlight that mere quantitative growth is not sufficient any more to justify consensus. The satisfaction of local needs, the fulfilment of aspirations and the transparency of decision process are indeed as important, if not more important than economic results (Tyler and Blader, 2000; Tyler and Blader, 2003). Indeed, many contributions now show that the growth of income is not sufficient to increase welfare and satisfaction (Esterlin, 1974; Pugno, 2005). If welfare is to be increased then non-monetary, intrinsic elements need to be added to the way in which organisations are governed and stakeholders are motivated. The quality of social relations is also important (Borzaga and Depedri, 2005, Gui and Sugden, 2005) and the possibility to be involved and to define the objectives of development is an integral part of this quality (Frey and Stutzer, 2005). Procedures and their fairness acquire a paramount role in influencing the well-being of the involved actors (Tortia, 2007). The influence of self-interested behaviour, of more traditional economic factors and of the constraints posited by economic sustainability should not be underestimated. This is especially true when the performance of the organisation is considered, but they need to be repositioned and interpreted in a more general and encompassing framework, not considered as the unique objective of the whole system.

Thanks to these institutional specificities and their allocative and distributive consequences, social enterprises are expected to improve the welfare of local systems primarily by increasing the supply of quasi-public goods, which results in increasing employment and production. Since production is also based on trust and involvement, efficiency and effectiveness can be enhanced with limited recourse to more traditional governance forms based either on hierarchy or bureaucracy. The production of socially-oriented services with a high personal content also sustains endogenous development in the medium to long term. This is because a service-driven development model is better suited for contemporary economies than traditional models based on manufacture and the public sector. From this perspective, the production of services is brought nearer and is tailored to local needs. Embeddedness and proximity acquire features and strengths that reproduced with difficulty by public provision and also, in many cases, by for-profit firms.

Second, social enterprises create new employment at the local level which predominantly favours individuals such as women and young people who may have difficulty moving between localities to find jobs and a higher quality of life. Contrary to a static interpretation of the working of the economic system, social enterprises can indeed create new jobs. Thanks to their peculiar organisational formula, which can be in many cases necessary preconditions for the provision of specific services, any new jobs created are not substitutes for existing jobs. For example, a specific group of social enterprises, named work integration social enterprises, has as their aim the creation of new jobs for unemployable or near unemployable workers, a typology of service which, up until now, has not been reproduced by traditional (public and for-profit) proprietary structures (Nyssen, 2006; ISTAT, 2007).[19] This ability is often questioned as, in most cases, these social enterprises pay salaries which are lower than when compared to similar occupations in other organisational forms. However, empirical evidence shows that this criticism is questionable since workers in non-profits and in social co-operatives are more satisfied with their job and with their salary than in the public sector and are as satisfied as employees in for-profit firms (Borzaga and Depedri, 2005; Borzaga and Tortia, 2006; Tortia, 2007). As a result, social enterprises are able to produce a net improvement in the welfare of local communities. Thirdly, and building on previous points, the different allocative modalities support the reduction of poverty and inequality. This result is particularly important at the local level, where social enterprises can help local welfare systems to react in proactive and open ways in order to the reduce the development and spread of social ills. Costs are also reduced for the welfare system and negative externalities are converted in development objectives. Moreover, work integration social enterprises are able to achieve valuable results since they significantly reduce the marginality and poverty of hard-to-employ workers and their families. Further evidence for this effect comes from a recent national research project on Italian social co-operatives (ICSI, *Indagine sulle Co-operative Sociali in Italia*). It involved 310 co-operatives across Italy and gathered data concerning the distribution of resources in terms of unpaid for or under-paid services. When managers where asked if their co-operative voluntarily distribute resources in favour of disadvantages social groups in terms of unpaid services or higher salaries for disadvantaged workers, they answered that these actions are taken systematically in 23% of cases and occasionally in 16% of cases. On average, the percentage of turnover distributed by co-operatives that help disadvantaged social groups at least occasionally is estimated at 10%.[20] Hence, empirical evidence shows that a conspicuous share of social enterprises does indeed accomplish a distributive function,[21] even if this result is not granted by the institutional set up alone. However, it is likely to need, beyond adequate economic conditions, proper governance solutions and managerial models.[22] In this respect, the ability to distribute resources to disadvantaged individuals can be considered one of the criteria by which to single out the best and most deserving ventures.

Fourth, the enhancement of endogenous development allows the valuing and implementation of objectives that are strategically important for the locality, and that would not have been pursued (or would have been pursued with more difficulty) in the presence of exogenous drivers. Social enterprises are well-positioned to value non-mobile resources such as environmental patrimony or human resources like voluntary labour, and reutilise local assets, such as the cultural and historical patrimony. This surplus of resources needs to be managed and should not be used for purely commercial ends. Hence, in the absence of social enterprises, this surplus would often remain unutilised. Finally, positive externalities, which are predominantly found in the form of better social and trust relations, sustain the accumulation of social capital at the local level. This process, in turn, also helps with the implementation of culturally driven models of sustainable development.

The new crucial role given to local resources justifies the appearance, development and legal recognition of a specific organisational form that is able to strengthen and enforce this role in local development by managing them in such a way that local needs are satisfied without the limitations related to traditional modes of production. Social enterprises are relevant since they are conceived as locally based companies. The nature of the goods and services offered, together with the other institutional aspects already highlighted, creates a situation where local resources and personal relations are the fundamental core elements of the organisation's activity. Only around these core elements is it possible to build a network of locally-based actors ready to contribute to its objectives. The active role of social enterprises can be deployed on local markets and does not need to be confined to contracts and other relations with local authorities. Their embeddedness also makes it easier to create networks of local actors inside and outside the organisation by way of participatory mechanisms, as opposed to hierarchical control. Networking and partnership is one of the main mechanisms by which not-for-profit organisations can function effectively. This is because networks of co-interested and co-motivated actors widen the potential of involvement processes based on personal and trust relations, both inside the network and concerning the relations of the network with external subjects, whilst guaranteeing an adequate scale of production for localised services (Sacchetti and Sugden, 2002, Sacchetti and Tortia, 2008). This is reinforced by the ISTAT (2007) data, which, for Italy in 2005, shows the existence 284 consortia of social co-operatives operating across Italy. Furthermore, other results from the ICSI survey show that only 13% of involved co-operatives work in isolation, while 56% are engaged in networks with other firms. The average number of networks each firm is involved in is around 1.8. Finally, 22% declared that they also form networks with subjects different from firms such as universities, research centres, and centres for territorial development. The average number of this typology of networks for each firm is 2.6.

In this way, social enterprises are expected to reduce asymmetric information and limit confrontation between different interest groups by building trust between internal and external stakeholders. Embeddedness and networking can also create a shelter which buffers the local system from the intense competition that characterises globalisation. Indeed, when market exchanges are based not only on the fixation of the lowest price, but also on personal relations and trust, firms become focal points that are easily recognisable by different customers and users, both private and public. Often, demand for their services is sustained solely by those elements of territorial embeddedness. This picture of the role of social enterprises in local development is further rounded by noting that organisations are often created to support the local system without extracting significant economic rents from their position.

The most relevant examples of social enterprises supporting local development can be found in multi-stakeholder organisations, which are usually controlled either by volunteers or by users and workers. These organisations implement community development objectives by involving different actors, such as local authorities, associations representing the civil society and businesses, and other non-profit organisations. Community development companies can often be seen as network of co-motivated actors emerging out of the need to reduce information asymmetry, and to create trust and social cohesion, which are conducive to the production of new and often tacit, knowledge. Many social co-operatives in Italy and entrepreneurial non-profits in the United Kingdom actively participate in the formulation and implementation of local development strategies without any lucrative purpose.

These conclusions can be easily reconciled with recent contributions in industrial economics (Sugden and Wilson, 2000; Sacchetti and Sugden, 2003; Sacchetti, 2004) that have widened the perspective of research on local development driven by endogenous forces. Industrial firms are no longer the only relevant actor, but other agencies, both public and non-profit intervene in the production of services with a relevant local impact. Today, the whole range of actors that have a stake in the local system may contribute and benefit in different ways. The different involved actors need to find an appropriate participatory position in the local system, which permits the possibility of expressing their needs and implementing suitable solutions. This situation is difficult to achieve, but it is clear that multi-stakeholder ownership and governance based on active participation, is a step in the right direction. Moreover, these participatory features reinforce results obtained in the past. Evidence for this kind of governance model can be easily found in various case studies concerning Italian social co-operatives. In this case, representatives of different local actors (e.g. representatives of workers, clients, of the local community, of meso-institutions like associations of entrepreneurs and of other groups of citizens) sit on the Board of Directions or similar structures (Sacchetti and Tortia, 2008). Furthermore, the already cited ICSI survey shows that about two-thirds of the involved co-operatives can be considered multi-stakeholder, even if the law does not force them to endorse this form of governance. This is not only because most of them include in the membership both paid and voluntary workers (40% of cases), but also because many of them also include users and other organisations (16% of cases), or local authorities and financial supporters (8% of cases) (Borzaga and Depedri, 2007; Depedri, 2007). In these cases, the firm can be interpreted as a not-for-profit venture of co-motivated and co-interested actors that interact in the governance structure of the organisation to solve social problems.

When the public sector cannot intervene because of the implementation of inefficient production processes, and for-profit firms are not an efficient co-ordination device, social enterprises can represent the most relevant vector of development, even if decision-making processes based on involvement may be more costly. Indeed, even if some authors (Hansmann, 1996) identify the higher costs of decision-making as the main weakness of co-operatives and other non-investor owned organisations like social enterprises, in this context, it is clear that this is not necessarily one of their shortcomings. Even with the need to solve complex problems and with actors' diverging interests, participation mechanisms that are based on trust and common social objectives can lower and not increase the costs of decision-making. Besides, social enterprises are able to reduce other kinds of costs, such as labour, thanks to lower wages, and underpaid and voluntary work.

A strong shift in the focus of analysis has been accomplished. While it started from the determinants of economic growth implemented mainly by manufacturing firms, it ends up giving economic objectives a merely instrumental role and renewed attention is given to the non-instrumental components of well-being. As already underlined, the exclusion of the profit motive and the implementation of a governance structure based on involvement and the valorisation of intrinsic motivations represent the main institutional factors capable of supporting this shift in the understanding of development patterns.

In summary, the idea of an active and important role of social enterprises in local development becomes meaningful, since, by its very nature, this type of organisation produces services to respond to social needs and takes into consideration demands from different "publics" within the locality. Economic objectives can be understood as merely instrumental, while the organisation focuses on those elements, like involvement, voice and the equity and transparency of procedures, which have been shown to be the most relevant determinants of well-being (Benz, 2005; Benz and Stutzer, 2003; Benz, Frey and Stutzer, 2004; Tortia, 2007). The partly public nature of social enterprises should guarantee that not only private objectives are taken into consideration, but also collective objectives. In this sense, social enterprises can be understood as a collector of instances of social and collective needs that, when fulfilled, allow a better match between economic growth and the needs of the local actors.

Policy interventions

Given the innovative features of social enterprises and their growing weight in development processes, specific policy interventions seem to be needed. In this context, a shift from traditional policies in favour of non-profit organisations, which have been mostly based on fiscal advantages justified by their non-business nature, is likely to be required. Interventions should instead focus on the specific business features of social enterprises.

First, it is necessary to widen the juridical recognition of social enterprises and the relative development of legislation. Promotion is needed to ensure all the potentially interested actors are aware of the existence of this new type of firm.

Second, policy interventions should be directed to support a better understanding at the scientific and juridical level, but also in the political arena of this new organisation type. Social enterprises are likely to require a wholly new institutional set up, whose features have not been fully clarified by many scientific contributions to date. The relevance and potential of social enterprises need to be explored with more precision by empirical research and their implementation still requires many gaps to be filled. For example, the definition of more precise governance schemes and of patterns of involvements for different groups of stakeholders is a gap that needs to be filled. The boundaries of their fields of activity also need to be identified with more precision to properly locate them in between more traditional public and for-profit activities.

Third, given their local and social vocation, social enterprises represent ideal candidates for partnerships with the public sector especially in terms of managing activities dependent on decisions taken by local authorities. However, the exact legal and administrative features of these public-social partnerships still await a clear definition. Lack of proper co-ordination between parties of differing economic natures can result in competition and contrasts, instead of fruitful collaboration. At the local level, it is also necessary to support the development of consortia and networks of social enterprises which are able to widen their scale and scope economies and create synergies with similar and complementary fields of activity. Given their non-profit nature and their all-inclusive governance models, social enterprises seem unsuited for large scale production and need to develop new tools of co-ordination to reach scale advantages.

Finally, at the financial level, financial intermediaries are already noticing and supporting, in Italy and the United Kingdom in particular, the potential for development and the financial reliability of this new form of firm (Borzaga, 2007). New institutional tools and political campaigning may be needed to promote donations and new forms of support by institutional donors, public and private actors, especially in favour of social enterprises that have clear development objectives.

Conclusions

This chapter, after the initial theoretical remarks concerning the economic nature, the legal framework and the allocative features of social enterprises, has sought to improve the understanding of their impact on local economic development. It first presented some of their most relevant features, as they are defined by the United Kingdom and Italian laws. These features primarily include the definition of an explicit social objective (which is most of the time determined locally), a non-profit making nature and an asset lock (which underpin the accumulation of inalienable capital resources directed to development objectives) multi-stakeholder ownership or governance (which allow the involvement of all the relevant "publics" that are often embedded at the local level), and the definition of the firm's objectives.

To properly situate social enterprises in the theory of the firm and the theory of local development, two shortcomings in existing theories have been highlighted. First, the theory of local development has up to now considered almost exclusively industrial firms and public bodies. Not enough weight has been given to the intermediate area between these two extremes, where non-profit organisations and social enterprises usually operate. Second, the theory of the firm considers almost exclusively profit-making activities. This is not a comprehensive approach since firms are defined in terms of evolving sets of organisational routines and co-ordinating mechanisms that are required to govern complex production relations which are carried out by subjects that are driven by a complex set of motivations. These motivations can be monetary and economic, but also intrinsic, relational, and altruistic. In this sense, non-profit making activities like social enterprises must also be considered firms. The profit motive is instead to be interpreted as a specific, not general, driving force of a firm's operation. These theoretical refinements position social enterprises as well integrated in all those models of development that tend to valorise endogenously driven instances and local resources. The activity of social enterprises tends to be at odds with exogenous models of development. Their contribution in this context is mainly represented by the satisfaction of needs, most of which are local in nature. This takes place through direct impact by increased supply and lower prices, by the distribution of resources to disadvantaged social groups, through the indirect dissemination of positive externalities and accumulation of social capital.

Because of these elements, social enterprises are expected to make efficient use of public money and of unexploited resources at the local level relative to both for-profit firms and the public sector itself. In the former case, private firms may privilege private returns to the detriment of public objectives. In the latter, they represent a flexible expenditure channel for public authorities that can increase efficiency and effectiveness of services provision, at least in some sectors of operation. Social enterprises can complement and expand the services supplied by other organisational forms thus increasing welfare and employment, and reducing poverty. These results are affected through different modalities to allocate and redistribute resources in favour of customers and the less well-off.

Notes

1. Some general contributions dealing with the emergence of social entrepreneurship in the United States, mainly in connection with the development of the non-profit sector, are Young (2000) and Kerlin (2006).

2. Law on Community Interest Company, CIC, in 2005.

3. Law no. 118, 2005, on the Impresa Sociale, as completed by the legislative decree 155, 2006 and by four ministerial decrees in 2008.

4. Quasi-public goods are sorted into collective goods, which are non-rivalrous, but excludable (e.g. university lectures), and common goods, which are rivalrous, but non-excludable (e.g. natural resources). Many goods and services can have both collective and common features (e.g. health care services). The study of common and collective goods is relevant for the development of social enterprises since many services with a social connotation are clearly rivalrous, but their consumption cannot be excluded for ethical reasons. On the other hand, collective goods are important because the share non rivalry and high fixed costs with public goods.

5. As for market imperfections, information asymmetries induce phenomena of adverse selection and moral hazard that reduced demand, since the non-informed parties in transactions will try and avoid exploitative behaviour by the better informed parties. Information asymmetries can induce also marked phenomena of contract incompleteness since many future contingencies may not be predictable or ascertainable. Positive externalities are present when the price defined by the market does not fully represent the social value of the goods and services produced. Finally, market power in the case of natural monopolies, induces higher-than market equilibrium prices and reduction in supply.

6. Non-excludability is often found in conjunction with the difficulty to fix a unique price in the presence of non-rivalry, and with high fixed costs and low variable cost which require important investments in fixed capital and infrastructures. A thorough treatment of the economic nature of public and quasi-public goods and services is beyond the scope of this paper.

7. Among the few notable exceptions the reader can consult Greffe (2007).

8. The non-profit nature and the public-benefit aim are implemented in most countries through the accumulation of indivisible reserves of capital that constitute most or the whole patrimony of the firm. The indivisible patrimony cannot be appropriated by any of the stakeholders of the organisation and is directed to the realisation of the statutory purpose.

9.The organisation that is shutting down operations can usually choose the asset locked body or bodies which will benefit from the transferral of its residual patrimony, but the transferral has to be approved by an ad hoc regulatory agency, which will use it for equivalent public benefit purposes.

10. The exact list of services for Italian social enterprises is as follows: social services; health care;; education and training; protection of the environment and the ecosystem; valorisation of the cultural heritage; social tourism; graduate and post-graduate university training; research and supply of cultural services; extra-educational training; commercial and other services related to the vocational activities of social enterprises.

11. Exception is made for social cooperatives that, on issues concerning the patrimony of the organisation and the distribution of profits, are subject to the cooperative legislation, which allows limited forms of distribution.

12. The neoclassical and the new-institutionalist theories of the firm took into consideration the firm respectively as a mere production function and as a cost-minimiser. These conceptions are both strongly centred around the idea of efficiency since profit maximisation and/or cost minimisation are the only firm objectives. The most important flaws in these conceptions were the lack of attention paid to non-fully self regarding preferences and the exclusive focus on profit maximisation, to the exclusion of social aims with different connotations in cooperative firms, non-profit organisations and now in social enterprises (Borzaga and Tortia, 2007).

13. The evolutionary theory of the firm (Nelson and Winter, 1982; Hodgson, 1993) draws its analogies mainly from biology and has been developed in the social realm mainly to show that the evolution of economic and social institutions shares relevant features with biotic evolution. In this context, organisational routines are to be interpreted as behavioural predispositions that form the basis of behavioural patterns at the organisational level. They are not a property of individuals acting inside the organisation, but of the organisation as a whole. They can be considered the analogue of habits at the individual level, since habits are behavioural propensities of individuals. They emerge as the result of the interaction of individuals inside the organisation, are stored both formally and informally in organisational procedures, and are activated in specific circumstances by environmental stimuli (Hodgson, 2003, 2006).

14 Firms discriminate on prices when prices are adapted to customers' willingness and ability to pay for the specific good or service. While for-profit firms are expected to use price discrimination in order to increase appropriable surpluses, social enterprises, given their non-profit and distributive nature, can instead discriminate on price to extend supply and to serve weak social groups unable to pay the full market price.

15. The initial historical roots of the Misericordie are found in Florence by the middle of the 13th Century.

16. Many works in this stream deal with the systems of small and medium sized enterprises that have been able to guarantee both economic growth and social cohesion in many areas of central and north-eastern Italy.

17. The UN Handbook on Non-Profit Institutions shows that the non-profit sector as a whole reached about 15-17% of total production in the United States, in Canada and in the Netherlands, and the secular trend has market a continuous increase since the end of last world war.

18. The negative consequences in various countries and specific areas hit by deindustrialisation have already called into play new actors, often very different from the traditional industrial firms, which have revitalised and restructured the economic system allowing the creation and growth of locally embedded firms and of network of co-motivated and co-interested entrepreneurs. In some cases, industrial activities fallen out of the processes of development were renewed and strove again. Also craft production and retail commerce have been observed to strive again in many instances in which local embeddedness and social capital flourished.

19. The Italian legislation defines a specific category of social cooperative (the Type B) carrying out work integration. Official ISTAT (the Italian National Agency for Statistics) data recorded 2419 Type B cooperatives in 2005. They employed 30 141 disadvantaged workers, mainly disabled, but also ex-alcohol and drug-addicted and ex-convicted. The same figures in 2003 were 1979 cooperatives employing 23587 disadvantaged workers. The growth in two years was 22.2% in the number of cooperatives and 27.8% in the number of disadvantaged workers (ISTAT, 2007).

20. Our elaboration on data coming from the survey ICSI (*Indagine sulle Cooperative Sociali in Italia*) financed by the Italian Ministry for Scientific Research (MIUR) in 2004 within the research programme "The Economic Role of Non-Profit Organisations: New Theoretical Developments and Empirical Tests".

21. This is true, in Italy, also for those social cooperatives that work mostly on the basis of contract with the public administration since they often serve a higher number of users than what is required by the contracts.

22. The distributive function of social enterprises is often favoured by the presence of volunteers in the board of directors and in other organs of the firm.

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Chapter 5
Solidarity Co-operatives (Quebec, Canada): How Social Enterprises can Combine Social and Economic Goals

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In many European countries, multi-stakeholder co-operatives provide a positive contribution to the renewal of the co-operative model by offering relevant answers to new needs that combine social and economic dimensions. However, in North America, this model has a very limited impact, except in the Canadian province of Quebec where solidarity co-operatives can be found. In the ten-year period from 1997 to 2007, 479 solidarity co-operatives were created. The solidarity co-operative was developed to attract new key players of the civil society. Indeed, solidarity co-operatives can be set up in many original ways in various branches of industry, including new ones for co-operatives such as environment, leisure, fair trade and health care.

After an overview of the development of multi-stakeholder co-operatives from a global perspective, this chapter explains the genesis of the idea behind solidarity co-operatives in Quebec and present the legal provisions which define the concept and which prescribe its policies. This is followed by a brief portrait of the development of the formula following the legal act which led to its existence in 1997, and by data that relates to the current number of co-operatives and participant members, branches of the industry and their regional distribution. The last section offers an overview of the key findings of a research project dedicated to the impact of solidarity co-operatives on social cohesion and will focus on solidarity co-operatives evolving in the health care sector. A set of recommendations concludes the chapter.

Introduction

Possibly like no other place in North America, over time, Quebec in Canada has been renowned as a favourable ground for co-operative development. Co-operatives can be found in a wide variety of branches of industry, from natural resources to services such as housing, health care and funeral arrangements. Until recently, the three main types of co-operatives have been producer co-operatives, worker co-operatives and consumer co-operatives, the latter being most popular.[1]

In 1997, the National Assembly of Quebec amended the "Co-operatives Act" to allow the creation of solidarity co-operatives. According to the Act, "the solidarity co-operative concurrently consolidates members who are users of the services offered by the co-operative and members who are workers working within this co-operative. Moreover, any other person or company who has an economic or social interest in attaining the objective of the co-operative can also be a member of the co-operative. This member is herein named a 'supporting member'" (Quebec, 1999).

It is highly likely that such co-operatives are the first of their kind in North America. Due to the novelty of the model and possibly the linguistic barrier,[2] very little has been written on this subject despite very impressive data for Quebec's limited population of 7.7 million.

During a ten year between 1997 and 2007, 479 solidarity co-operatives were inaugurated and 300 remain in operation today. This may express some kind of renaissance of the co-operative movement. Solidarity co-operatives were designed to attract new actors of the civil society. Indeed, they offer many possibilities such as being set up in original ways and across various branches of industry including those which are new for co-operatives such as environment, leisure, fair trade and health care. Finally, over a relatively limited period of time, they can be viewed as a means to galvanise the role played by the co-operative sector.

In other words, solidarity co-operatives represent a re-articulation of the linkages between economic and social spheres in an environment where the global economy and new technologies call for a potentially unlimited mobility of capital, labour and knowledge. The local roots of solidarity co-operatives, which are owned and operated by local actors for the benefit of their members, represent an obstacle to this delocalisation and maintain the balance between local socio-economic needs and the challenges and opportunities presented by the global economic system. The association of workers and users within the same organisation makes possible the emergence of a jointly constructed demand and supply unit. This organisational form is also proving to be a new means of building on the resources contributions offered by volunteers, which reinforce the value of donations and reciprocity. In other words, solidarity co-operatives opened the door to what Laville (1997) calls the mix (hybridisation) of resources: those arriving from the market from the sale of services or products, the redistribution of resources kept by public authority (such as taxes) and transformed into subsidies or otherwise, and those deriving from voluntary contributions (reciprocity). Moreover, the presence of supporting members – individuals or organisations as defined by the already mentioned Cooperative Act – reinforced the link between the co-operative and its surrounding local territory and community.

The consequences produced a series of unique and innovative experiences such as:

- The intensive mobilisation of a small community of 3 000 inhabitants to save the local ski resort. In two weeks, almost a USD 500 000 were collected from donations to buy the ski centre and create a solidarity co-operative to manage it. This solidarity co-operative, *Co-opérative de solidarité récréotouristique du Mont Adstock*,[3] has been in operation since 1998.
- In 2003, a group of doctors operating a medical clinic in Gatineau (near Ottawa) decided to sell their clinic to the community to reinforce local roots. In less than five years, almost 10 000 citizens chose to become members of the Aylmer Health Coop,[4] subscribing USD 50 as a social share.
- In St-Tharcicius, an isolated area in the Gaspé region of Quebec, citizens who were confronted by the closure of all essential services decided to set up a solidarity co-operative to deliver basic proximity services such as a convenience store, oil and so on.

These cases are among a series which highlight that by combining economic sustainability with a strong social impact, solidarity co-operatives can represent the means to ensure the survival of communities.

This chapter aims to discuss the level of development of solidarity co-operatives in Quebec. After an overview of the development of multi-stakeholders co-operatives from a global perspective, the chapter will explain the genesis of the idea behind solidarity co-operatives in Quebec and present the legal provisions which define the concept and which prescribe its policies. Analysis will be taken forward through a brief portrait of the evolution of solidarity co-operatives since the legal act which led to their existence in 1997. Data will also be presented that relates to the current number of co-operatives and participant members, branches of the industry and their regional distribution. The following section will offer an overview of the key findings of research which examines the impact of solidarity co-operatives on social cohesion and will focus on solidarity co-operative evolving in the health care sector. Conclusions will primarily focus on current challenges that face solidarity co-operatives as they develop. Some recommendations will also be provided.

Development of multi-stakeholder co-operatives from a global perspective

From a global perspective, the idea of multi-stakeholder co-operatives is both new and old at the same time. It is new in the sense that it has only been 20 years since the model has had formal legal recognition in various national or regional European Union public authorities. The general background of co-operative development, at least for the 20th century, has been characterised by the hegemony of single member co-operative models such as consumer, producer or worker co-operatives. However, the concept of a multi-stakeholder co-operative is also old because the idea of a close and permanent link between the co-operative and its community was important for the co-operative's precursors and has crossed co-operative development over decades.

Ian MacPherson (2004), who was Chairman of a committee of the International Co-operative Alliance (ICA) on co-operative principles from 1992-1995, proposed an in-depth overview of this idea starting from a communitarian philosophy base taken from Robert Owen[5] and Rochdale Pioneers (1844). MacPherson focused on recent ICA congresses appealing for change. For instance, the congress held in Moscow in 1980 where Alexander Laidlaw in his report (1980) on "Co-operatives in the Year 2000" identified several challenges confronting co-operatives. For Laidlaw, within a set of four major opportunities, the idea of building co-operative communities is particularly powerful. At the 1984 ICA Hamburg Congress, Micheal Trunov of the former USSR presented a paper which advocated a strong and positive social role for co-operatives.

MacPherson specifically saw the 1995 ICA Manchester Congress as the consecration of the reconnection of co-operatives with the community. He calls it the social dimension of co-operatives and it involved at least six components. They include: inserting the words "cultural", "social needs" and "aspiration" into the accepted definition (the first definition ever agreed to by the international movement); inserting the words "social responsibility" and "caring for others" into the value statement; concretely encouraging inclusive membership approaches; emphasising member involvement and control (a characteristic that would naturally broaden co-operative mandates); emphasising "common capital" rather than continuing the tendency to think of co-operatives as mere agglomerations of members; and of course, specifying a commitment to "sustainable communities" in the seventh principle (MacPherson, 2004).

This seventh principle of the Co-operative Identity Declaration stated that "co-operatives work for the sustainable development of their communities through policies approved by their members" (www.ica.coop).

Macpherson describes a strong tendency amongst many co-operative organisations to "cut and paste" management theory from other kinds of enterprises, mainly investor-driven firms. MacPherson suggests the result of this is clear. They de-emphasised democratic control structures and questioned the idea and practice of "common capital" systems. Moreover, co-operative communitarianism represents a true alternative to the ascendancy of private enterprise models. "Co-operative communitarianism is based on grassroots control and initiation and is committed to practicing reciprocity and mutuality. It excludes a kind of individualism that believes individual development is at least as dependent on group association as on individual initiative."

Even if at the national level there are a number of differences. For a growing number of analysts, it is clear that for a few years, the "orientation of the international co-operative movement moves in the direction of revitalising the communitarian tradition" (Borzaga and Spear, 2004).

Galera (2004), quoted by Borzaga and Spear (2004), proposed an interesting framework which helped to situate the diverse kinds of co-operative development models. It is understood that this was included, in points two and three of the multi-stakeholder co-operative model:

1. The mutualistic model: characterises co-operatives which strictly promote members' interests.
2. The sociological model: characterises co-operatives more open to community interests.
3. The in-between model: refers to those systems where the mutuality concept, as defined in laws which regulate co-operatives, has been open to different and often opposing interpretations - defending co-operative's mutual nature or claiming co-operative social function.
4. The quasi-public model: characterises co-operative organisations perceived as public enterprises and whose governing rules are dictated by public authorities.

At this point, it is important to ask why multi-stakeholder co-operatives have received such attention in such a short length of time. There is no single reason explaining the heightened interest in this co-operative model. Rather, the interaction of a range of factors is to blame.

Global economy, global technology

In terms of economic globalisation and its many consequences, it is clear that under a competitive environment and the possibility of potentially unlimited mobility of capital, labour and knowledge, many enterprises interact at the global scale without specific respect to their territory of origin. In Münkner's view (2004):

> *"Multinational firms and global players restructure their enterprises in search of best conditions for profit making, irrespective of negative side effects for others (workers, consumers or citizens) leaving the inhabitants of villages and small towns without employment and basic services (shops, banks, schools and public transport) turning workers settlements into settlements of unemployed". (Münkner, 2004)*

Among many possible strategies, an enterprise can easily outsource services to save costs without considering the community where it is located. Therefore, there is a clash between the global economy and civil society which raises a fundamental question: how is it possible to maintain a strong link between the global economic processes and local territories?

Demographic changes

Low birth-rates and extended life expectancies combined with the evolution of medicine and pharma-drugs have provoked a dramatic demographic change in our society. Despite high immigration rates, society is increasingly ageing. For instance, in Japan, between 1980 and 2005, the proportion of the over 65 year-old age group doubled. In 2006, this group represented approximately 20% of the total Japanese population, a proportion that will reach 40% by 2050.

In reference to this important challenge facing developed societies, Münkner suggested that:

> *"…this development is accompanied by growing individualism, loosening of family structures, single household of young professional, abandoning traditional patterns of family care for the handicapped and for the elderly, relying more and more on the public security system. The growing needs for health care, residency*

with services, assistance and other put a lot of pressure on public state resources, but the system has to be supported by fewer active contributors." (Münkner, 2004)

Role of the state

The "glorious 30th", which refers to the post-Second World War period (1945-1975), has been characterised by continuous economic growth. This phenomenon, combined with "oil shock" and inflation since the mid-1970s, has forced the state to reconsider its role. This trend has been amplified by many consecutive deficits, resulting in a debt that has skyrocketed and an important charge to public finance to pay interest on the debt.

But how is it possible to combine budget cuts and expanding needs, especially on the social and health services side? This question has driven a search for alternative and innovative means to fund and deliver public services. For instance, solutions might involve combining voluntary contributions with public funds or thinking about using public-civil society partnerships to deliver of services. This search for new methods needs to be efficient, effective and responsive. Furthermore, in the view of Restakis and Lindquist (2001), who led the "The Co-op Alternative: Civil Society and the Future of Public Services" project for the Institute of Public Administration of Canada, it is also a question of calibrating a new role for the State. They highlight "the emergence of a widespread perception that the traditional roles and responsibilities of governments are inadequate to meet the pressing challenges facing our society."

The added value of the multi-stakeholder co-operative model

At international level, the belief that the co-operative model was the best organisational model to maintain a close link between the economy and the territory spread quickly. According to Draperi (2003), many points support this view:

- Co-operatives were created by local actors.
- Co-operatives depend on voluntary and joint involvement.
- The capital of co-operatives, indivisible and inalienable, cannot be delocalised.
- The spatial scale of co-operatives generally matches the scale of the surrounding territory.

- The development of co-operatives is the responsibility of the members and takes place with respect to the one member, one vote principle.

Mobilising civil society by promoting a culture of innovation, responsibility and accountability is seen as a key advantage of the co-operative alternative (Restakis and Lindquist, 2001). For Stefano Zamagni's (2001), "co-operatives embody a natural advantage in the delivery of what are termed relational goods….Co-operatives will out-perform capital-owned, for-profit corporations when the essential service being delivered entails a specialisation and a focus on human relations." Furthermore, it is trust in co-operatives which gives them the opportunity to co-operate in the production and delivery of relational goods.

Multi-stakeholder co-operatives pursue a compromise between diverse stakeholders and intend to manage the diversity of interests under a superior interest - the interest that underpinned the co-operative at its inauguration. For Münkner (2004), in multi-stakeholder co-operative models, "the disadvantage of increased costs caused by interest harmonisation and decision making is balanced by a number of advantages of this specific organisational typology, namely better quality of services (services correspond to the users' needs) and reduced transactional costs (due to trust relations, resulting from knowledge of local conditions and stakeholders' involvement)."

Legal recognition of multi-stakeholder co-operatives

In 1991, Italy was the first country to adopt a law that formally recognised multi-stakeholder co-operatives as a specific form of social co-operative. This legal recognition came after nearly 25 years of experimentation at the local level. Subsequently, Quebec (Canada) (, Portugal and France also enacted new laws or proposed amendments of existing co-operative laws in 1997, 1998 and 2001 respectively. As Münkner states, "in other countries, multi-stakeholder co-operatives are established under current co-operative law (Germany), under special laws for community benefit organisations (United Kingdom), non profit associations, societies with social objectives (Belgium) or under general law (Denmark)."

It is important to note that some laws characterise the field of activities of multi-stakeholder co-operatives and others simply focus on the notion of multi-stakeholdership.

In Italy, Law No. 381/1991 stated that the goal of social co-operatives is to pursue the general interest of the community. Social co-operatives were to promote personal growth and integrate people into society by providing social, welfare and educational services (Type A co-operatives) and undertaking different activities for the purposes of providing employment for disadvantaged people (Type B co-operatives) (Galera, 2004). In France and Quebec, multi-stakeholder co-operatives are not required to focus on a specific sector of activity.

Background of solidarity co-operatives in Quebec

The mutual and co-operative development

The presence of co-operatives in Quebec is part of a long term development tradition involving collective enterprises, which began in the mid-19th century with mutual societies. In Peticlerc's view (2007), the first step of the social economy was expressed with the inauguration of mutual societies or mutual aid societies to offer various kinds of protection, including fire and life insurance. A strong sense of solidarity and self-help was forged during the foundation of this movement, which was largely driven by craftsmen, specialised workers and farmers.

Inspired by the principles of Pope Leon XIII's *Rerum novarum* and then by Pius XI's *Quadragesimo Anno* and the encyclicals setting out the Church's social doctrine, at the end of the 19th century and at the beginning of the 20th century, the Catholic clergy saw the need to actively participate in the improvement of the material conditions of workers in both urban and rural areas. "Credit unions and other co-operatives were seen as a solution favouring an economic and moral recovery, a means of supporting agricultural progress and, ultimately, a mechanism for strengthening the bonds uniting the people and their spiritual leaders" (Girard, 1999).

If the period between 1830 and1930 is seen as the birth of the co-operative movement in Quebec, which includes the farmers' co-operative and, in 1900, the establishment of the first *caisse populaire* by Alphonse Desjardins in Lévis – the starting point of the very important and successful co-operative organisation known as the *Mouvement des caisses Desjardins* –, the following years, from 1930 to 1945, can be seen as a period of proliferation and diversification of the co-operative model. The co-operative formula was increasingly applied across various sectors including housing, student needs, food supply, forestry industries and funeral services.

From the end of the Second World War until the early 1960s, the oldest movements such as credit unions, continued to evolve and consolidate their activities. For other sectors, however, development was less dynamic.

The period from 1960 to 1980 is described as the Quiet Revolution. Driven by a tide of national affirmation, the Quebec public system took on a key role across a range of social and economic activities. It replaced religious institutions in the health and education sectors, created numerous Crown Corporations that participated in economic development and introduced a series of laws, regulations and standards governing a number of other spheres of activity (Girard, 1999). This period was characterised by vitality and diversification. Plans were made to expand co-operatives in structured sectors and, just as with the period between 1930 and 1945, to develop co-operatives in new sectors. For instance, the support of already well-developed co-operatives enabled the establishment of co-operatives involving Inuit groups in the northern part of the province, in small native communities along the Hudson and Ungava Bays. These co-operatives fulfilled a dual role: the marketing of products and the supply of essential goods.

The final period of evolution from 1980 to 2000, was characterised by change, transformation and new dynamism. According to Girard (1999), this period "has been more one of personal success, individualism and a tendency to turn inward. The market and the interaction of supply and demand define the new order. However, through this new approach, in which United States influence is not insignificant, some excellent local development initiatives, driven by a philosophy of endogenous development, have emerged" (Girard, 1999). With union support, a network of ambulance service worker co-operatives[6] came to life after the purchase of a paramedical enterprise from a private owner. Today, except for the region of Montreal (Inland), this co-operative network became a major actor. A particular type of co-operative formula has also been recognised under the Cooperatives Act- the worker-shareholder co-operative. It resembles the stock ownership programme for workers in a private enterprise. Examples from the rural perspective can be found in current practices in France. French Farmers established *co-opératives d'utilisation de machinerie agricoles* (CUMA) and, in some cases, they still follow the concept of resource sharing, *co-opératives d'utilisation de main-d'oeuvre* (CUMO). Some groups of co-operatives, such as that of the Quebec United Fishermen (*Pêcheurs unis du Québec*), have, for various reasons, disappeared.

The web portal of the "Quebec Co-operative and Mutual Council" (*le Conseil québécois de la coopération et de la mutualité*[7] *CQCM*), for co-operative enterprises and insurance mutuals in Quebec is the source of impressive contemporary data on co-operatives:

- 32 000 co-operatives and 39 insurance mutuals.

- 8.5 million members (individuals and enterprises).
- 87 000 jobs of which 60% are provided in co-operatives operating outside urban centres;
- USD 22 billion annual turnover.
- Based on a survey from the Quebec government's co-operatives branch,[8] the survival rate of co-operatives is much higher than that of traditional enterprises: after five years, 64% of co-operatives survive compared to 36% of for-profit enterprises; and after ten years, the figures stand at 46% compared to 20%.
- A deep and diffuse network is operating. This network is based on sectoral activities (Federation), regional collaboration (regional development co-operatives[9]) and at the provincial level, CQCM gathering the sectoral federation, RDC's, and University research institute devoted to co-operative studies.

The emergence of a need

It is clean then that since 1997, just as with many places across the globe, Quebec has been the scene of major co-operative development. It resulted from the decline of single owner, consumer, producer and worker co-operatives. From a stakeholder's perspective, despite:

> *"…practicing a model of unique partnership, these different types of co-operatives are not sheltered from the tensions brewing between members who may have different, or opposing, interests. Therefore, in financial services cooperatives, the investing member seeks to maximise the return on his deposits. On the contrary, the borrowing member looks for the lowest cost at which to borrow money. But it remains that the group of these co-operatives, contrary to the mutual responsibility cooperative, responds to a single line of reasoning: consumption, (producer) distribution and work". (Girard, 2004)*

The background to the concept of the multi-stakeholder co-operative in Quebec relates to solidarity co-operatives and also stems from different sources. At least four major issues can clearly be identified which, over a period of around ten years from 1986 to 1996, contributed to a debate surrounding the underlying principles of solidarity co-operatives:

1. Local development.
2. Disappearance of villages or the closure of proximity services.

3. Development of daycares (nursery schools).

4. The issue of occupational integration.

A fifth issue gave the process its final push to become a reality in 1997:

5. Home services for the elderly.

Local development

As with many places across the world, for long periods in Quebec, the practice of community development was associated with that of territorial development. However, over time, this notion of community development adopted a more specific or grassroots notion, the concept of local development. In practical terms, it refers to groups of citizens who are actively involved in the well-being of their community and representatives of institutional players at the local level, such as municipalities, credit unions, chambers of commerce, and so on. These stakeholders seek to build relationships with organisations with the goal of promoting discussion, implementing development strategies and giving initial support to new businesses. "Notwithstanding the fact that democratic operating rules are being established, these structures which balance various interests should have adhered to the legal form of the non-profit organisation, because the provisions set by the Co-operatives Act (uniqueness of owner) did not promote choosing the co-operative model" (Girard, 2004).

The disappearance of villages

Quebec is a large territory, almost three times the size of France. There is a strong concentration of population along the St. Lawrence River (Montreal, Trois-Rivières, Quebec City, and so on) but besides this axis, the territory is predominantly rural. Many villages developed alongside primary activities such as agriculture or forestry. Over time, however, urbanisation has resulted in many citizens, especially the young, leaving rural areas in favour of towns and cities. Faced with decreasing populations, many villages began to lose their proximity services such as post offices, petrol stations and grocery stores. Their loss presented a very serious threat to the survival of many rural communities.

Under these circumstances, the idea of consolidating individuals and organisations, private or public, gained ground amongst those concerned with establishing an enterprise to offer basic minimum services to ensure the survival of communities. However, these organisations had to have the capacity to welcome diverse stakeholders. At that time, this requirement was not legislated for under the Co-operatives Act, which instead focused on singular or individual ownership.

Development of daycares

Over the past decade, the increased participation of women in the labour market has put heavy pressure on the development of childcare services. In these services, at least two important stakeholders are present: parents and educators. Sometimes, daycare is run for the employees of a private organisation, a hospital, a college, the head office of a large bank, and so on. As a result, the enterprise can also have a special interest in the service. The difficulties that co-operatives faced at that point to consolidate the diverse interests of wide groups of stakeholders resulted in daycare centres favouring the non-profit organisation model. None the less, thousands of enterprises came to life across the province.

Labour market integration

The fourth issue is related to the integration or the re-integration of disqualified individuals into the job market. As shown by an OECD study, the number of jobless people in the 25 OECD countries rose from 11.3 million to 30 million between 1973 and 1991 (OECD, 1994). In Quebec, in 1993, the real unemployment rate stood at 22.8% of the active population, which equates to 873 000 jobless people (Fortin, 1993). In addition, in 1994, the total beneficiaries of social welfare was 800 000 individuals or up to 10% of the total population of Quebec. Therefore, globally speaking, there was a growing tension between wealth creation and job creation. It is important to note the increased number of projects which had the goal of raising employment levels. For instance, many projects offered individuals an on-the-job apprenticeship of approximately six months. This process was administered by a structure looking to accommodate the various interests already in place. These included the interests of the trainee and the beneficiary of the service, as well as those of the supervising organisations. Again, due to the lack of adaptation to the co-operative model, these projects, of which most of it came into life during the 1990s, used the non-profit organisation legal scheme.

Hence, over the years, these new social and economic realities, emerging from new needs and supported by many civil societies actors, fuelled research into the "Co-operative Movement". Discussion focussed on how to modernise the co-operative model. It is important to note the contribution of the "Co-operative Research Centre" at HEC Montreal, the most prestigious Business School in Quebec to this debate. Indeed, a few years before the "Co-operatives Act" amendment, which opened the door for multi-stakeholder co-operatives, the *Centre de gestion des coopératives*[10] conducted a pilot project which combined occupational reintegration and home services (maintenance) for elderly and disabled people in a town called Mont-Laurier, situated 250 km north-west of Montreal (Ouimet, 1995). This project, called *Défi-autonomie*, led in conjunction with Local Community Health Centres (*Centre local de services communautaires*[11]), also showed the need to create a new co-operative model with the capacity to capture the interest of diverse stakeholders. A number of collaborators of this university co-operative research centre were aware of the multi-stakeholder co-operative concept since they participated in an international conference on worker co-operatives held in 1984. During this 1984 conference, researchers were exposed to the growing role of social co-operatives in Italy and the case of multi-stakeholder co-operatives in the Mondragon area in the Basque region of Spain). They also had the opportunity to exchange valuable information with participants and organisers following the conference.

Home services

In relation to home service, a major event catalysed a move from reflection to action. Facing important public debt and low levels of job creation, the government of Quebec hosted the "Economic and Job Summit" in 1996. The idea behind the Summit was simple, but challenging. It aimed to gather together a large number of key figures in Quebec society such as businesses, labour unions, co-operatives, women organisations, municipal associations, and so on. The task was to find practical solutions to control public debt and improve Quebec's performance in relation to job creation and maintenance.

Over a few months, from March to October, work was split among clusters, each of which gathered together representatives from diverse organisations, with the aim of generating ideas that could be presented at the final session in Montreal in October 1996. One cluster was specifically dedicated to social economy under the name *le chantier de l'économie sociale*.[12] This cluster was formed from representatives of socio-economic organisations such as Community Development Corporations and Community Economic Development Corporations, women's organisations, labour unions, Desjardins, Quebec's Co-operative Apex organisation (CCQ), and so on. This cluster quickly identified home care services as a potentially fruitful idea:

> *"Following the example of other Western countries, Quebec must come to terms with its noticeable aging population. Sheltering in a public environment for those who are aging and are losing their autonomy where its physical limits are concerned, is considerably expensive; consequently, the government has decided to encourage elderly people to stay home. In this context, through the network of Local Community Health Centres, the government can, in principle, ensure a delivery service of assistance and care to these persons, but not work and domestic help". (Girard, 2004)*

Taking into account the fact that a significant portion of these custodial services were carried out without any fiscal control, the idea to structure the services around the inauguration of Homecare Social Economy Enterprises (HCSEE) was championed by many. "In doing this, one seeks on the one hand to bring this service delivery out of the informal economy, and on the other hand to promote job creation, especially for persons excluded from the job market (measures enabling re-entry into the labour force)" (Girard, 2004).

At this point, the question of the legal form of the organisation arose. Specifically, should the new organisation be a non-profit or a co-operative? The initial solution was to use a combination of both options, but an inequality quickly appeared. If the non-profit organisation legal framework was in fact open to the presence of many stakeholders, this was not the case for the co-operative's single member base. In other words, by choosing consumer co-operatives or worker co-operatives, important stakeholders of this service, the users or the workers, were marginalised. To avoid this unfair choice between non-profit organisations and co-operatives, the representatives of the CCQ took this opportunity to ask the government to improve the co-operative model by creating a new kind of co-operative based upon the idea of the multi-stakeholder approach. Work was undertaken "to give a legal basis allowing for interests to be expressed by the various actors affected by these co-operatives' lines of activities. We are therefore speaking about the interest of the user who seeks to satisfy his need for home services as much on the level of cost as on the quality of the service, of the worker, in terms of work and salary conditions and of organisations or individuals which, without being directly involved in offering these services, share the same objectives of the organisation" (Girard, 2004).

Starting with the formal commitment of the Government of Quebec to recognise this new kind of co-operative, a close and very fruitful collaboration between the CCQ and the government branch responsible for administering the Cooperatives Act, the *Direction des coopératives*, enabled the amendments to the Act to be completed. The National Assembly adopted these changes in June 1997 and thus solidarity co-operatives came into being.

Amendments to the Co-operatives Act in 1997 therefore gave substance to the concept of the solidarity co-operative under article 226.[13] The main provisions are linked to four keys elements: definition, capitalisation, composition of the Board of Directors and patronage refund.

Definition

The definition of the solidarity co-operative does not confer it with a specific mandate. For its mandate, we need to refer to the general definition of the co-operative which is based on article 3 of the Co-operatives Act:

> *"A co-operative is a legal person in which persons or partnerships having economic, social and cultural needs in common unite for the prosecution of an enterprise according to the rules of co-operative action to meet those needs". (Quebec, 1999).*

Article 226.1 only discusses member categories, without attributing a specific purpose to the solidarity co-operative, unlike the Italian social co-operative model which has a defined mandate.

> *"The solidarity co-operative concurrently consolidates members who are users, services offered by the co-operative, and members who are workers of the cooperative. Moreover, any other person or company who has an economic or social interest in attaining the objective of the cooperative can also be a member of the cooperative. This member is hereafter named a "supporting member" (Quebec, 1999).*

Therefore, this initial formulation of solidarity co-operatives specified that the organisation had to gather user and worker members and was permitted, if desired, add a third category, that of supporting members.

Recent changes

In November 2005, a set of changes was made to the articles of the Act related to solidarity co-operatives. Two changes need to be addressed:

- The member base: The solidarity co-operative is a co-operative consisting of at least two categories of members among chosen users, workers and supporting members. There is no longer the obligation to constitute the co-operative with user and worker members.

- A person cannot belong to more than one category of members in the co-operative. For example, an employee who used to be both a worker member and a user member can now only belong to one category.

The first point is important. Other than the fact that an existing solidarity co-operative can reduce its member categories from three to two, it enabled all single member co-operative organisations, whether made up of user or worker members, to add the category of supporting members and become a solidarity co-operative. This point will be discussed below.

Development of solidarity co-operatives[14]

In June 1997, in the days following the legal recognition of solidarity co-operatives, two solidarity co-operatives were inaugurated. During the remainder of 1997, 21 additional solidarity co-operatives were created (Table 5.1). Of this initial group of 23 solidarity co-operatives, 11 previously existed in another category of co-operatives and asked to modify their legal assets to become solidarity co-operatives (Chagnon , 2008).

The number of solidarity co-operatives founded kept increasing and on July 31 2007 reached the impressive peak of 479 co-operatives. From 1998 to 2005, the evolution of the number of solidarity co-operatives created was relatively consistent, growing from 17% to 32% of all co-operatives established. However, in 2006, this figure jumped to 62% of the total number of new co-operatives due to new legal provisions, especially the provision pertaining to the category of members. In other words, solidarity co-operatives have become the most popular form for new co-operatives in Quebec. From 2004 to 2006, solidarity co-operatives grew from 7.4% to 10% of the total number of active co-operatives in the province.

Table 5.1. Solidarity co-operatives based on year of establishment

Year established	Co-operatives established	Solidarity co-operatives established		Active solidarity co-operatives[1]	
		count	%	count	%
1997[2]	127	23	18.1	21	91.3
1998	189	32	16.9	18	56.3
1999	185	45	24.3	18	40.0
2000	169	46	27.2	8	17.4
2001	142	31	21.8	12	38.7
2002	169	36	21.3	20	55.6
2003	220	51	23.2	26	51.0
2004	115	33	28.7	25	75.8
2005	131	42	32.1	40	95.2
2006	157	81	61.6	81	100.0
2007	98	59	55.1	59	100.0
Total	**1 702**	**479**	**28.1**	**328**	**68.3**

Notes: 1. Active co-operative: a co-operative that is not undergoing a dissolution process. Co-operatives can also be classified in another category, that of declaring cooperatives, i.e. ones that have sent an annual report, including financial data, to the *Direction des co-operatives*; 2. Data dated July 2007, however 1997 includes 11 co-operatives established before 1997 that modified their articles of incorporation in order to become solidarity co-operatives.

Source: Direction des coopératives, MDEIE, 2007.

Data from this Table 5.1 shows that as of July 31st 2007, 68.3% of the co-operatives established since 1997 were still active, which represents 328 co-operatives of a total of 479. Closer examination of the data reveals that solidarity co-operatives established between 1999 and 2001 show the most important rate of inactivity. There is no clear explanation for this situation other than a general one- the promoters could not render the project profitable and decided to stop.

From November 17 2005, when new amendments relating to solidarity co-operatives were made to the Co-operatives Act, to July 31st 2007, 144 solidarity co-operatives were created. Among them, 61% gathered all three types of members. Of this total of 144, nine single member co-operatives decided to modify their articles of incorporation to become solidarity co-operatives. Finally, three solidarity co-operatives eliminated the category of worker members to preserve only two categories, the users and the supporting members.

Areas of activity

Solidarity co-operatives are present in a great variety of areas, but are most numerous in the services sector with a notable concentration in social services, leisure and personal services or home care services (Table 5.2).

In the latter case, the 1996 Summit is an important milestone and tool to understand the level of commitment made by the Quebec Government. Following the suggestions of the cluster devoted to social economy (*chantier de l'économie sociale*), the government was asked to support the development of HCSEEs:

> *"In encouraging the establishment of a network of HCSEE, the government had as a goal to bring this service delivery out of the informal economy, and also to promote job creation through measures enabling individuals excluded from the job market (mainly women who are single parents) to re-enter the labour force. The provincial government has supported HCSEE by providing subsidies for the establishment of these enterprises (USD 40 000 for each enterprise). It has also developed a financial aid programme at the request of users wishing to receive domestic help services and frail seniors requiring regular housekeeping services. The programme is entitled the* Programme d'exonération financière en services à domicile *(PEFSAD). The users only have to pay part of the cost of the services they receive. The subsidy provided is based on a household's income and size. Although services are billed at USD 14 per hour, the user only pays between USD 4 to USD 10; the balance is covered by the PEFSAD. Over a period of seven years, approximately USD 160 million has been invested in this programme". (Girard, 2006)*

In 2005, there were 103 HCSEE in Quebec. At that time, it was estimated these enterprises had an annual turnover of USD 91 million, provided employment to nearly 6 000 individuals, and offered a total of 5.5 million hours of services per year. Most of these services were delivered to the elderly and the remainder, mainly to active households. Nearly 55% of the HCSEE operated under the non-profit organisation legal model and 45% were registered as co-operatives. Most of these co-operatives favoured the solidarity model.

Table 5.2. Solidarity co-operatives based on their area of activity

Sector	Established	Active	
	count	count	%
Accommodation and food services	29	18	62.1
Arts & crafts	4	3	75.0
Arts & entertainment	33	21	63.6
Blueberry farms	2	2	100.0
Business services	31	22	71.0
Cable distributors	2	2	100.0
Clothing	4	0	0.0
Commerce	20	16	80.0
Community groups	1	0	0.0
Computing	12	6	50.0
Construction	1	0	0.0
Consulting services	9	7	77.8
Daycare centres	11	5	45.5
Economic development	12	6	50.0
Education	10	7	70.0
Farming	18	10	55.6
Fishing	3	1	33.3
Food stores	24	13	54.2
Forestry	9	6	66.7
Housing	15	13	86.7
Leisure	60	45	75.0
Manufacturing	5	3	60.0
Other services	29	24	82.8
Personal services	44	37	84.1
Printing and editing	11	8	72.7
Purchasing groups	2	1	50.0
Recycling	15	9	60.0
School co-operatives	2	0	00.0
Social services	50	37	74.0
Transportation	8	2	25.0
Utilities	3	3	100.0
Total	**479**	**327**	**68.3**

Note: Data as of July 31, 2007

Source: Direction des coopératives, MDEIE.

The data also show that among the solidarity co-operatives recently established, some operate in new areas of activities such as wind power or land-use planning.

Miscellaneous data

Solidarity co-operatives can be found across Quebec, but they are largely concentrated in semi-urban or rural settings. In fact, solidarity co-operatives are relatively scarce in urban areas such as Montreal and its suburbs and Quebec City. No in-depth investigation has been conducted on the reasons that explain this situation but it is reasonable to hypothesise that there is a stronger sense of community in rural village compared to the city with its relatively high number of inhabitants.

Data emanating from declaring co-operatives between 2001 and 2005 shows (Table 5.3):

- An increase in the number of declaring solidarity co-operative status.
- A growth of assets.
- A decrease of surpluses.
- An increase in the number of members.

In this last case, a more detailed analysis of the data reveals that most of this growth came from members of health and home services co-operatives. Previous discussion in this chapter explained that some health co-operatives may have many thousands of members. Indeed, in one specific case in particular, a health co-operative had up to 9 000 members. The financial situation of solidarity co-operatives seems to be fragile since they must generate surpluses to support their growth.

Table 5.3. Solidarity co-operatives: data from annual reports

	2001	2002	2003	2004	2005
Number of declaring co-operatives	89	97	114	130	145
Total assets (000 USD)	23 492	27 654	30 215	44 412	50 522
Total equity (000 USD)	10 577	12 242	12 763	15 464	16 080
Turnover (000 USD)	32 765	41 464	46 760	52 929	56 604
Surplus (000 USD)	1 462	658	400	307	-220
Number of members	23 526	28 942	36 791	43 751	50 371
Number of jobs	1 877	2 193	2 020	2 209	2 124

Source: Statistic data (2007), Direction des coopératives, MDEIE.

Support for the development of solidarity co-operatives

Contrary to the prevailing situation in other Canadian provinces, the co-operative option, with its principles of inclusion, solidarity, and involvement of civil society, is clearly part of the economic and social development agenda in Quebec. However, its presence is also a result of a very supportive environment for co-operatives. Important resources are allocated to promote their development, not only financially, but also to support the start-up and growth of this type of enterprise. In fact, regional development co-operatives receive part of their income from the Quebec government based on the number of co-operatives and jobs created. Other organisations dedicated to the support of entrepreneurship and the set up of new enterprises receiving public funds, such as Community Economic Development Corporations and Local Development Centres (LDCs), can also provide assistance to new co-operatives.

In some specific cases, the well-established co-operative network can also provide support. Desjardins Financial Security, part of the Desjardins Movement offered a subsidy for the start-up of co-operatives in the home care sector in exchange for the publicity of their services.

From a financial standpoint, specific resources have been developed over recent years to finance collective enterprises. These include venture capital funds, which provide loans to co-operatives and non-profit organisation from a few thousand dollars up to millions of dollars. The *Réseau d'investissement social du Québec* (RISQ) is a non-profit-making venture capital fund whose mission is to provide financing to partnership businesses. Its objective is to support the economic development of partnership businesses by injecting monies that act as a financial lever to implement their projects. This fund can, for instance, lend up to USD 50 000, but this amount is generally combined with other financial resources, to finance projects of between USD 300 000 to USD 400 000 in size.

In the Desjardins movement, since 1971, one *caisse* has specifically targeted collective enterprises including, of course, solidarity co-operatives. This financial co-operative, known as the *caisse d'économie solidaire Desjardins* (CECOSOL), is also a member of the International Association of Investors in the Social Economy (INAISE), a global network of socially and environmentally oriented financial institutions created in 1989.

Solidarity co-operatives from two perspectives

Social cohesion[15]

It is evident that solidarity co-operatives have had an increasingly important and sizeable contribution to make to the landscape of co-operatives in Quebec. However, assessing their contribution based on the concept of solidarity is critical. In other words, their impact on social cohesion needed to be measured. This subject was the main goal of a research conducted from 2002 to 2006 at the *Centre de recherche sur les innovations sociales* (CRISES; Center for Research on Social Innovations) at the *Université du Québec à Montréal*. It was part of a pan-Canadian research project entitled "Co-operative Membership and Globalization: Creating Social Cohesion through Market Relations". The research project, co-ordinated by the Centre for the Study of Co-operative of the University of Saskatchewan, involved academics from universities across the country (Fairbairn and Russell, 2004; Fairbairn and Russell, upcoming).[16]

The project received an important grant from the Social Science and Humanities Research Council of Canada to address the following questions:

- How does membership contribute to social cohesion?
- How are locally-based identities affected in an age of globalisation?
- How are member-based businesses affected by the new economy?
- What can Canadian policy-makers learn from Canada's largest sector of member-based organisations?

Solidarity co-operatives represent a unique case in Canada in terms of multi-stakeholder co-operatives. Despite this, very limited research would been conducted on this new form of co-operative, even if the model had become more and more attractive, until it was decided at CRISES[17] to conduct concentrated research on them. As a result, solidarity co-operatives were analysed according to five dimensions that had already been used by CRISES in another research project on social cohesion and financial service co-operatives (*Caisses Desjardins*) (Malo, Lévesque, Chouinard, Desjardins and Forgues, 2001).[18] These dimensions were territory, accessibility, employability, degree of democracy and connectedness. Each was defined in the following manner:

Territory

As in the rest of North America, the territory to which one belongs is defined in a new spatial framework. The central question is, do solidarity co-operatives fit into this new framework, or do they still operate according to the traditional framework, which in Quebec was the Catholic Parish?

Accessibility

In general, solidarity co-operatives are set up to facilitate access to new products or services, or to improve access to existing ones, for current and future members. Key questions were: do they truly serve their purpose? If so, in what ways? Do they remain open to the expression of new needs?

Employability

Workers can be one of the solidarity co-operatives member categories. Therefore, in principle, focus can be given to directly improve their situation. Key questions included: are the working conditions of jobs created by solidarity cooperatives comparable to or better than those of jobs in similar organisations? Do the co-operatives contribute to integrating or reintegrating people who have been excluded from the job market over the longer term?

Degree of democracy

Based on the general principle of "one member, one vote", the co-operative model is already open to economic democracy. Key questions included: does the solidarity co-operative make improvements in this avenue? What type of democratic process is favoured in the solidarity co-operatives? Is it a representative democracy, a direct or a deliberative democracy? How is the chosen democratic structure put into practice, for example in the composition of the Board of Directors, committee structure, and so on?

Connectedness

This notion also refers to networking. In principle, the presence of numerous stakeholders opens the door to intense networking. Key questions included: on what basis of social networks was the solidarity co-operative created? Since its start up, what is its contribution in developing social ties among the various individual and collective stakeholders, particularly the different categories of members?

The study of solidarity co-operatives used a variety of research methods: a literature review, case studies, discussion groups with in-field actors and a concluding seminar. In addition, the leaders of this research benefited throughout their work from a close collaboration with the Quebec government service responsible for co-operatives, the *Direction des co-opératives*, which made it possible to have access to up-to-date data on solidarity co-operatives. Finally, a supervisory committee made up of stakeholders knowledgeable about solidarity co-operatives was set up in 2002 and gave regular feedback to the research leaders. These experts also participated in the concluding seminar.

Case studies

After careful identification and consultation of works on solidarity cooperatives, four enterprises from different areas of activity and from different regions were chosen for case studies (Table 5.4). These studies were carried out by means of a qualitative approach. With the use of questionnaires, various stakeholders were interviewed,[19] including worker members, user members and supporting members, as well as individuals working for organisations supporting the development of collective enterprises such as a regional development co-operative or Local Development Centre. In addition to examining literature such as the organisations' internal documents, annual reports and other such documents, a meticulous press review was produced for each case.

The four cases offer a very interesting view of the practical meaning of solidarity co-operatives. A detailed paper was then produced for each.[20]

La Corvée: care and services solidarity co-operative

This solidarity co-operative is located in the small municipality of Saint-Camille, at the heart of Quebec's Eastern Townships, 140 km east of Montreal. The village has a population of 440 inhabitants. This village is peculiar in the sense that it is motivated by a global spirit of action guided by collective entrepreneurship. In its August 2006 issue, the famous French newspaper *Le monde diplomatique* published an article which made the comparison between democratic life and civil society mobilisation in Saint-Camille and in the famous Brazilian town of Porto Allegre (Cassens, 2006). Hence, this solidarity co-operative has its roots in a culture of collective action.

Like many others villages, Saint-Camille experienced a golden age at the end of the 19th and beginning of the 20th centuries when farming activities were very popular. After this period, the village was confronted with a consistently decreasing population. In fact, population dropped from more than 1 000 inhabitants to nearly 500. In 1986, a group of four leaders of Saint-Camille, including the former president of a professional farmers' union organisation, the *Union des producteurs agricoles* (UPA), decided to create a for-profit company, the *Groupe du Coin*, whose mission was to support local revitalisation and preserve the community's architectural heritage. The idea was simple: create a revolving fund from which money could be taken for cash down payments on old buildings with the purpose of supporting local revitalisation initiatives. Each member provided a capital outlay of USD 1 200. As a first step, in 1986, they saved the building that had formerly housed Saint-Camille's general store. At the time, they planned to use the building to develop an interesting project for the community. Two years later, it was transformed into a community and cultural centre.

In 1998, the *Groupe du Coin* bought the church rectory, which had been put up for sale by the Parish Council. The group wanted to address the needs of elderly citizens in the community who, for years, had requested affordable and appropriate accommodation. This matter was of critical importance since if no viable solution could be found, seniors would have to seriously consider the option of moving to an urban area where it would be easier to find appropriate housing for their needs.

The group chose to build their project under the solidarity co-operative form. However, financial constraints obliged them to also inaugurate a housing co-operative.[21] It was decided that the housing co-operative's sole purpose would be to accommodate residents while the solidarity co-operative would serve as a tool to improve their quality of life as well as the quality of life of the community.

The territory serviced by the enterprise is the municipality of Saint-Camille, but no territorial limit is specifically imposed by the co-operative. Residents of many municipalities of the Asbestos regional county municipality (RCM) use the co-operative's animation services and people from across region turn to the services of the health clinic. The co-operative was constituted on 17 September 1999 as a result of the initiative of the *Groupe du coin*. The enterprise began its operations in January 2000. The foundation of *La Corvée* generated only one permanent and direct job, that of co-ordinator of both co-operatives. The role performed by this person is critical and her contribution is considerable. Thanks to government programmes, four people were also employed by the co-operative for several months, thus allowing them to acquire useful employment experience. The hiring of workers to undertake numerous repairs and renovations also gave many people within the region access to employment opportunities. The new projects that the group plan will require the hiring of personnel on an ongoing basis, which will allow even more individuals access to employment.

The twinning of a housing co-operative to a co-operative offering alternative health care and animation services, especially to the elderly, makes this entity, commonly referred to as *La Corvée*, a model which attracts considerable interest and admiration. For instance, *La Corvée* received many prizes including one from the Public Health Association of Quebec. Through the animation services, the co-operative helps to fight isolation of seniors, develop their sense of self-help and creates strong ties among citizens.

Mont Adstock: a co-operative recreation and tourism centre

Mont Adstock is a recreation and tourism centre offering skiing, snowboarding, inner tube sliding and dog-sledding activities. Snowshoeing trails, hiking trails, observation points as well as hang glider and paragliding take-off sites can also be found on this mountain. The enterprise's clientele mostly originates from Thetford Mines, Black Lake, Disraeli and Adstock, municipalities which are located in the Amiante regional county municipality (RCM) which is situated 125 km southwest of Quebec City. However, many out-of-towners also frequent the station to practice and participate in their favourite activities.

The co-operative was constituted on 6 July 1998 after a major operation was conducted to avoid the dismantling of the mountain's infrastructures. Indeed, the private proprietor at the time suffered serious financial difficulties and wanted to close the ski station. Several buyers registered an interest in acquiring certain pieces of equipment, specifically the quadruple chairlift and the snow-making machinery. These deals would have led to the permanent closure of the ski centre as its infrastructure would have been irreparably dismantled.

In response, the mayor of the nearest town (Adstock, 2 400 inhabitants), organised a vast fundraising campaign to gather the necessary funds for the purchase of the entire station. In only two weeks, USD 480 000 was raised thanks to the mobilisation of the region's population and generous contributions of many organisations from the community. A local philanthropist also donated USD 100 000. This solidarity co-operative was the first in Quebec to establish itself in the recreational sector.

Mont Adstock is considered a local jewel by many and represents a major tourist attraction in the region. The mountain, with its 335 meter elevation, is visible for miles around, which explains why so many people consider it a regional symbol. As well as saving the station and halting the outmigration of young people, the creation of the co-operative helped maintain 35 jobs, a considerable number taking into account the region's population. Among these workers, many are students or former welfare recipients whose jobs represent precious experience and an essential source of revenue. As of 17 June 2003, Mont Adstock had a total of 411 members, of which there were 371 leisure members, 34 business members, 5 supporting members and only 1 worker member.

Domaine-Du-Roy: home care co-operative

This solidarity co-operative was founded in 1997, amidst a wave of new HCSEEs. Following the Quebec government's involvement at the 1996 Summit, this type of enterprise enjoyed a surge in development. As has been discussed, the global idea was driven by the government's desire to establish measures in order to eliminate illegal employment and offset important budget cuts in health and social care by offering maintenance services, mostly to the elderly.

The territory served by the enterprise is Le Domaine-du-Roy regional county municipality, located in the administrative region of Saguenay-Lac-Saint-Jean. Its head office is situated in the town of Saint-Félicien which is 300 km north of Quebec City. The co-operative came to life both after the merger of two non-profit organisations offering home services as part of their mission and thanks to the important contribution of volunteers. The numerous measures created for the start-up and the development of HCSEE were also useful for Domaine-du-Roy.

The profitable collaboration between numerous important stakeholders from the community, which included the *centre local de services communautaires* (CLSC), and the favourable welcome from local population allowed the enterprise to grow in an unexpected manner. The absence of direct competitors and the gradual diversification of its services also contributed to its rapid expansion. On 31 March 2003, the co-operative had a total of 1 300 members with an annual turn-over of around USD 1.1 million. This growth shows no signs of slowing.

In an environment where the unemployment rate is high and the population ageing, the co-operative plays a dual role. It provides quality employment to many people and dispenses services to those who greatly require them, especially seniors. Besides contributing in these two ways to the well-being of the community, the enterprise helped eliminate a substantial amount of illegal employment. The hundred jobs created after its opening had a considerable impact on employability in the regional county municipality. Moreover, the development of the enterprise restored a positive image to the concept of a "co-operative". Indeed, such an expression carried a negative connotation for certain people because of the previous closure of many similar establishments in the region. From all this evidence it is obvious that the co-operative now plays an important role within the community.

L'Églantier: health food co-operative

Over recent years in Quebec, as in other developed countries, the interest in health food has grown. L'Églantier co-operative is located in Saint-Pascal de Kamouraska, a village of 3 600 inhabitants, approximately 150 km east from Quebec City. The idea to create a solidarity co-operative dedicated primarily to the sale of health food came from a purchasing group whose wish was to improve the access of health foods to villagers, and the regional population. It was challenging not only to launch a new enterprise, but also because Saint-Pascal is a conventional village, where long-term traditions, including dietary habits, remain entrenched. Moreover, many farmers in the area practice industrial agriculture, which differs greatly from the approach taken to organic or health foods.

Benefiting from diverse contributions including subsidies for SEEs, employment programmes and volunteer work, L'Églantier achieved a position of success after a few years. Those responsible for the co-operative diversified the products and services offered. Therefore, as well as operating a grocery store, the solidarity co-operative now runs a coffee shop and a small book store. In addition, it offers courses and training sessions on diverse subjects related to health food preparation, essential oils, organic gardening, and so on.

As of February 2004, the co-operative had 274 user members, 6 worker members and 12 supporting members. Annual turnover stood at USD 267 743.

A positive impact on social cohesion

Based on these case studies and other research activities such as survey, focus groups and academic seminars, it is possible to conclude that, in general, solidarity co-operatives make a significant, and in some cases, very significant contribution to the various dimensions of social cohesion. There is, however, one exception: the degree of democracy. "Although it is useful to turn again to these dimensions, situations are not clear-cut, and can involve more than one dimension. For example, a co-operative that improves the coverage of its territory of activity will have an impact both on the relation to the territory and on accessibility. If a Board of Directors is made up of people of different origins, including supporting members, this affects both degree of democracy and connectedness" (Girard and Langlois, upcoming).

Table 5.4. Summary of case studies

Name (year of establishment)	Place, population and region	Services and/or products offered	Data on membership and cost of qualifying shares (USD)
Co-opérative de solidarité en aide domestique Domaine-du-Roy (1997)	St-Félicien, 10 622 Lake St. John	• Home care services • Assistance in daily activities • Personal assistance	As of March 2003: 1 182 user members (10) 99 worker members (50) 18 supporting members (100)
Co-op de solidarité en soins et services de Saint-Camille – also called La Corvée (1999)	St-Camille, 440 Eastern Townships	• Access to alternative medicine professionals • Educational entertainment services	As of February 2005: 45 user members (250) Two worker members (250) 15 supporting members (250)
Co-opérative de solidarité récréotouristique du Mont Adstock (1998)	Adstock, 2 399 Chaudière-Appalaches	• Mountain offering downhill sports (ski and snowboard) and other activities including snowshoeing and hiking • Takeoff areas for hang gliding and paragliding	As of June 2003: 405 user members including: -371 leisure members (50) - 34 business members (5 000 and +) One worker member (1 000) Five supporting members (10 000)
Co-opérative de solidarité en alimentation saine L'Églantier du Kamouraska (1999)	Saint-Pascal, 3 643 Lower St. Lawrence	• Health food retail store • Coffee shop • Courses and training sessions	As of February 2003: 274 user members (50) Six worker members (100) 12 supporting members (100)

Source: Girard and Langlois, forthcoming.

Territory

For all the co-operatives studied, the territory corresponds to a definition established in Quebec since the early 1980s, that is, the *municipalité régionale de comté* (regional county municipality). This new spatial unit is different from the traditional frame of reference, which was mainly based on the Catholic Church Parish. Of course, co-operatives must have their headquarters at a particular place, in a town or city, but their activities are not limited to that location. Thus, the co-operative La Corvée offers its services to residents of other municipalities and, of course, membership is open to people from those areas. The same principle applies to L'Églantier. Residents of other municipalities are attracted by health food products that the organisation promotes. It is the same with Adstock. People outside the immediate vicinity of the solidarity co-operatives headquaters may still use the facilities offered, namely those of the ski station.

Accessibility

Again, solidarity co-operatives have a positive impact on this dimension of social cohesion. Solidarity co-operatives greatly improve accessibility to existing or new services or products for their user members. Before starting the project, the promoters of the co-operative La Corvée in St-Camille were aware that many residents had to travel to access an alternative medicine practitioner. With an ageing population, mobility became more of a challenge. The decision was made to simply reverse the situation. Practitioners of alternative medicine such as osteopathy, orthotherapy, acupuncture and massage therapy now offer their services directly in the village. As for L'Églantier, the solidarity co-operative quickly began offering access to new products or services.

Employability

The contribution of solidarity co-operative to this dimension is less obvious. Work conditions cannot be considered apart from the real economic situation in the region or in the sector of activity – but remain a factor. The case of HCSEEs, including the Domaine-du-Roy social co-operative, helps understanding of this situation. “Since the PEFSAD support programme was set up, these organisations have helped thousands of people return to work. The great majority of them are single mothers. These organisations taken advantage of provisions to support employability, but this is not all. By training people and improving their proficiency, they have often made it possible for these people to develop not only technical skills, but also interpersonal ones. This is particularly important in view of their previous isolation” (Girard and Langlois, upcoming). Due to research constraints, it was not possible to study in detail the organisation of work, for instance autonomy versus direction, which is an important component of employability. It also affects the degree of democracy.

Degree of democracy

With one exception, La Corvée,[22] the organisations that were studied and those that participated in the discussion groups are not exceptional regarding their degree of democracy. For example, one co-operative practices the traditional formula of representative democracy. Another has a very homogeneous Board of Directors with very little concern about representing the diversity of members (age, gender, socio-economic status and so on). Another leaves practically no place in its management structure for the only worker member present. In this latter case, the Mont Adstock case study, the fact the worker membership fee was fixed at USD 1 000 makes it possible to see why this stakeholder may have been prevented from participating more actively. Indeed, for seasonal workers who receive a relatively low salary, USD 1 000 represents a great deal of money. "This very low worker membership also has a direct effect on the degree of democracy, as the pool of members to be on the Board of Directors and to take part in other democratic activities is very limited" (Girard and Langlois, upcoming).

In general, solidarity co-operatives seem to be far from organised around a democratic approach based on deliberation to produce enlightened and socially validated choices (Lévesque, De Bortoli and Girard, 2004).

Connectedness

Results for this remaining aspect of the social cohesion study are very positive, both before and after creation of solidarity co-operatives. Setting up a solidarity co-operative requires the mobilisation of a variety of stakeholders. The case of Mont Adstock highlights an impressive capacity to mobilise close to USD 500 000 in few weeks. This is particularly impressive given the area is so sparsely populated. To ensure their development, solidarity co-operatives foster the creation of networks of individuals and organisations. Supporting members, especially representatives of organisations, often have an existing well-developed network of relations. At the same time, people who direct or co-ordinate solidarity co-operatives are often involved in many groups: Boards of Directors, roundtables, consultative committees and others.[23]

Healthcare

Solidarity co-operatives have been set up in a wide variety of areas. In many cases, they are innovative not only because they gather diverse stakeholders, who are sometimes new constituents in their chosen area of activity, but also by the way they structure or offer services.

Healthcare service co-operatives (HCC) deserve particular examination. Their appearance caused a mini-revolution in Quebec[24] and they are expected to increase significantly in number in years to come. Health care co-operatives first emerged in the mid-1990s. In 2008, there were more than 30. Initially, the user co-operative model was the only avenue, but the advent of the solidarity co-operative model in June 1997 led to this form being favoured. Even among the first HCCs to be created, most changed their articles of incorporation to become solidarity co-operatives when the opportunity arose. Today, close to 95% of health care co-operatives have the solidarity status.

Healthcare co-operatives were created in reaction to doctor shortages in various regions. The main purpose that drives a popular mobilisation around HCCs is the need to attract Physicians to the community. At first glance, the global distribution of GPs seems adequate region by region. However, the micro-distribution in each region is examined more closely, there appears to be a concentration of physicians in urban areas. One of the main reasons explaining this situation is the presence in urban areas of large commercial chains, which include large-scale drugstores owned and managed by medicals clinics. They are able to offer attractive package deals to attract doctors, including turnkey approaches that allow practitioners to make up their own schedule without worrying about billing, the management of patient appointments, and so on (Assoumou Ndong, Girard, Ménard, and Véniza 2005). Citizens living in small villages where there is no doctor must sometimes drive up to one hour to reach the nearest medical clinic. Unfortunately, not everyone has the privilege of easy access to transportation.

When citizens from St-Étienne-des-Grès launched their HCC in 1995, the first established in Quebec, it was precisely to avoid such transportation problems. The way HCCs are set up and operate is simple.

- As a first step, a group of leaders identifies accessibility problems to GPs. This group of leaders generally gathers municipality officials, board members or executive directors of the local *caisse Desjardins*, and will sometimes also include representatives of the public health sector.

- As a second step, they will hire professionals to conduct a feasibility study. Funds for this study come from many sources, including donations from the local *caisse populaire*.

- The crux is to find the best way to attract doctors. Since there is a lack of GPs and they generally prefer to start their practice in urban areas, preparing an interesting offer and finding ways to inform doctors requires a great deal of imagination.

- Generally, if the feasibility study is positive and the recruitment of doctors is also successful, it will be easy to persuade members to join the co-operative. In villages of 3 000 to 4 000 inhabitants, half of the population becoming members is an average figure. Moreover, the presence of a doctor greatly facilitates attracting other health professionals such as pharmacists and physiotherapists.

In HCCs, physicians remain independent entrepreneurs who rent office space and are remunerated on a fee-for-service basis by the public health system.

A closer observation of HCC development shows that these organisations constitute a step forward when compared to the large commercial chain models, which manage medicals clinics (Girard, 2007):

- **Positive impact of citizen awareness and mobilisation.** Citizen awareness and popular mobilisation can help influence the organisation of health services and have a positive effect on communities. Rather than remaining in an expectant or, worse still, a defeatist mind-set, people come to understand that if they take action in sufficient numbers things can change.

- **Space for debate and democracy.** Health co-operatives are created through a process of sharing, debating and defining a project, and adopting a strategy.

- **A project with a focus on users rather than profits.** Co-operatives seek to resolve problems of access to services. Although economic viability cannot be ignored, profitability is measured in social terms. The goal is to ensure that as many people as possible have access to high-quality services.

- **A basis for more fruitful collaboration with doctors.** The vast majority of health co-operatives adopt the status of solidarity co-operatives. In some co-operatives, doctors agree to join as support members. In doing so, they leave behind the status of leaseholder and opt to join in the process of co-operative democracy.

- **Many projects generated innovations in the community.** A close examination of health co-operative projects reveals that many of these organisations have introduced remarkable innovations in their respective communities.

The innovations associated with HCCs can be numerous and can include adding a senior's residence to a medical centre, welcoming alternative medicine practitioners, developing prevention programmes for vulnerable groups and so on. Moreover, at the end of 2007, and the beginning of 2008, two new solidarity co-operatives in the health sector, in particular, were at the forefront of such innovation:

- The *Co-op santé de l'Université de Sherbrooke* (Health Co-operative of the University of Sherbrooke) is the first in the world to be created on a university campus. Its purpose is to promote good health habits among students and employees by providing information and training sessions, health check-ups and so on. Over time, it will develop close ties with the Faculty of Medicine with the intention of introducing the HCC model to students.
- The goal of the *Co-opérative de solidarité de santé de la MRC Robert-Cliche* (Health Co-operative of the Robert-Cliche RCM) is twofold: to connect all the medical clinics of the territory (Six) to offer citizens a centralised appointment system and to be the first in Canada to duplicate the innovative health prevention and promotion model implemented in Japan by the Hans group (Girard and Restakis, 2008).

Conclusion and recommendations

In October 2007, a forum on solidarity co-operatives was organised to mark their tenth anniversary and to initiate an in depth discussion about their strengths and weaknesses. The goal was also to talk about their future. More than 150 participants came from diverse *milieus* and included many solidarity co-operatives' Board Members or Executive Directors as well as development agents. Key points raised during the discussion included (IRECUS, 2008):

- At the heart of community needs, solidarity co-operatives are essential to the sustainability of the *milieu*. They satisfy essential needs in terms of the provision of proximity services.
- Solidarity co-operatives play a crucial role in terms of mobilising citizens. They have the capacity to involve many stakeholders.
- The mobilisation of citizens generates a strong sense of belonging to the co-operative and helps to develop proximity services.
- One of the main challenges of solidarity co-operatives is to reinforce social cohesion and promote citizen responsibility.

However, solidarity co-operatives do have shortcomings. They need to improve the roles they give to workers (Cliche, 2008). More fundamentally, as the study on social cohesion has revealed, there is a necessity to develop training programmes, which are directed at managers and board members on the subject of how to manage diverging interests and practice deliberative democracy. Management of these multiple interest organisations requires specific skills if crisis situations are to be avoided. Duplicating the governance model used for sole member co-operatives or worse, for private enterprises, represents a dead end.

At the crossroad of social and economic activities, solidarity co-operatives can play a dynamic role in different communities. They can be the key to ensuring the sustainability of social innovation. Based on a comparative study of the Mont Adstock and La Corvée cases, three points seems to be particularly critical (Langlois and Girard, 2006):

- An extended presence and involvement of the founder-members.
- Consideration of the inherent characteristics and of the values the solidarity co-operative conveys during its evolution, as well as dissemination of information.
- Recognition of innovation by the majority of those on which it exerts an impact.

It is obvious that solidarity co-operatives are already embedded in what some call the Quebec model of development (Bourque, 2000), which is a mix of public, private (for-profit) and collective enterprises. Moreover, some well-established co-operative organisations with a single membership base choose to change their status to that of a solidarity co-operative. They also add a supporting member category for this purpose. By so doing, they reinforce the link that binds them to their entire area of activity, not only to users or workers.

Recommendations

- More thought should be given to the multi-stakeholder co-operative approach and the solidarity co-operative model in the determination of public policy concerning social cohesion and local development.
- In organisational innovative projects, public interest would benefit from promoting the concept of public-co-operative partnerships rather than focusing exclusively on public-private partnership options.

- Considering the growing place occupied by multi-stakeholder co-operatives, it would be relevant to gain a better knowledge of their set-up and development conditions. For instance, research could determine how initial networking is developed among diverse stakeholders including supporting members and how, over time, these partnerships evolve.
- It is a known fact that among social health determinants, one important element is the feeling that people control their life and their sense of accomplishment rather than sustainment. In this way, it would be appropriate to identify the specific contribution of solidarity co-operatives or multi-stakeholder co-operatives to the empowerment of individuals, especially in remote areas.
- The phenomenon of multi-stakeholder co-operatives seems to be growing in OECD member countries. Because of the novelty of the model, it would be relevant to conduct comparative studies on diverse indicators, such as the impact of multi-stakeholder co-operatives on civil society, the development of alternative solutions for the delivery of public services, and the combination of resources required (from the market, subsidies and the voluntary sector).

Notes

1. As for producer co-operatives, La Fédérée, an integrated federation of agricultural co-operatives, distinguishes itself with an annual turnover of USD 4G. However, this data should not mask something radically new in the Quebec co-operative sector: today, more than one out of two new co-operatives is a multi-membership cooperative or multi-stakeholder cooperative (MSC), known in Quebec legislation as a solidarity co-operative (SC). A well-known example of consumer cooperatives is the network of Desjardins financial services cooperatives, which has a global asset of 150G CAN All the monetary values in this paper were expressed in Canadian dollars. In July 2008, CAN 1= USD 0.98 and EUR 0.62. K: 000 M: 000 000 G: 000 000 000

2. French speakers represent 2% of the North American population. Unless researchers in Quebec publish in English, the linguistic barrier seems to discourage researchers from other areas of North America from studying the co-operative Quebec case. Therefore, the experience somewhat evolves in a vacuum.

3. www.montadstock.com

4. www.coopsa.org

5. Robert Owen (1771-1858) was a Welsh social reformer who developed a critical perspective of the rule of competition of human labour with machinery during the chaotic emergence of industrial towns and promoted the idea to create communities at a human scale (of approximately twelve hundred people) based on the respect of each individual.

6. Today, all these cooperatives prefer to be referred to as paramedic co-operatives rather than ambulance cooperatives. This expression seems to give a better recognition of the work done by the employees in these organisations.

7. The *Conseil Québécois de la co-opération et de la mutualité* (Quebec Co-operative and Mutual Council) plays the key role of umbrella or forum of cooperatives and mutuals. The organisation was incorporated in 1939. Up to 2006, it was known as the *Conseil de la co-opération du Québec*

(CCQ)
www.coopquebec.coop/site.asp?page=element&nIDElement=2282.

8. Only in French: www.mdeie.gouv.qc.ca/index.php?id=2206

9. Their aim is simple: to support the development of new cooperatives to maintain and create jobs at a regional level and promote inter-cooperation among developed cooperative organisations.

10. This research centre was replaced in 2001 by the Centre Desjardins en gestion des co-opératives de services financiers: http://web.hec.ca:8088/centredesjardins.

11. These are public clinics operating in the areas of health and social services. In 2005, nearly 60 such organisations in Quebec were integrated, along with other public health establishments such as hospital centres and housing and long-term care centres, into new structures called centres de santé et de services sociaux.

12. The author of this paper has been a member of the advisory technical committee of this cluster during a few months in 1996. From another point, at the end of the Summit, a group of leaders of this cluster decided to follow the actions, taking advantage of this new forum of coordination of social economy players. A few years later, the Chantier de l'économie sociale was legally registered on an NPO base. Over time, this organisation has become an important promoter of social economy projects in numerous areas. Nancy Neamtan became the cluster's first president, a position she still holds today: www.chantier.qc.ca/

13. The Act can be download free of charge at: www2.publicationsduquebec.gouv.qc.ca/dynamicSearch/telecharge.php?type=2&file=/C_67_2/C67_2_A.html

14. This section is mostly based on a recent presentation and paper on SC prepared by Jocelyne Chagnon (2008) of the Quebec government Direction des co-opératives. Unless otherwise mentioned, all the data in this section excludes financial service cooperatives (Desjardins).

15. This section was largely inspired by Girard and Langlois (upcoming).

16. Among numerous working papers, conferences, articles in peer-reviewed journals, the research resulted in the production of two books: Fairbairn and Russell, 2004, and Fairbairn and Russell, upcoming http://socialcohesion.coop.

17. The author of this chapter was the co-ordinator of this research.

18. This work on social cohesion and caisses Desjardins led to various publications in the form of case studies. The overall report was published in 2001 (Malo and al. 2001).

19. The close collaboration of co-ordinators or directors of these cooperatives was much appreciated.

20. All cases were written in French and can be downloaded on CRISES' website. The case of La Corvée, which seems to be the most interesting, was fully translated in English and can be download to on Centre for the Study of Co-operative (USAK): www.usaskstudies.coop/pdf-files/St.-Camille.pdf.

21. Until recently, housing co-operatives in Quebec had been established only under a user cooperative formula.

22. In this case, the directors of the cooperative had a good degree of experience in similar organisations.

23. A symptom of increasing institutionalisation in the area of home care service cooperatives is the fact that their directors spend a large part of their time serving on committees and other bodies in the health and social services field.

24. At this time, except very few exception apart Canada, HCC seems to be essentially a phenomenon unique to Quebec. In others provinces the citizens involvement in health matter is canalized on community health centre, a model using NPO legal framework.

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