



European Economic and Social Committee

INT/606
Social Business Initiative

Brussels, 23 May 2012

OPINION

of the

European Economic and Social Committee

on the

Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions:

Social Business Initiative – Creating a favourable climate for social enterprises, key stakeholders in the social economy and innovation

COM(2011) 682 final

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Rapporteur: **Mr Guerini**
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On 25 October 2011, the European Commission decided to consult the European Economic and Social Committee, under Article 304 of the Treaty on the Functioning of the European Union, on the

Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – Social Business Initiative – Creating a favourable climate for social enterprises, key stakeholders in the social economy and innovation
COM(2011) 682 final.

The Section for the Single Market, Production and Consumption, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 8 May 2012.

At its 481st plenary session, held on 23 and 24 May 2012 (meeting of 23 May), the European Economic and Social Committee adopted the following opinion by 193 votes to 4, with 8 abstentions.

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1. **Conclusions and recommendations**

- 1.1 The EESC welcomes the initiative on the part of the Commission: its present communication, which sets out eleven key actions, is well-timed. The EESC is also pleased to note that the Commission has taken on board several points from its exploratory opinion¹ on social entrepreneurship.
- 1.2 The EESC considers that social enterprises should be supported by virtue of the key role that they can play as drivers of social innovation, both because they introduce new methods for providing services and action aimed at improving people's quality of life, and because they promote the creation of new products to satisfy society's new needs. In particular, the EESC would like to highlight the enormous potential that social enterprises offer for improving labour market access and working conditions especially for women and young people, as well as for various categories of disadvantaged workers.
- 1.3 This initiative by the Commission is a significant opportunity to support initiatives that help bring greater clarity to the terminology used (ironing out any overlap between the concepts of social economy, social business, social enterprise and social entrepreneurship). This would help to consolidate the objectives and aims of the initiative, boosting its effectiveness. The EESC therefore recommends that the EU institutions consistently use the expression "social enterprise" both in policy proposals and in communications.

¹ [OJ C 24, 28.1.2012, p. 1.](#)

- 1.4 The EESC welcomes the action proposed by the Commission to develop tools to improve awareness of the sector and the visibility of social enterprises, and supports the aim of developing initiatives to assist social enterprises in building their business capacity, professionalism and skills networking. This would also serve as an incentive for the contribution they make to smart, sustainable and inclusive growth.
- 1.5 It warmly welcomes and supports the Commission's objectives in relation to improving access to finance and the regulatory framework: with regard to these two objectives, it emphasises that, in order to promote social enterprises, a favourable economic and regulatory environment is essential.
- 1.6 The EESC welcomes the invitation extended in the communication concerning initiatives to encourage and promote measures to make public procurement more accessible to social enterprises.
- 1.7 The EESC calls on Member States to develop national frameworks for the growth and development of social enterprises, taking into consideration the main areas involved in ensuring support and development. In particular, it recommends that initiatives be taken to enable individual Member States to grant tax relief on undistributed surpluses so as to help consolidate the equity of social enterprises.
- 1.8 In order to provide more effective support for the actions proposed by the communication, efforts to evaluate the successes and benefits generated by social enterprises should be promoted.

2. **Introduction**

- 2.1 In recent years, social enterprises have played an increasingly important role in economic and cohesion policies. Many and various initiatives have been taken and promised by various organisations. The EESC has itself issued a number of own-initiative opinions which the present document fully endorses and echoes. Particularly worthy of mention are the 2009 opinion on *Diverse forms of enterprise*² and the recent and important exploratory opinion on *Social entrepreneurship and social enterprise*³, drafted at the request of the European Commission as a contribution to the drafting of the Social Business Initiative, which includes some key priority areas for the development and growth of social enterprises.
- 2.2 A solid body of academic and scientific experience has been built up over the years in Europe and elsewhere concerning social enterprise issues, which has also served to stimulate the EU institutions.

² [OJ C 318, 23.12.2009, p.22](#)

³ [OJ C 24, 28.1.2012, p. 1](#)

2.3 At this point, it is important to recall the European Parliament's resolution of 19 February 2009 on the social economy (2008/2250(INI)) and the appeal launched by 400 European university teachers, *From Words to Action: European Scholars in Support of Social Economy Enterprises*, which culminated in a European Parliament event on 13 October 2010 in which Commissioners Barnier and Tajani took part.

2.4 Over time the concept of "social business" has taken on a range of gradually expanding meanings, according to the various authors who have used it. It initially designated business activities carried out by not-for-profit organisations to generate profits to be ploughed back into their own funding; it is important to preserve the social enterprise concept, preventing the risk of it blending into that of corporate social responsibility. This point needs to be emphasised in the EU institutions' next initiatives in this area.

3. **Definition of social enterprise**

3.1 The definition of social enterprise put forward by the communication on the Social Business Initiative represents a step towards recognition of the specific nature of this type of organisation. This should be the reference description used by the EU institutions. It gives due consideration to the three key dimensions that mark the social enterprise: a social objective/purpose; commercial activity; and participatory governance. The EESC emphasises the need for the same description to be used in the proposal for a regulation on European Social Entrepreneurship Funds.

3.2 It is likewise important to bear in mind that the European Commission itself, in its proposal for a European Parliament and Council regulation on an EU programme for social change and innovation, lays down a number of criteria for identifying a social enterprise, with which the EESC fully agrees.

3.3 The EESC welcomes the fact that the Commission does not give a standard definition of social enterprise, as this reflects the diversity of existing provisions at national level. These must be respected so that the definition of social enterprise is not open to abuse.

3.4 The EESC would like to take this opportunity to mention its recently-adopted exploratory opinion on social entrepreneurship and the social enterprise, which contains a description of social enterprises, which are characterised thus:

- having primarily social objectives as opposed to profit objectives, producing social benefits that serve the general public or its members;
- being primarily not-for-profit, with surpluses principally being reinvested and not being distributed to private shareholders or owners;

- having a variety of legal forms and models: e.g. cooperatives, mutuals, voluntary associations, foundations, profit or non-profit companies; often combining different legal forms and sometimes changing form according to their needs;
- being economic operators that produce goods and services (often of general interest), often with a strong element of social innovation;
- operating as (one or more) independent entities, with a strong element of participation and co-decision (staff, users, members), governance and democracy (either representative or open);
- often stemming from or being associated with a civil society organisation.

3.5 With reference to these characteristics, it is important to emphasise the following distinctive requirements:

- **The not-for-profit motive**, which should be enshrined in the statutes by requiring profits and operating surpluses to be ploughed back into performing the statutory activity or to increasing equity by assigning such profits or surpluses to an indivisible owners' account during the lifetime of the enterprise and in the event of it being wound up. In a social enterprise, profits, operating surpluses, funds and reserves may not be distributed to managers, partners, participants, workers or collaborators either directly, or indirectly in the form for example of payments to managers and workers higher than those made by enterprises operating in the same or comparable sectors and conditions. Similarly, remuneration of financial instruments should be limited and must not exceed a specified percentage that guarantees the possibility of adequately capitalising social enterprises.
- **A focus on the common good and the general interest of the community**. Social enterprises are often defined by reference to two distinct factors: a social objective that extends to the *general interest* in terms of the local community or specific social groups that are "disadvantaged" in one way or another; and most importantly the type of goods or services produced in keeping with the objective.
- **The function of promoting social cohesion** by means of goods and services that reflect the aim of achieving greater economic, social and environmental sustainability.

4. **Comments on the Commission proposal**

4.1 The communication highlights a number of aspects concerning better access to finance (3.1), the visibility of social enterprises (3.2) and improving the regulatory framework (3.3).

4.2 With respect to improving access to funding, the EESC agrees with the European Commission's assessment of the funding needs of social enterprises. It does so because, both amongst financial institutions and amongst those managing credit support provided by public bodies, we observe a lack of appropriate instruments for assessing the creditworthiness of social enterprises. They are frequently disinclined to recognise the "business" value and economic solidity of social enterprises.

- 4.3 To ensure greater visibility of the benefits of social enterprises, it is essential to start by measuring the social results separately from purely economic ones. We would stress the need for instruments for assessing and enhancing the impact and social effectiveness of social enterprises' activities.
- 4.4 Social accountability practices have a key role for social economy organisations. A range of tools for gauging the social results of enterprises exist. These have mostly been developed by the more structured organisations. However, instruments that are also suitable for use by small-scale operators should be studied and used as models. The Commission should launch a comparative study of existing models, promote the use of these systems, and work to devise a common European system or code of conduct that could be used by a wide range of social enterprises.
- 4.5 A key factor in fostering trust and confidence in social enterprises is to build trust in social enterprises by comparing social "labelling" across the EU. As proposed by the Commission in Key action No 6, the EESC advocates creating a public database to compare models of social accounting and how existing methods are applied.
- 4.6 The EESC agrees with the aim of improving the legal environment for European social entrepreneurship (Key action No 9), covering both simplification of the regulation on the Statute for a European Cooperative Society and the possibility of introducing a European foundation statute. Moreover, an improved legal environment for social enterprises could use guidelines for establishing statutes for the charities and voluntary organisations that frequently give birth to social enterprises. The EESC therefore urges the Council and Parliament to press ahead with adopting the proposed regulations.
- 4.7 In this regard, the EESC welcomes the commitment made by the Commission in its communication to initiate a study on the situation of mutual societies in all the Member States in order to examine their cross-border activities in particular. The rediscovery and re-enhancement of the mutual society system as a social protection tool unarguably represents an important future path in preserving an inclusive welfare system.
- 4.8 Support for social enterprises can provide fertile ground for stakeholder involvement and encourage individual people to get involved through self-help organisations, facilitating demand aggregation processes and promoting experimentation with mutual forms of assistance.
- 4.9 Social enterprises for work integration may, if effectively promoted, represent a forward-looking tool for active employment policies, helping to integrate disadvantaged people into work; at the present time of employment crisis, they can be vital for those excluded from the employment market.

- 4.10 Worker participation can be an important lever, and can also help in tackling certain industrial crises. Buy-outs by workers joining together in cooperatives or types of social enterprise could be a way forward.
- 4.11 Social enterprises play a key role as drivers of social innovation. The experience of social cooperatives in getting people into work is an obvious example. However, legal forms aside, social innovation also arises from new methods of providing services and from the creation of new products to satisfy society's new needs. The European institutions must therefore take coherent action, coordinating the provisions on social enterprises with those on innovation and social change.
- 4.12 Organisations facilitating the establishment and growth of networks between social enterprises can be very helpful in supporting innovation, by promoting membership of partnerships and business pooling arrangements for social enterprises joining together in consortiums. The Commission's proposal, under Key action No 5, is therefore an important one. It proposes measures to promote pooling and networking amongst social enterprises to facilitate exchange of best practice, economies of scale and shared services (training, planning, administration etc.).
- 4.13 The EESC welcomes the action proposed by the Commission to develop tools to improve awareness of the sector and the visibility of social entrepreneurship (Key actions 5, 6 and 8). Greater awareness of the potential of this business model will help facilitate greater cooperation between social enterprises and ordinary businesses.
- 4.14 It is important to take steps to assist social enterprises in building their business capacity, professionalism and skills networking. The idea of promoting platforms for swapping best practices might be helpful in achieving this, not least by boosting the internationalisation of social enterprises.
- 4.15 We consider that the Commission should, as a priority, launch an exploratory study to compare the new legal forms emerging for social enterprises. However, subsidiarity must be the main guiding principle, given that national models may or may not require regulatory frameworks based on their own context and traditions.
- 4.16 It is important to foster a more "subsidiarity-friendly" attitude on the part of public institutions, the introduction of a policy of targeted incentives, and to work to implement initiatives by business associations, which have proved to be crucial to the growth of social enterprises.
- 4.17 Incentive policies must not distort the principles of competition, but must recognise the specific features of social enterprises – which may not be twisted in order to gain undue advantage from them.

- 4.18 Turning to the development of instruments to enhance funding, the EESC should collate and share innovative approaches in the Member States. It would be helpful to emphasise those aimed at consolidating the specifically business-related aspects, including:
- tools to guarantee credit for social enterprises (such as mutual guarantee networks or public guarantee funds);
 - capitalisation tools for medium to long-term social investments (such as ethical funds, social innovation funds, social venture capital funds);
 - regulatory or fiscal measures to support the capitalisation of social enterprises, encouraging or facilitating the participation of different stakeholders.
- 4.19 Particular attention should be given to hybrid forms of investment, which are more suitable for social enterprises as they combine elements that evaluate the common good with financial elements. It is also important that, alongside social enterprises, more should be made of the best experiences of banks and financial institutions with a strong community or participatory character, such as cooperative banks or banks with ethical and social aims.
- 4.20 Whilst it is helpful to support areas such as microcredit, it is important to make a distinction between the beneficial social function of microcredit, a powerful tool for individuals to escape from poverty, on the one hand, and business development mechanisms, which are of necessity more complex and more structured, on the other. Indeed, some social enterprises implement investments amounting to hundreds of thousands of euros, which could not be supported by microfinance.
- 4.21 The EESC welcomes the opportunities for supporting social innovation, entrepreneurship and enterprises provided by the new structural funds programmes proposed in Key actions 3 and 4 or in the Social Business Initiative. The EESC would like to stress that that these areas must be considered as priorities by the Member States in their National Reform Programmes so that they can be included in the next programming period of the European Social Fund. Moreover, the proposed Programme for social change and innovation could also facilitate additional support for developing capacity and financing for social enterprises, which we welcome.
- 4.22 Turning to Key action 1 (Social Entrepreneurship Funds), the EESC welcomes the initiative, but points out the need to keep the same description as that used in the Social Business Initiative. That fund must be considered as one amongst the many types of investment instrument directed toward social enterprises.
- 4.23 The planned *de minimis* regime for social enterprises (Key action 11) should be revised to make it less restrictive, particularly where social enterprises for work integration are concerned, even when public support is granted directly to the business rather than being allocated to the workers. This position can be justified by reference to the recent example of the "Big Society Fund" in the UK, which was cofinanced with a substantial input of public

money that the Commission did not consider to be state aid, given the clear social value of the initiative.

- 4.24 The intention to facilitate access to public procurement (Key action 10) is to be welcomed. In recent years, the European Commission has played a crucial role in helping to promote social clauses in public procurement procedures. Over the last decade, the European institutions have displayed a greater sensitivity towards social cohesion and sustainable development issues, being well aware that economic growth must promote environmental sustainability and social cohesion, if the objectives of a more prosperous and fairer society are to be reached.
- 4.25 The Commission should continue to move decisively in this direction to promote social and environmental criteria amongst the criteria for awarding public contracts, and should collect and disseminate the best examples – amongst the Member States – that take into account social and environmental aspects amongst award criteria. Moreover, the European Court of Justice itself has recognised, in case law, the importance of such provisions.
- 4.26 The EESC welcomes the Commission's Key action 6, developing a certification database so as to make systems easier to compare. In addition, the Commission should carry out a study on such systems to find synergies and share lessons. In this exploratory document, the EESC has highlighted the need for comparable, consolidated statistics, for research and for data on social enterprises. The Commission and Eurostat should play a pivotal role in helping people within the EU learn from each other.
- 4.27 The proposal for a single point of access for data (Key action 8) is welcome, and should be complemented by similar initiatives in the Member States to ensure compatibility and synergy.
- 4.28 The European Commission plays a pivotal role in keeping support for social enterprises on the political agenda and in ensuring that such enterprises are looked at consistently; the proposal to set up a consultative group on social business to examine the progress of the measures envisaged in the communication is therefore important. Similar structures should also be promoted in the Member States.

Brussels, 23 May 2012

The President
of the
European Economic and Social Committee

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