



POLICY POSITION

SOCIAL ENTERPRISES FOR SOCIAL INCLUSION

Introduction – definitions

The European Commission launched its Social Business Initiative (SBI) in October 2011¹, containing an action plan to support social entrepreneurship in Europe. The Commission's general definition of social businesses in the Social Business Initiative is businesses “for which the social or societal objective of the common good is the reason for the commercial activity”, where “profits are mainly reinvested to achieve this social objective”. The Commission sees social enterprise and social business as synonyms and subsequent initiatives address social enterprises. Under the Commission's definition, based on existing EU law on the meaning of the word “enterprise”, all diaconal organisations operating in a market with a social aim would be seen as social enterprises. Eurodiaconia therefore welcomed the initiative, as many members have noted a lack of support for such activities and that they face many challenges, outlined later in this paper.

The Commission distinguishes between two types of social enterprises in the SBI: “businesses providing social services and/or goods and services to vulnerable persons” and “businesses with a method of production of goods or services with a social objective”. Given that most diaconal social services would fall in the first category, Eurodiaconia stresses the importance of initiatives to support this category of enterprises, not just initiatives aimed at those able to be self-supporting and financial and other support should be tailored to the type of organisation and to the stage of its development. Artificial distinctions made between established service providers and newer social enterprises should be avoided.

As in some languages the terms social enterprise and social business do not both exist Eurodiaconia does not seek to define a distinction between the two terms. In some countries there seems to be a development towards a more unifying definition of social enterprise, as a distinct category from, for example, the non-profit sector, because the non-profit criterion is not seen as an essential requirement for social enterprises. In other countries the term social enterprise refers predominantly to cooperatives, non-profit organisations or associations. Given this diversity, Eurodiaconia agrees with Commission's approach that a prescriptive definition is not necessary in order to define the beneficiaries of support actions, but the principles quoted above are essential and should be clearly defined at national level with the involvement of all types of social enterprises to ensure the concept is not misused.

Eurodiaconia members do however stress the importance of the social or societal objective over the economic objective of a social enterprise. For them the key objective is to promote and protect the well-being of those that use their services, as well as wider society, representing a long-term commitment to individuals and society and not short-term profit-maximisation for shareholders or investors. Therefore, they provide an added value for the public authorities that fund their work, as any profits generated from public money are reinvested for the general interest.

Another principle of social enterprises cited by the Commission is democratic involvement in governance. Diaconal organisations promote cooperation with their local community and develop the participation and empowerment of service users but as diaconal structures are not usually run like cooperatives or mutual societies this principle should be seen broadly.

¹ http://ec.europa.eu/internal_market/social_business/index_en.htm



Contributing to fighting poverty and social exclusion

Eurodiaconia believes that access to social services is necessary to uphold human dignity and is a fundamental right. This is supported by Part 1 article 14 of the European Social Charter and Article 34 1 of the Charter of Fundamental Rights. Social enterprises providing social services run by diaconal organisations enable people to integrate or reintegrate into society, to access and retain employment and offer a route out of poverty and exclusion, reinforcing the socio-economic independence of service users.

Social services are an essential part of any social inclusion strategy, both preventive services, to address the causes of and prevent poverty and exclusion, as well as services that tackle the symptoms. Diaconal organisations also play the role of innovators of service concepts, continuously aiming to better meet needs, and develop service models for sustainable societal development.

WISE²

Work Integrating Social Enterprises play a special role in combating social exclusion, particularly of disadvantaged groups. The core mission of WISE is creating jobs for disadvantaged people and the integration of these people into society by offering them a job³. Many Eurodiaconia members run such enterprises, where excluded or disadvantaged people are employed in a mainstream business environment, such as a café or gallery, or where they work in sheltered workshops. They are often trained either to re-enter the labour market or the focus may be socialisation.

Research in Austria has also shown that it is not more expensive to support people with disabilities in non-sheltered workplaces than in sheltered workshops. To integrate all people successfully in the mainstream labour market, employers' perceptions and prejudices of persons with disabilities must be changed and there must be investment in strategies to do this. Persons with disabilities may also not want to enter the more risky mainstream labour market if the support or benefits should a job be lost is not sufficient.

Challenges: access to funding and finance

Despite the role that diaconal social enterprises play outlined above, many Eurodiaconia members experiences challenges in accessing funding and finance. The challenges when it comes to financing may be diverse but members also have numerous challenges in common. Because of the financial and economic crisis and the impact of austerity measures, many have been unable to provide the services they wish to because of decreasing funding and increasing demand⁴. Funding cuts in the social sector have also been seen in part as a result of the low value attributed to social care.

The European Commission and Member States appear to have lost focus on the Europe 2020 strategy's *inclusive* growth objective, neither recognising the negative impact of austerity measures on society nor the concept of social investment⁵. Investing in social and health infrastructure and services should not be regarded as a cost, and in particular preventive services in many cases reduce long-term care or service needs, therefore reducing expenditure. The Commission persists in promoting measures to improve growth and competitiveness over measures that could improve the social situation, despite the potential long-term negative impact on millions of people across Europe.

Private finance

Private financial institutions are increasingly interested in investing in social enterprises and bring an expectation of social and economic returns. With an increased involvement of private finance there is a risk of monetisation of service outcomes, which could result in a 'creaming' effect, whereby services for the most vulnerable might be discontinued in favour of projects that lead to higher success rates. Private finance or philanthropic organisations may be more ready to support new, small projects, but also often with a focus on groups that are more "favoured" in the eyes of the public, such as children, and not asylum seekers for

² For more information about Eurodiaconia's members WISE services and projects please see Eurodiaconia's mapping [here](#)

³ The WISE project

⁴ As reported in surveys of Eurodiaconia members here: [Policy Recommendations for Social Services in Times of Crisis \(2012\)](#)

⁵ More information on Eurodiaconia's position on the Europe 2020 strategy and European Semester process [here](#)



example. Public authorities are sometimes not willing to invest in innovative projects and a similar risk is that the state would renege on its responsibility if services are financed by philanthropic organisations.

Public finance and public procurement

Eurodiaconia members believe however that government is responsible for the well-being of its people and for guaranteeing access to social and health care. A free market would not guarantee access to services for all; often those with the least financial means have the most needs and life risks such as unemployment are often structural rather than individual. Public responsibility and therefore public financial commitment is necessary at all levels of government to ensure access for all to social services and that service providers are able to provide quality services. Financial support for social enterprises may need to be long-term as many social enterprises are not able to be financially self-supporting, due to the nature of their work or the life situation of service users. In the context of increasing interest at EU and national level of involving private finance for the development of social enterprises this finance should not detract from the state responsibility to financially support organisations providing services, and in terms of regulation to ensure access.

A trend in many countries is to fund services through competitive tendering rather than via grants. Combined with the impact of austerity measures there is increasing downward pressure on costs of services from contracting authorities, which often has a negative impact on the quality of those services. It is also common that contracts are short-term, including contracts financed by public authorities using EU funds, and funding may not be adjusted to inflation. There is much misunderstanding about the content of EU public procurement legislation and what it does or does not allow. The new EU directive on public procurement highlights the special characteristics of social services and their societal importance. It also widens the possibilities to reserve contracts for products and services to sheltered workshops for not just people with disabilities but also disadvantaged workers. It is essential that the European Commission provides guidance to member states about this and how to ensure the provision of quality social services in the contracting process, in order for the services to be able to fulfill their role in society.⁶

Investment

Some organisations struggle to find investment capital as often only costs are covered by public financing and therefore are highly dependent on debt financing. In some countries if organisations carry out a commercial activity they can only take the legal form of a regular profit-making organisation, there is not the option to be classified as a social enterprise or type of not-for-profit organisation, despite the fact that they show different characteristics to commercial companies, i.e. those found in the Commission's definition.

Measuring social and financial impact

Private finance expects enterprises to show their social and economic return on investment and there is increased expectation from funding authorities for the same. Being able to measure social impact is valuable because it can help improve services for the service users but there are also trends for organisations to have to show "performance" rather than real impact. The nature of many social challenges addressed by social enterprises means that change or improvement in quality of life can be slow or very incremental. This should be taken into account in measuring any impact.

As one of the aims of measuring social impact should be to improve the positive impact on the individual involved in a service or project, to improve their quality of life, it is important to measure subjective perceptions of impact by individuals as part of the process. "Storytelling" and not just numerical reporting is essential in showing the impact and indicators should be developed with the social enterprise in order that what is measured is relevant for the enterprise to show its impact according to its objectives. There cannot be a single methodology or set of indicators to measure social impact of social enterprises because of the diversity of the organisations, the people they work with and the contexts within which they work. In addition any measurement framework should be proportionate to the capacity of the organisation and to the usefulness of the measurement generated, in terms of time needed to implement and report impact using the framework. All these elements should be taken into account when developing a measuring and reporting framework or model.

⁶ More information about the directive can be found here <http://www.eurodiaconia.org/our-work/policy-areas/social-services>



Recommendations: social enterprises for social inclusion

Ensuring an inclusive social Europe:

- Ensure that through the Europe 2020 strategy and European Semester process Member States effectively report on and are held to account on their targets to decrease the number of people living at risk of poverty
- Carry out ex-ante social impact assessments of any policy or reform recommendations to ensure the economic and financial objectives supports social cohesion and inclusion
- Ensure a social investment approach, including the promotion of adequate social protection, is mainstreamed into all EU-level processes, ensuring the sustainability of essential social protection systems and social and health services

Supporting social enterprises:

- The Commission should recognise the diversity of social enterprises, ensure EU-level actions are taken to support social enterprises of all types and that initiatives relating to financial support instruments for social enterprises do not only address private financing mechanisms, but also public
- Recognise and support the role of not-for-profit social service providers, politically and financially
- National governments should allow social enterprises to be able to choose from a variety of legal forms and should ensure that a commercial activity does not necessarily entail a legal status as a commercial organisation, but allow them to keep a not-for-profit type status. They should also consider recognising the special characteristics of social enterprises through a specific legal status
- Ensure that the disadvantages of being a not-for profit organisation operating in a market environment are taken into account (such as not counting tax breaks as subsidies)
- Public authorities should meet social enterprises' investment needs, not just running costs
- The Commission should ensure guidance to member states about the 2014 public procurement directive in the transposition phase and afterwards, clearly explaining the possibilities in the legislation to enable long-term financing of quality social services and highlight the conditions for other options for the contracting of services than procurement
- Contracting authorities must avoid short-term contracts for social enterprises providing services to enable them to maximize their potential for job creation and facilitate social inclusion
- The European Commission and national governments should support the creation of centres to advise and assist all types of social enterprises and support social entrepreneurs' business skills
- Any social impact measurement tool should take a long-term approach, be flexible, tailor made to the social enterprise and its users and help the social enterprise achieve and promote its objectives
- Governments and financial actors should support the creation of funds that value social impact highly but have lower expectations on financial returns

Supporting work integration

- The Commission and national governments should promote and fund projects and transnational mutual learning exchanges that facilitate the reintegration of persons with disabilities into the regular labour market (including through the ESF)
 - National governments should support evidence-based innovative approaches in this regard
- Public support for sheltered workshops should enable providers to ensure an income for those working there sufficient for an adequate standard of living
- The European Commission should launch research into the methods of successful mainstream workplace integration of people with disabilities.