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This report is based on various notes taken during the workshop. It does not purport to reproduce in extenso all debates and intervention.

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Workshop
"A European Ecosystem for Social Business"
25-26 May 2011 - Brussels

SUMMARY REPORT

Day 1 Presentation of business cases 9:30 – 12:30

Business Cases

Websourd, FR – François Goudenove (Director)

Websourd is a French social enterprise catering to the need of the 500,000 or so deaf people in France. Its mission is to help deaf and hearing impaired individuals to live an independent life and overcome barriers preventing them to attend school, work, access public services etc., or making these daily activities very complex, if not impossible (e.g. all activities requiring the use of a telephone are problematic).

The company develops and provides products and services (largely ICT-based). Examples illustrated during the workshop include a system involving a video Internet connection with a sign language interpreter allowing deaf people to interact normally with public administration, or web services providing news in sign language.

Current issues faced by the company are the lack of availability of sign language interpreters, which signals at the same time the job-creation potential of the company (some 3,000-4,000 more are needed). Websourd also pointed at a regulatory void surrounding its activities and a disparate situations across Europe. Scalability and growth are therefore the main issue.

Specialisterne (Specialist people), DK - Thorkil Sonne (Founder)

Thorkil Sonne explained how his personal experience made him realise how excluded from society autistic people are. Society simply is not adapted to the specific needs of some of its citizens. And yet it appeared that, beyond their handicap, autistic people also have extraordinary abilities that most people are not aware of: highly analytic skills, great mathematics abilities, amazing concentration, even for repetitive tasks.

These skills make them excellent software specialists, and therefore Specialisterne's objective is to employ them, so that they can both integrate into the work market and feel they too can contribute to society and the economy, which helps overcome their low self-esteem.

The main issue faced by companies such as Specialisterne is access to finance, for traditional banks are wary to grant loans to what they see as high-risk undertakings. Mr Sonne had to

mortgage his own house to set up his business. He feels some publicly-funded starting capital would be necessary to show traditional lenders that they can trust social businesses.

Keynote speech by Internal Market & Services Commissioner Michel BARNIER

In his speech, Commissioner Barnier recalled the overall rationale of the Single Market Act and the Social Business Initiative, which is a major instrument of his policy to recover the citizens' confidence in the Single Market. He stressed his desire to confront the Commission's ideas with the expertise of those working in the ground, in order to draft a text that meets the expectations of the social business community in Europe. He stressed the need for the workshop to go beyond theoretical questions of definition, and identify Europe's actual possible added value for social business, and the concrete measures that should be taken to support its development. He announced that the Commission would organise a big one-day conference on Social Business on 18th November, in order to discuss the Social Business Initiative, where he hoped he would have the pleasure to see the participants of the workshop again.

Le Chênelet (FR) - François Marty (Ashoka Fellow & Founder)

Le Chênelet is a co-operative employing 120 staff, providing smart and innovative solutions on multiple social problems to people in difficulty. Its corporate objective is to provide excluded people with a new start based on decent work, fair accommodation and certain level of health and quality conditions.

Mr Marty notes that the poor do not have access to quality and environmentally friendly housing. His idea of sustainable development is to show and exploit the real value of simple ordinary practices and address basic daily needs.

To achieve this objective, Le Chênelet faces the challenge of fund raising and targets all possible sources: social investment funds, classic bank credits, subsidies from big enterprises or even taxation of high incomes or properties. Its argument to obtain funding is that it is a safe investment (no loss / no gain idea, since 0% interest, but also 0% return to investors)

Once the funding is secured, it presents local authorities with a plan that focuses excluded and vulnerable people, by cooperating with local small enterprises and craftsmen, trade-unions and association, to hire the local, unemployed workforce, and asks local authorities to lend unused land under long-term ground rents (baux emphythéotiques).

To carry out the building of social housing, Le Chênelet then re-develops or re-invents old jobs (e.g. wood management in forests using horses), and thus provides training and know-how to people with low skills. It is the first certification office for traditional professions.

Mr. Marty believes that the main role of the EU should be to endeavour to cut the red tape in existing procedures, especially cohesion funds, and engage in dialogue with practitioners that are close to the real needs on the ground. The EU can create a platform to exchange ideas and promote effective working models. *In order to help Europeans "think local and act global" the EU should create for citizens the global place where local action can take place...*

Inspiring Scotland (UK) - Celia Tennant

Celia Tennant presented the work done by 'Inspiring Scotland', which funds projects by social enterprises and charities in Scotland. 'Inspiring Scotland' obtains about 50% of its funds from private investors with the other 50% coming from government grants.

It currently invests in 50 projects, helping to create social enterprises that aim to bring vulnerable people, mostly teenagers, into work.

One example is its financial support of the Calman Trust project which set up a café, a coffee roastery and catering company in Inverness (a hotel project is under way).

In the experience of 'Inspiring Scotland', access to finance is a main issue for social enterprises, but so is business development support.

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After the morning session, a networking standing lunch enabled European Commission officials to meet with experts and informally exchange their first reactions.

The afternoon was devoted to in-depth discussions in six thematic clusters.

Cluster 1 on Social Innovation & Social Business

Room Thierry Stoll

- Filippo Addarii, UK, Executive Director of Euclid network
- Guillaume Taylor, CH, Directeur general de Quadia Impact Investment Genève
- Alastair Ballantyne, UK, Portland Place Capital
- Thorkil Sonne, DK, Founder of Specialisterne
- Saskia Bruysten, DE, CEO & Strategic Director Grameen Creative Lab
- Gianluca Salvatori, IT, President of EURICSE

Moderator: Paul Adamson, UK, Editor-in-Chief and Publisher, E!Sharp

Rapporteur: Gerhard Bräuling, Policy coordinator, DG EMPL (Unit C/3: Youth, Employment, Entrepreneurship, Microfinance)

Unit 01: Henrik Mørch, Head of Unit

The panel -brought together six experts and more than ten officials from DG MARKT, EMPL, REGIO, RTD, and ENTR.

Part I: Experience of experts

Experts kicked off the discussions by presenting their specific experience.

The work and experience of **two social entrepreneurs** (Thorkil Sonne of Specialisterne, and François Goudenove of Websourd) had been presented in the plenary session in the morning. They both started their social business as a "second career", drawing on their broad of experience in the business world. A key feature of the development of their businesses (the primary mission of which is to provide access to work for disadvantaged people) is that they are embedded in a network of civic organisations.

They stressed the need to find support for scaling up a successful business model across Europe, identifying demand for it in other countries, and arranging effective and balanced links with organisations/enterprises that are capable of replicating the approach.

Two **sponsors** of social business then took the floor.

Mirjam Schöning, Senior Director and Head of the Schwab Foundation for Social Entrepreneurship (World Economic Forum) described the mission of the foundation as advancing leading models of sustainable social business. Its main activities are

- Identifying and highlighting the “Social Entrepreneur of the Year” through annual competitions (key criteria: Innovation of the approach, financial self-sustainability and measurable direct social impact), resulting in the selection of 20-25 Social Entrepreneurs from a pool of 1,000 applicants.
- Community building through peer-to-peer exchange of the social entrepreneurs and support to the replication of their methodologies among each other.
- Connecting social entrepreneurs by involving them in the regional and global meetings of the World Economic Forum. These meetings offer unique opportunities for social entrepreneurs to connect with corporate, political, academic, media and other leaders.

For Ms Schöning, the diversity of the social enterprise sector in Europe reflects the differences in legal and fiscal environments at national level, as well as in culture and history. Half of all social entrepreneurs selected by the Schwab Foundation are driving a hybrid social enterprise, which often takes the form of two legal entities.

Saskia Bruysten, is the CEO & Strategic Director of the Grameen Creative Lab, a social business created by, and working closely with, Muhamad Yunus. The Grameen Lab provides infrastructures and support for social businesses for in three fields:

- Awareness raising amongst policy-makers, society leaders and corporations on social business, through events, media etc.;
- Mobilisation and capacity building through assisting SE in developing their business, and initiating and supporting academic research in collaboration with partner universities;
- Contribution to the development of a supporting ecosystem by consulting corporations on how to set up a social business joint venture – worldwide, helping investors and the public sector to create Funds that run as social businesses, and setting up social business funds.

The main challenge here seems to motivate young people, and communicate role models of social entrepreneurs. It is also important to get corporations to set up separate social businesses (non-dividend businesses with a social aim), so the knowledge and capacities of corporations can be used to solve social issues.

Alastair Ballantyne is a **provider of financial support** to social business. He acts as advisor to the UK government in setting up a comprehensive system of financial support for social enterprises.

The Big Society Bank aims at mobilising private money as investment capital (not grants) for social enterprises. It is capitalised by dormant account money (roughly £400million) that haven't been touched for 15 years, and investment from UK high street banks (£200 million). It acts as wholesale organisation – working through existing or new organisations.

Independent from Government, it has a robust mission and governance structure and aims at becoming a self-sustaining organisation.

With Social Impact Bonds, the Government agrees to repay investors in social enterprises that provide services where they can prove improvements in measurable outcomes that produce cost savings to Government (eg interventions to reduce prisoner reoffending). This prospective income can be used to raise bond financing from commercial, public or social investors.

The key issue here is to obtain approval (or exemption) for compliance with EU State Aid rules and get the authorisation from the UK Financial Services Authority.

Filippo Addarii, Executive Director of Euclid Network, described it as a community of civil society professionals who connect across borders for a stronger, more innovative and sustainable European civil society.

In his view, on the basis of a quick survey on the Social Business Initiative amongst Euclid members, the main focus of the Commission should be on funding more than on the legal environment, and on ensuring that social business is embedded in social innovation.

The European Research Institute on Cooperative and Social Enterprises, represented by its President Gianluca Salvatori, promotes knowledge development and innovation for the field of cooperatives, social enterprises, and non-profit organizations, through research, training young researchers and those who work in non-profit enterprises and organization, and consulting services to cooperatives and social enterprises primarily on enterprise management, legal and taxation issues, and public policy.

For Mr. Salvatori, a social market economy is an economy of economic and social cohesion. It is a pluralistic economy, as it creates space for pluralism of business models to develop and grow, and puts them on an equal footing: those that are driven by profit, and those that are driven by a social objective.

Social enterprise create a triple dividend: they generate a surplus over costs (economic value), deliver new services/products and/or ways of production in the general interest (social value), and contribute to a low carbon, low waste, low emissions and resource efficient economy (environmental value).

Part II: Social Business, Social Innovation, and Social Entrepreneurship

Participants agreed to the statement that definitions are not so relevant for the social entrepreneurs, as their motto is: "**Just do it**".

However, definitions are needed to distinguish social enterprises in verifiable terms from other forms of enterprises:

- as beneficiaries in the rules for granting financial support (e.g. to include it in the next generation of national or regional programmes under the ESF);
- as legal entities who are granted privileges or exemptions in legal and fiscal frameworks, such as state aid rules, public procurement rules, rules for special investment vehicles.

The terms "social business" and "social enterprise" are often used as synonyms. Discussants saw no need to distinguish the two concepts.

There was agreement on key characteristics of social enterprises:

- These are enterprises with a primary mission to generate create a social and /or environmental impact in the general interest through new services or products on the market and/or through introducing inclusive/sustainable ways of production ; and
- They use the surplus generated from their activity to further pursue their social objective and to create social value.

Participants in the discussion agreed that the definition should

- encompass all relevant actors, and not distinguish between **different** legal forms of business; and
- take into account the following facts:
 - Businesses develop over time as drivers and business environments change (e.g. developing an NGO to become a social enterprise, or vice versa);
 - Some social enterprises have been set up by corporations;
 - There are also hybrid forms of social enterprises.
 - Financial sustainability and economic viability may include subsidies or other forms of revenue (as in the case of normal businesses), in particular for work to develop or scale up the business model (as is the case for any high tech firm receiving public R&D support);
 - Innovation does not only take place inside social enterprises, but also outside: their business activity may lead to changes in value chains, standards and norms, interfaces and linkages between institutions and sectors, in other words be a driver for, and being driven by, social innovations.
 - The link with social innovation is the role of social enterprises in mobilising, creating and investing social capital, because they are embedded in a wider community and integrated into networks of people, enterprises, and civic society organizations

A broader range of opinions was expressed on the necessity/advantages of **intellectual property rights** for the social business model. On the one hand, there is a need to recover the high development costs and costs for making the specific business model replicable. On the other hand, sharing with others is a means to scaling-up. Some see openness as an essential feature of the social business model, and open source as a powerful method for dissemination and further development.

It was recognised that the social enterprise approach is less rooted in the new member states (hardly represented in the workshop) than in the old member states, for a number of reasons. The social business tour through 6 Eastern European countries in 2010 was mentioned <http://www.socialbusinesstour.com/>

Social entrepreneurs are those people who start, develop and scale social enterprises. During the life cycle of a social enterprise, the entrepreneurial role may be assumed by different people, depending on their capabilities and resources, working in teams, and passing on the baton.

Part III: Concrete ideas for EU level support

Participants proposed a number of actions for EU level support, clustering around three main types of intervention. :

1) Communicate the role of a social enterprise to achieving the EU 2020 objectives

Social enterprises generate a social, environmental and or community impact, and are thus drivers and change-makers that contribute to achieving the EU 2020 objectives through

- new services/products and/or ways of production on the market;
- smart growth by focussing on innovation and participation in the digital society;
- sustainable growth by introducing efficient ways to reduce emissions and waste, and use natural resources and energy;
- inclusive growth by facilitating social and work integration, improving the quality of social and health care etc.

In this context, the Commission, in its **role as agenda setter**, can mobilise support for social enterprise and social entrepreneurship through:

- setting up competitions for awards and prizes for outstanding achievements in generating social and environmental impact, which would attract media attention;
- Creating an ISO label or another certification model to inspire social enterprise starters, mobilise investors, attract customers ;
- Mobilising large companies to invest in, or set up social enterprises;
- Mobilise senior citizens with business experience to mentor, or to set up social enterprises ;
- Making all citizens aware of the benefits of social enterprises by adding the item "experience in social enterprise" to the Europass CV;
- Organising special awareness raising campaigns in the new member states (this is seen as an opportunity for the Hungarian and Polish presidencies).

These actions would also help to develop a more entrepreneurial society, rehabilitate entrepreneurship through social entrepreneurship, and mobilise for risk taking to achieve changes in society and economy.

2) Exchange of good practice across EU member states

In the view of participants, the Commission could also use its **convening power** for exploiting the opportunities of the Single Market by providing assistance to intensifying and speeding up diffusion of business models and business practices, and to scaling-up proven businesses and business models across the EU.

Specific actions suggested:

- Spreading methods for measuring and reporting on social and environmental impact;
- Collecting good practices: what works, what not, and how (not only related to social businesses as such, but also to models of social enterprise infrastructures, such as the Social Innovation Park in Spain);
- Supporting networks of stakeholders, investors and promoters of social enterprise, as well as (sectoral, thematic) networks of social businesses;
- Supporting / partnering with existing events focussing on social business (e.g. Global Social Business summit of Prof. Yunus; www.gsbs2011.com)

- Participating in the financing of the initial costs of replication in other countries, e.g. through supporting successful social businesses in organising dissemination seminars, combined with training, in other countries (example: Seminar organised by Specialisterne);
- Supporting "hubs" offering spaces to work, meet, learn, and connect, for social entrepreneurs and executives, investors, students, creative professionals etc., and to mobilise for social entrepreneurship;
- Supporting the setting up of web based platforms /portals to share good practice and to facilitate interaction and exchange;
- to piggy back on/ expand mobility schemes and schemes for voluntary action for social entrepreneurs, e.g. by following the model of the Erasmus for young entrepreneurs scheme.

3) Improving the regulatory environment

The European legislation for establishing and completing the internal market aims at creating a **level playing field for all economic actors**.

Participants highlighted disadvantages, or unequal treatment endured by social enterprises in comparison with traditional businesses, both in legislation and practice. This has been observed both for EU and national rules on

- Public procurement,
- State aid,
- Financial market rules (for investors in social enterprises).

Moreover, social enterprises are also seeking targeted treatment to acknowledge the social value (in relation to EU2020 agenda) they generate, which is not remunerated by the market, and to reflect the key features of their specific business model.

Participants suggested to simplify rules, as compliance often involves **onerous** efforts for social enterprises, and to seek linking rules to awarding a label.

4) Improving access to funding

Participants have experienced high administrative costs in their attempts to access public support, both for national and EU schemes. They propose a simplification of the application requirements and procedures, or to base selection of social businesses worth funding on a different, more business-friendly procedure (e.g. presentation of the social entrepreneur and her/his business plan to a panel).

Further proposals included:

- Increase the scale and scope of structural funds' interventions, in particular that of the ESF, in promoting social enterprises as well as infrastructures, support environments and services conducive to their creation, development and scaling-up.
- Create a coalition of member states working towards support of social enterprise in their current and future ESF and ERDF programmes, with the aim of demonstrating the feasibility and suitability of structural funds' support;
- Encourage the use of mentors to assist in applications for funding (e.g. seniors);

- Ensure that the specific features of social enterprise are adequately reflected in the Commission's new Financial Regulation, which could e.g. provide space for easier access to Community funding, such as small lump-sum grants of up to €50,000 for starting a social enterprise (seed funding) or provide that the co-financing commitment of a partner is not part of the application, but takes place after selection and approval;
- Bring together leading national financing institution committed to support the start and operations of social enterprises and stimulate their cooperation, and set up an EU umbrella to capitalise the social enterprise sector.
- Allow for an easy overview of what funding options are available for social businesses (very difficult to get overview as “outsider” as funding may be in several different areas).

Cluster 2 on Finance

Room Poseidon in the Maison de Maître (-1 floor)

- Wolfgang Spiess-Knafl, DE, Research associate at the KfW Endowed Chair in Entrepreneurial Finance (TU Munich)
- Olivier de Guerre, FR, Phitrust and EVPA member
- Jean-Louis Bancel, FR, Président Crédit Coopératif
- Pieter Oostlander, NL, Director of Noaber Foundations
- Nick O'Donohoe, UK, Adviser to the UK Government on the Big Society Bank

Moderator: Paul Cheng (European Social Investment Task Force – coordination body for social investment strategies between EU Prime Ministerial offices)

Rapporteur: Esther Wandel, Policy officer, DG MARKT (Unit G/4: Asset Management)

Unit 01: Claudia Colla, Policy Coordinator

One of the reasons of the workshop was to contemplate what could the EU usefully do to foster social business and more specifically how to improve access to finance for social business.

The debate was split into two parts: The first part was devoted to the issues the obstacles social business is facing; in the second part possible solutions were discussed.

1. Main issues:

Mismatch between supply and demand side: there is a lot of capital and there seems an increasing interest of investors investing into social business – but both sides seem to have difficulties to come together. There is not yet a market for social investment. As reasons were mentioned the issue of "investment readiness" of the social enterprises themselves, very often they are not able to articulate their needs; the resilience of the supply side and there is also the issue of a lack of market infrastructure. Some of the resilience can be explained by the fact that investors into social business need to have a long term time horizon – they need to be patient – patient capital is needed.

Insufficient clarity as to what actually social business is and how to ring fence it from other types of business makes it also difficult for investors to identify their potential targets – probably one of the leading themes of this workshop. But there is already a lot thinking, debate research on this. And – as clearly pointed out by one speaker: When we would like to wait for clarity on this, we will never move. We have also to accept that the notion of social business is an evolving, dynamic concept.

The uncertainties for investors also seem related to the fact that social business often sits in the grey area between charities and "real business", i.e. between profit and non-profit. However, most investors are used to a clear categorisation: Either you donate e.g. to charities, then you do not care about giving your money away – you might be only concerned about doing something good and achieving social outcomes. Or you invest but then you expect financial returns. However, social investment may combine these two elements and this is new and might put challenges to investors. In this respect the notion of "social return" or social performance of an investment is a very important concept and it seems that we might have to do some work on whether and how we can measure such performance and, maybe even more importantly, how we communicate about this with investors. Particularly, on the

first point there is already a lot of thinking on this, but from the EU level we might have to think how we can draw on this.

Finally, **hurdles related to EU financial sector legislation** (e.g. Solvency II, banking laws etc.) as well as **EU state aid rules** were mentioned as making social business difficult. Connected to this, but more structural in nature is the fact that some of the existing tools which could be used to help social business are subject to limitations in this respect. For instance, the fiduciary duties of certain asset managers such as pension funds would prevent them from investing into social business, existing investment fund structures given their rules on liquidity or eligible assets hinder them from being effective investments into social business.

2. Possible solutions

Communicate better about social business

We need to set the **"mood music" right** – a concept used by one of the speakers. Better communication about what social business is and where the successes of social business lie. Good success stories are an important tool to better access finance. And social investment can produce stable returns and people need to know this. Sometimes the business itself talks it too much down – somebody said yesterday. Better communication might even help in access better existing EU public funding. This is certainly an area where the business community itself might undertake some work. However, from the public policy side it seems that organising such a conference, having another conference in November, issuing a communication on social business in September, maybe creating a permanent network/platform on the EU level to ensure exchange between the different stakeholders in this business is certainly something which we might envisage. This might look a small step, however, getting the "mood music" right does not necessarily mean taking big steps – small steps can equally be efficient.

Increase the trust/confidence in the social business and social investments

Several participants emphasized that throwing in some EU public money would give a strong signal to the markets that this type of business deserves trust. This would help to attract investors. It seems that there exist already funding tools on the level of different services of the European Commission (DG REGIO, DG ECFIN etc., EIB etc.) which could be used for social businesses. It should be explored whether these tools would work for the social business sector.

But one should not only think about public funding. Increasing transparency of social business and/or existing investment tools which already invest into social business would also be an important tool which could use to create trust. This means both more transparency towards investors but also with respect to the market in general. For instance, more standardised reporting or accounting could be an important way forward. Thoughts on that are already on-going in some Member States. Investors would have more reliable information, not only as regards the financial performance but also the non-financial performance. And it would also be more transparent to the market what social business is actually doing. But also exploring ways how we can better explain to investors what social business is would be something which we could be exploring. DG MARKT has already undertaken some work in

order to explain better mainstream investments to retail investors – a challenging task – but maybe we can learn from that and see what we can do in the area of social business.

Make existing structures more efficient with respect to social business

It is clear that there are big pools of money but for various reasons they cannot be used for social business. Foundations, pension funds and investment funds were mentioned. Foundations very often only invest a small proportion of their assets into the social purpose they are dedicated to. The major part of the money goes into normal investments (shares, bonds, hedge funds, private equity funds etc.). This is justified by the need to maximise returns which enable them to better grant or donate the projects they are funding - however, from the perspective of social business this is "dead" capital which could also be used to fund social business directly – a very interesting thought which we might have to explore further.

Fiduciary duties of e.g. pension fund managers were said to prevent them from using some of their money to invest into social business. Their fiduciary duties require that they should be looking for maximising financial returns. But maybe we need to look at ways on whether a small fraction of this money could also be dedicated not only to the generation of financial returns but also to the generation of "social returns". Experience of some of our experts showed that this might be easier to achieve if the beneficiaries of the pension fund have some form of linkage to the targeted social business.

Existing investment funds, particularly in the retail sector, are also structurally unable to fulfil the needs of social business. Due to liquidity requirements or constraints on eligible assets they might not be fit for purpose. They should be open to investment into social business or also maybe microfinance.

Finally, existing regulation in the area of banking and insurance as well as State aid rules might need to be assessed with respect to social business. Some participants wondered whether it could be possible to have a small fraction of "free investment" into social business?

Strengthen the role of intermediaries between social business and capital

Intermediaries between social business and access play an important role for the social business sector- there was agreement within the group. This is also the model of the Big Society Bank in the UK – which acts as an intermediary; as a facilitator.

The Commission would have to explore what could be done to help to incentivise such structures.

Cluster 3 on Microfinance

Room Helios (10th floor)

- Faisel Rahman, UK, CEO Fair Finance
- Maria Nowak, FR, Présidente fondatrice de l'Agence pour le Droit à l'Initiative Economique (ADIE)
- Emmanuel de Lutzel, FR, Head of Microfinance of BNP Paribas/European Microfinance Platform
- Grzegorz Galusek, PL, Executive Director of Microfinance Centre, Warsaw
- Daniel Sorrosal, BE, Executive Director European Microfinance Network

Moderator: Jean-Luc Perron, FR, MD Grameen Crédit Agricole Foundation for Microfinance

Rapporteur: Jonathan Carr, Economic analyst of financial markets, DG MARKT (Unit G/1: Analysis of financial market issues)

Unit 01: Makis Tikfesis, Policy Coordinator

The aim of this cluster was to consider what microfinance institutions contribute to social business, notably as social businesses themselves, their challenges and ways of addressing them especially at EU level, taking account of large amount of EU work already done, notably the 2007 Communication.

A wide range of opinion on most issues were expressed but a broad consensus emerged.

What is microfinance?

There is no single definition. The debate focussed on a definition of microfinance institutions (MFIs) which are themselves social businesses. The five defining characteristics were as follows:

- MFIs lend and provide a broader range of desired financial services to both the unbanked, and to the underbanked (i.e. those who cannot always get what they want)
- Where no collateral
- For productive purposes e.g. start-ups, where mentoring/general business support is often vital
- They also have a social mission, i.e. deliver social benefits that clients do not fully pay for – e.g. French government saves an estimated EUR 2.5k when microcredit helps an unemployed person obtain employment. In this respect, such MFIs constitute social businesses in their own right.
- And are sustainable, but this might involve some non-commercial rate access to funds including 'subsidies' by lender/investors.

The European Union uses a EUR 25,000 cap on microcredit loans for statistical purposes. But ideally this should be adjusted by country situation. If a common ceiling is required, EUR 10,000 would be better.

MFIs can be for profit, but the key thing is that profits are ploughed back in and not returned to shareholders at market rate, or handed back to employees in higher wages.

MFIs institutions don't tend to be out and out banks, but can be offshoots of banks; or independent non-banks, including importantly credit unions though they themselves might not explicitly recognise this.

What are the key features of EU microfinance sector?

Although comprehensive data is lacking, the sector is very heterogeneous, reflecting in part uneven access to 'traditional' banking – e.g. while 95% plus of the population in UK and FR have bank accounts, the proportion is much lower in some other Member States (with 40% quoted in one case).

As it stands, the EU only accounts for 1% of global microcredit, but this is growing. Recession saw short-term dip though as repayment rate fell, animal spirits of would be borrowers subsided, banks tightened lending criteria to MFIs, and inflation affected borrowers debt servicing ability in e.g.the UK. But growth has resumed and untapped potential high – e.g.5%-10% estimated to be tapped in France.

What was follow up to 2007 Communication?

The EU had followed up as agreed on finance for MFIs and microenterprises (ME), TA, and a code of conduct for MFI (which awaits approval). There is a variety of EU financing available, and it is up to Member States whether to use the related facilities for microfinance or draw on them for other purposes.

However, recommendations mainly addressed to Member States on the legal and institutional framework and on fostering a better entrepreneurial climate have not been acted on. The former tends to cater for big banks and companies, but not for MFIs, MEs and the self-employed.

Specific outstanding issues are linked to the monopoly of lending by banks, interest rate cap, tax, databases, accounting, financial standards, etc.

Maria Nowak, who helped introduce MF in France in 1988, provided a draft ADIE paper on these issues. It highlights inter alia the difference national approaches to who can extend MC. Thus in France in 2001, banks helped secure a law change so that non-bank MFIs can borrow and lend. They saw themselves as having a vested interest in the development of MC, not least as it creates more clients for them in the future. Other approaches had merit with the German 'agency' model and the UK's GBP 250 money lenders licence referred to. The Basel August 2010 paper on supervision of deposit-taking MFIs was mentioned as an important contribution, the principles of which could be taken on board in any future work.

What are the barriers?

It is difficult to set up new MFIs, e.g. to find the necessary start-up finance. Business advice/mentoring are important for borrowers especially, but also for MFIs. Getting equity funds to budding MEs can be problematic. But some national models offer lessons, e.g., the French prêts d'honneur model which involves zero interest, no collateral, and the provision of subordinated finance. Irish State support provisions for unemployed persons wishing to start an enterprise also mentioned.

What principles should guide action?

The main principles mentioned related to the need to:

- Maintain/enhance the industry's reputation
- Cater for diversity
- Ensure sustainability of MFIs esp funding/expertise
- Base policy to based on accurate data/solid evidence, which unfortunately is unavailable now

What should be done?

1. EU social business funds which retail as well as wholesale investors can invest in should be considered, which could finance MFIs as defined earlier, as well as other social businesses – return between 0 and market rate. Reference was made to the Dutch social and ethical funds as providing possible lessons. The question of definitions and their monitoring is key.

2. Participants called on the Commission to set up a meeting to follow up to the 2007 Communication, on the basis of the ADIE paper. This should happen before the November 2011 conference, and bring together relevant national authorities e.g. central banks, financial supervisors, perhaps EBA. This could accelerate the follow-up to the Communication, perhaps by producing "ten commandments" on how best to establish efficient national frameworks for MF and by enabling the swapping of best practices. The possibility of an EU standing group of national authorities overseeing MF was proposed.

3. More research is needed to inform policy e.g. on volumes, rates, potential. The fact that some borrowers remain off the radar, and operate in the black/underground economy makes things more difficult.

4. The Social Business Initiative should get key messages across, including that MFIs play a big role in helping marginalised/unemployed especially in the context of spending cuts; all should have access. Moreover potential consumers of MF services should be aware of what MFIs have to offer. A communication campaign would have a very positive effect, e.g. by raising awareness, it would be easier to put forward changes and legislative proposals / reforms. The Commission could play a key role by e.g. helping arrange an EU Week/Year of Social Business to showcase MF?

5. The Commission should not forget its role in promoting MF outside the EU including by amending the regulatory framework for EU investment funds (see 1. above). This was not discussed in depth but agreed to be very important.

Discussions in the plenary debate on Thursday

A number of points were made during discussion by the plenary of the Microfinance cluster's findings. Thus it was noted that:

- An imbalance between supply of and demand for MC to 'Tier 1' MFIs had emerged for a period soon after the onset of the crisis, which had helped destabilise some MFIs.
- It was important to focus on the quality as well as the quantity of the social benefit produced by 'social' MFIs.
- When it came to following up unfinished work recommended in the 2007 Communication, the European MF Network could help in respect of the removal of

legal barriers to MF, with DG Enterprise playing a key role in respect of improving the legal environment for the self employed. I

- A 'MF week' across the EU in which events brought MF to different cities could have a sizeable impact.
- It was important to absorb any lessons for MF from the crisis, drawing on the recommendations of the impact Investors Handbook.
- The provision of credit per se was not necessarily a good thing, eg if it was imprudent.
- The imposition of an interest rate cap effectively reduced the number of MF borrowers.
- It was important not to focus only on MC - MFI provision of deposit and remittance services were vital for many who were excluded from mainstream banking services.
- The example of an Austrian bank the employees of which ran their own bank for the 'unbanked' was cited as an example of the variety of ways that MF could be organised to achieve its objectives. Such creativity should be encouraged.'

Cluster 4 on Legal framework

Room Cassis de Dijon in the Maison de Maître (3rd floor)

- Ariane Rodert, SE, EU Policy Adviser - National Forum for Voluntary Social Work (FFSA), Member of the European Economic & Social Committee
- Helen Stephenson, UK, Deputy Director of Social Investment & Social Enterprise, Cabinet office.
- Carlo Borzaga, IT, Professor at University of Trento, President of European Research Institute on Cooperatives and social enterprises, member of EMES
- Daniel Hurstel, FR, Partner in the Corporate and Financial Services Department of Willkie Farr & Gallagher LLP in Paris

Moderator: Jonathan Bland, UK-FIN, Managing Director of Social Business International and founding CEO of the Social Enterprise Coalition

Rapporteur: Emmanuel Vallens, Policy Coordinator, DG MARKT (Unit 01: Single market policy, Relations with the Council)

Unit 01: Henning Ehrenstein, Policy Coordinator

1. What are social businesses?

Cluster 4 started the discussion by exploring the definition of social business, which was seen as a necessary first step before reflecting on the most adapted regulatory framework.

Despite the various backgrounds of participants, a consensus rapidly emerged on the fact that the definition given by Muhamad Yunus of social business was quite close to the more traditional concepts of social enterprise. First, they must be enterprises, i.e. legal persons providing goods and services on a permanent basis. In that respect, foundations can be enterprises. Second, the social element must be specific, not additional to the corporate objective, which is exactly what makes the difference with a CSR-abiding company. The latter refers to a company acting for profit, but takes into account the effect of its action on the environment. The social aim of a social business can either be to serve the community interest or the interest of the members. Thirdly, these companies meet some specific constraints, linked mostly to the absence of profit distribution. Other defining elements include for instance a democratic management (in the case of companies of the social economy sector), or the principle of asset lock or profit caps. This definition is wider than the traditional view of social enterprises, as work integration companies, which still exists in several countries. Some participants considered that some profit redistribution may be necessary, since the absence thereof may have as a consequence that access to finance could only be achieved through bank credit and not on securities markets by attracting investors.

There are of course some differences between social businesses, which depend on the local or national cultures and traditions. In countries such as Italy, most social businesses take the form of co-operatives. They also widely differ as to the type of goods or services produced. All participants agreed that, as in the British case, the definition of social business should be based on a set of characteristics, not on legal statuses.

2. Public procurement

Most external experts noted that civil servants are scared and simply to not have the administrative capacity to master the intricacies of public procurement law. In order to avoid

litigation, they simply go for the lowest bidder, a practice which goes at the expense of socially-oriented procurement, and does not take full advantage of the possibilities offered by the regulatory framework. The need here is to cut red-tape and make contracting authorities less risk-adverse, by developing a permissive culture. Public procurement directives should reflect more clearly what can be done, and not only what cannot be done. The aim of the Commission in this context should be to bring about cultural change. The Guide on social considerations in public procurement was seen as useful in theory, but not likely to be of any help, because it has no legal base.

Issues that would deserve to be discussed in that context relate to the ways to demonstrate the added value (could the concept of the most economically advantageous offer" be adapted and clarified so as to better take into account the social impact?), the link with the subject-matter of the contract (or the possible extension of the exemption applied to sheltered workshops), the issue of thresholds (to be seen in the context of WTO compliance), the concept of "local" services (in how far would trade between Member States affected)

3. State Aid

Participants considered that social businesses struggled to compete on an equal basis with both charities (which benefit from grants/subsidies) and mainstream companies (which have lower operational costs and easier access to finance). Even though the experts appreciated the possibilities existing under the General block exemption Regulation (the GBER), they emphasised the need to further adapt the State aid framework to the specificities of social businesses. In particular, the specific non-profit nature of cooperatives should be taken into account by the Commission.

DG COMP representative clarified certain misunderstandings relating to the application of the GBER while explaining that while the latter sets out the conditions for the exemption from the notification obligation, it is up to Member States to decide on which conditions aid will be granted. As regards mutual cooperatives, it was emphasised that the Commission recognises the operating specificities of the cooperative model. Mutual cooperatives can, under certain conditions, be distinguished from commercial companies when trading with their members and this type of operations might be subject to special tax reductions when justified by social objectives in the common interest.

4. Taxation

Many types of taxes are of potential interest for social businesses: reduced rates of VAT, corporation tax, local taxes, tax breaks for social businesses (such as Social Co-operatives in Italy), tax relief investors for community finance institutions (e.g. Community Investment Tax Relief in the UK), etc.

In order to gain an overarching transversal view, participants agreed with DG TAXUD that a study may be needed. It should cover a wide scope since depending on countries, some special tax arrangements relate to legal statuses, some to specific activities. Such a study should help Member States review their tax system. However, some participants expressed doubts as to the actual utility of such a study.

As to what action may be envisaged at EU level, for the participants, various tax incentives could be set up to support social investment. Furthermore, tax relief should be justified by

specific profit redistribution constraints. However this part of the debate gave rise to concerns by some experts that it would require the setting up of a monitoring system of social businesses, which need flexibility more than anything else.

Cluster 5 on Better visibility to social businesses

Room 04/A053 (4th floor)

- Ding-Li, CN, Deputy director of Non Profit Incubator (NPI)
- Peter Russo, DE, Director and Chairman of Strascheg Institute for Innovation and Entrepreneurship of European Business School
- Denis Stokkink, BE, President of *Pour la Solidarité*
- Jan LePoutre, BE, Assistant Professor, Vlerick School of Management in Gent

Moderator: Tarik Ghezali, FR, General-Secretary of the French association of Social Entrepreneurs (Mouves)

Rapporteur: Pierre Goudin, Policy officer, BEPA (Unit A1 Outreach)

Unit 01: Jean-Claude Mizzi, Policy Coordinator

The Cluster devoted long discussions to the **definition of social business**, which is important if we anything is to be done to give societal and economic visibility to the sector.

Most experts referred to this slide, provided by the moderator:

Variety of Social Enterprises (1/2)

<p>Social mission and impact <i>(examples of criteria)</i></p> <p>Social or ecological needs not satisfied. General interest. People empowerment. Etc. Cost avoided for welfare system Social by : - the clients (ex. : elderly people) - the employees : (ex. : WISE) -the products (marks like Fair Trade). Social innovation, Social R&D Tools/indicators exist to demonstrate social value ...</p>	<p>Not for profit <i>(examples of criteria)</i></p> <p>ROI cap Surplus mainly reinvested in the project Salaries scale 1 to 10, depending on number of employees Adoption of a social economy legal form On dissolution, remaining assets are distributed for social/environmental purposes ...</p>
<p>Social Enterprises are not-for-profit private enterprises with social aims and participatory governance</p>	
<p>Viable and independent business model <i>(examples of criteria)</i></p> <p>Self-governance (not a part of a larger entity) Independency from public authorities Enterprise in a European definition (Annex I règlement (CE) n° 800 / 2008). Production of goods and services % of market resources Job creation</p>	<p>Participatory governance <i>(examples of criteria)</i></p> <p>Partnerships with local actors Community development % of local employees Governance involve stakeholders different from investors Involvement of users / recipients in governance Adoption of a social economy legal form ...</p>

Mouves - Workshop building the ecosystem for social entrepreneurship in Europe – 24/25 may – Cluster 5

1. What are social enterprises?

The opening remarks by the panelists outlined the relevance of this cluster, considering that most of social entrepreneurs, when asked to define their activity, do not identify themselves as social entrepreneurs.

Such blindness could be explained by the great number of concepts applying to the social economic field, and by the undefined matter of such concepts.

That is the reason why the members of the panel first had to tackle the definition of the social enterprises, which crosses several other concepts such as social economy, social innovation or social corporate responsibility, without merging with them nor covering them.

From the start, the discussion on that point gave rise to strong commitments and was quite vivid. The group's attempt to build such a definition was based on a very synthetic proposal: "Social Enterprises are not-for-profit private enterprises with social aims and participatory governance".

Some sort of agreement was found on the four pillars of the definition, but a true consensus was expressed only on two of these criteria: the social impact and the existence of a viable and independent business model. Some participants insisted on the need for innovative aspects.

On the opposite, the "non-for-profit" issue and the participatory governance, even if relevant and sometimes useful to define social enterprises, were not considered as indivisible from the definition of what is social enterprise, but more dealing with management issues.

There was also a proposal to define social enterprises and social entrepreneurship with reference to their social impact, i.e. their contribution to solve societal problems. This definition based on outcomes was considered as too broad an approach.

A general problem in the discussion was that the participants talked of two different concepts. On one hand, social entrepreneurship and social entrepreneurs, and, on the other hand, social business (model). The Commission's foreseen Social Business Initiative appears to cover both 'concepts' (see the Roadmap for the Social Business Initiative). However, the fact that the discussion relating to the definition of Social entrepreneurs/ enterprises is ongoing affected the discussion on how to grant better visibility to entrepreneurs and enterprises.

Social enterprises and social entrepreneurs hate boxes. Whatever the European Commission comes up with should accommodate this diversity. One participant suggested that the Commission should be strong enough and self-confident to set up its own definition, matching its political goals.

Is a label for social enterprises needed?

Some existing procedures of labelling in European countries (in Belgium or in UK, for example) had come to fail. Reasons given were that there were too many conditions to be met, or it was too costly, and in all cases, these labels did not mean anything to consumers.

There is a risk that, by requesting too many criteria to be met for a company to be labelled, big companies would always be able to adapt, contrary the smaller social businesses.

Besides, if the definition was too broad for a label to be issued, too many companies would be able to present themselves as social enterprises. To avoid such a situation, adopting a range of different labels could be recommended.

Labels was considered by participants as possibly useful in order to get or to create more resources and to find more clients, namely have a bigger economic impact. For that reason, the cluster considered that labels would be interesting at an early stage, for high potential projects, and when using an innovative way of screening projects. The pitfall to be avoided would be to give a label to products themselves or to processes, rather than to companies.

As a first step, one should identify all existing initiatives for social enterprises all over Europe, considering for example that during the ten last years, ten different legal forms of social enterprises or labels came into effect in European countries.

The EU could then be in charge of putting some coherence in this field, by taking into account existing labels, by creating a common framework and by enabling development of labels for the future. In any case, any labelling system requires a quality management system, which would include an organisational structure, procedures, processes and resources to implement and ensure quality management.

Members of the panel fully agreed that if we want the label to succeed, we have to invest in it like in a brand. One would have to maximise its visibility in order to maximise incentives and concrete benefits (for example, access to procurements, to social innovation funds,...).

Participants in the workshop were in favour of awards and awareness campaigns and it was a general understanding that awards should be granted to entrepreneurs or enterprises. During the plenary session, it was proposed to have a European year in favour of Social entrepreneurs/enterprises to increase the visibility. The moderator noted that UK had arranged a Social Enterprise Day (not clear to what extent this had been a success or if the new UK Government intends to follow-up this Labour initiative).

Other ways to support social entrepreneurship and to grant it better visibility.

Five proposals were made.

- set up a program of "**EU ambassadors** for social enterprise", devoted to raising awareness
- create, by reproducing to some extent the Silicon valley template, clusters of social enterprises, or **social innovation parks**, not only virtual but also in physical places (Madrid, Munich are experimenting such ways)
- create a **public database(s)** (accessible through the internet), which would contain fair businesses quality schemes/labels and consequently make access to information on CSR schemes easier and also improve transparency for consumers and consumer organisations. Such a database (databases) could eventually lead to a periodic ranking of the best fair business labels/schemes in the EU. Such a database was discussed and the general perception was that this could be useful. Though the discussion primarily focused on consumers' use of a database, such a database would be likely to have more added value

for the establishment of business networks and business to business activities. The issue 'How to encourage national partnerships and networks' was mentioned but mainly due to time constraints it was only mentioned briefly. A reason for this is also that the panellists had more insights in their national examples and personal experiences.

- create in all Commission DGs structures or **units** dedicated to social business.
- Have the Commission set itself quantified goals on social enterprises, in order to support them through EU policies and to increase their number, and eventually the jobs they create. Participants asked the Commission to frontload a target such as: "1 million of social enterprises and 10 millions jobs in Europe in 2020".

The issue of how to make sure that 'social businesses' are not barred from trading, due to exclusive sales agreements or absence of cross-border recognition of [national] 'social' labels was mentioned but not discussed in detail. However, social business are frequently small enterprises (or possible medium sized) and they therefore face the same unfair business-to-business commercial practices as any other small operator (supplier/processor/retailer).

Cluster 6 on Education & Capacity Building

Room 06/A030 (6th floor)

- Mirjam Schöning, CH, Senior Director and Head Schwab Foundation for Social Entrepreneurship (World Economic Forum)
- Luciano Balbo, IT, founder and Chairman of Fondazione Oltre (Milan)
- Johanna Mair, ES/IT, IESE Business School Madrid, Professor of strategic management
- Thierry Sibieude, FR, ESSEC Business School, head of Social entrepreneurship
- Cynthia Shanmugalingam, UK, Senior associate, The Young Foundation
- Bénédicte Faivre-Tavignot, FR, HEC, Executive Director & co-founder of the HEC Chair “Social business / Enterprise and Poverty”

Moderator: Mark Cheng, UK, Ashoka

Rapporteur: Godelieve Van Den Brande, Policy officer, DG EAC (Unit A/3: Jean Monnet, partnerships and relations with the agencies)

Unit 01: Giorgio Mongiat, Policy Coordinator

The cluster was made of a good mix of representatives from the education business, investors, intermediaries and social entrepreneurs and EC officials (from MARKT, EAC, SANCO, REGIO and BEPA).

Social entrepreneurship definitions vary, spanning from undertakings that use entrepreneurial methods to solve a social problem (without necessarily having a business plan and seeking profit) to proper companies pursuing profit but for social objectives.

Other keywords associated to social entrepreneurship are systemic change and knowledge, skills, behaviour, attitude.

Quality, scalability and critical mass, and therefore skills and knowledge are needed in this field; capacity-building and education are therefore very important. Areas where capacity is required include human resources and risk management.

Linking training/education and financing is equally important.

Open questions for this area:

- Who should education and capacity building reach out to?
- What is the purpose of education and capacity building in this area?
- What do we need to teach?
- What are the right reaching methods, how should we do it.

The targets of training and education

Who? A response can be given by thinking less of social entrepreneurship as a category than of social needs that need to be catered for.

Education and capacity building can and should target and involve various categories and age brackets

- Young people and students
- Those who already are active in social entrepreneurship
- People in other careers willing to switch to social entrepreneurship

- Elderly people, who can put their knowledge to the service of social entrepreneurship.
- Individuals and groups in the ecosystem, who need to understand the value and workings of social entrepreneurship (e.g. consultants, decision-makers, corporations – for corporate spin-offs in social entrepreneurship)

How:

- Secondments
- Learning by doing
- How is a function of who.

Capacity building and education demand in this field are affected by motivation barriers, especially when it comes to social entrepreneurship as a career-starter. The fear to fail has as a consequence the inability to re-enter a corporate career path. Furthermore, young people are put off by unsure financial prospects.

Possible areas for EU action

Building a knowledge base to support an evidence-based policy can be achieved through research, which can respond to the need for knowledge and data (e.g. social entrepreneurship's 'demography', into drivers of success and failure). A global database could improve access to information on proven ideas and cases (useful for incubators, investors needing information to assess the investment case, thus reducing 'diligence' costs) .

Exchange programmes for social entrepreneurs, could help bring down silos. Additionally, placement programmes from corporate employees and/or civil servants to social enterprises would also help traditional companies and public authorities to have a better knowledge of social businesses.

Awareness and visibility can be brought about through an EU label, as well as awareness and visibility platforms (along the lines of the European Year of Active Ageing). Information on existing EU tools should be improved, so as to show how they can fit / be used for social entrepreneurship.

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The evening of the first day was devoted to a reception given by Director General Jonathan Faull, in the presence of the experts and of top Commission officials from several DGs. This dinner gave the opportunity for participants to the cluster to exchange their first experience, and get to know people from various corners of the Commission.

The second day started off with a presentation of a German social Business *Dialogue in the Dark*. It gave the audience a great insight at how it managed to meet several objectives at the same time: make people understand the realities and challenges encountered by blind people on a daily basis, and provide them with jobs, which make them feel that they are considered as individuals, not as handicapped people.

The rest of the day was devoted to reports of the discussions of the various clusters, which were confronted to the whole audience. These further debates reflected the discussions that had been held the day before. They also highlighted the converging views of most participants, and shared concerns which pervaded all panels.

This enabled Jonathan Faull to wrap up the workshop with concluding remarks.

He noted that definitions are not so important for social entrepreneurs themselves. But he stressed that some sort of description, or terms of reference were needed, so that public schemes are carefully targeted.

The three main elements he took out of the debate were that social businesses are businesses to start with: they have an economic activity and operate in a market, with the aim at making money out of their activity. Secondly, profit-making isn't their main objective, but rather a tool to achieve their core corporate objective, which is to provide social value to the community. Therefore, when they do make profits, these surpluses are meant to be reinvested in the company's corporate objective, not redistributed as dividends to shareholders.

He noted a line should be drawn with Corporate social Responsibility. He also noted that the Commission should avoid creating a regulatory straitjacket, but that stakeholders expect it to make choices, and not wait until a consensual definition emerges.

On access to finance, he noted that there is a mismatch between supply and demand; and that more transparency was needed to develop trust in social business. He also heard the complaints linked to hurdles related to the financial sector regulation. He took note of the call for a stronger follow-up to the 2007 Communication on microfinance institutions.

He also noted the request to waive some of the public procurement, state aid rules and tax to disproportionately affect the operation of social businesses.

He took note of the various suggestions as to how improve visibility and awareness (labelling, clusters of social businesses, training and education.)

He finally convened all participants to react to the Social Business Initiative, once it is published, and take part to the big Conference, due to take place in Brussels on 18th November.