

## **Social economy - laying the groundwork for innovative solutions to today's challenges (Paris, 10-11 December 2012)**

### **Comment paper Malta<sup>1</sup>**

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### **1. What are the current situation and the recent trends in your country in relation to social economy?**

Malta's social economic makeup consists of various types of social enterprises (or social organisations) which include civil partnerships; foundations and Trusts; and associations, including voluntary organisations and cooperatives.

In order to qualify as a Social Enterprise under Maltese law, these organisations need to have a statute that enshrines the following three main principles: be of a commercial nature; have a social objective; and are based on democratic principle. Another principal element of the social enterprise is that profits generated are not distributed amongst shareholders but are reinvested back into the enterprise.

In Malta, sectors of social enterprise vary as follows: Animal rights and welfare; Awareness and advocacy; Charity and social business/enterprise support; Children Rights advocacy; Environment protection and sustainability; Land and marine conservation; Community development; Persons with special needs; Education; Elderly; Employee rights and welfare; Ethical finance and investment; Healthy living Mental health; Equality and Sport; Charitable organisations.

#### ***The current status in Malta***

The Government of Malta had commissioned a study entitled 'Social Enterprise Project', a final report of which was presented in January 2012. The study analyses in detail the social economy sector in Malta and provides a snapshot of the local scenario, existing national legislation and the nature of social organisations in Malta. The study includes a number of recommendations of which, upon execution, will provide opportunities for the growth of the social enterprise sector. The study also complements the work undertaken at the EU level on social entrepreneurship, including the Communication adopted by the Commission on the European Social Entrepreneurship Funds. Primary research undertaken as part of this project testifies that Malta has a vital voluntary sector, employing approximately 4,387 annual working units, and generating circa EUR 68 million annually. It was established that locally this sector was an active advocate of gender mainstreaming, with significant involvement of women at all levels of the

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organisations. It also attracts a strong volunteer base of approximately 24,000 persons.

This research was carried out amongst organisations in Malta that have the potential to become social enterprises or are already operating as social organisations as defined by national law.

Malta has around 750 organisations that potentially fulfil the function of a social enterprise. These organisations constitute 394 voluntary organisations, 236 sports clubs, 63 band clubs and 57 co-operatives.

The said research shows that the social sector in Malta employs 2.85% of the local labour supply, with a predisposition towards women (average Annual Working Units of 2.96 males and 3.37 females: whole sector).

The overall majority (85.37%) of the organisations are 'service providers', but most do not charge a fee for their services (62.5%) and rely on donations for their upkeep.

From the administrative side, the vast majority (83.92%) maintain accounts. Nearly all of these organisations (99.15%) re-invest their profits in the organisation. None fully distribute their profits.

The same study reveals that in Malta, existing organisations have the necessary characteristics that are typical of social enterprises, and operate under different regulation regimes. Notwithstanding, the various limiting factors that these entities encounter in their operations, the common elements are in place and initiatives exist, thus furthering the scope for implementing a regulatory framework that is more attuned to the needs of social enterprise.

The regulators and main stakeholders of the social sector in Malta include the Commission for Voluntary Organisations; Co-operatives Board; the Education Department; Department for Social Welfare Standards; Malta Sports Council; Department of Health and Community Care; Employment and Training Corporation; and the National Commission for Persons with Disability.

## **2. What framework measures and models to encourage social enterprises are applied in your country?**

### *Legal Nature of Social Enterprises*

In Malta, the legal personality of social enterprises is recognised under various laws and acts. Presently a number of local co-operatives, foundations, associations, non-governmental organisations, church organisations/entities and voluntary organisations fulfil functions that are compatible with those of a social economy.

In virtue of the Civil Code (Chapter 16 of the Laws of Malta), the legal entities that have the potential of forming part of the social economy are Civil Partnerships, Foundations, and Associations. Likewise, the Trusts and Trustees Act (Chapter 331 of the Laws of Malta) and the Co-operative Societies Act (Chapter 442 of the Laws of Malta) places Trusts and Cooperatives on a similar standing.

Furthermore, the Maltese Government plans to issue a White Paper for consultation in due course, which is to include a draft law based on the actions identified in the Social Enterprise Project referred to earlier. The aim in this regard is the setting up of a regulatory framework to be entitled the 'Social Enterprise Act'.

Moreover, Government intends to propose the concept of a Social Purpose Company (SPC) coupled with the establishment of parameters to be met by existing



organisations wishing to operate as social enterprises under the Social Enterprise Label.

### *Entrepreneurship through Education Scheme*

In order to promote growth and development of entrepreneurial spirit through the education system, Government has committed funding for an "Entrepreneurship through Education Scheme". The project aims to address the promotion of entrepreneurship and entrepreneurial qualities through education by sponsoring projects submitted by educational institutions, through a competitive call for proposals.

Entrepreneurship is a major driver of innovation, competitiveness and growth. Therefore the promotion of entrepreneurial attitudes and skills through education has been high on the political agenda and has recently been recognised as one of the new basic skills that should be provided through lifelong learning.

This Government initiative is intended to support and encourage educational institutions to come up with projects that will enable their students to develop their creativity and enthusiasm, enhance their self-confidence, learn how to work with others, increase willingness to take responsibility and use their initiative.

### *A model of social enterprise in a small market economy*

Malta is continuously trying to strengthen the legal personality of social enterprises in society, effectively strengthening their 'bankable' status, and thus encouraging social enterprise equity to augment participation in the social economy and provide sustainability to such entities. In addition, it is proposed that social enterprises have access to a number of incentives and opportunities, where the sector's regulatory body can actively intervene to promote and facilitate growth through incentives such as grants and subsidies, social enterprise equity, tax relief and financial assistance.

The success and development of the social economy sector is also dependent on the ability of the social enterprises to accede to all incentives available to commercial enterprises under Maltese law. The nature of social enterprise activity is partially commercial and therefore should be placed at par with other players in the market.

### Project European Social Fund (ESF) 3.114 Employment in the Social Economy (ESEP)

The ESF 3.114 Employment in the Social Economy (ESEP) is a project funded through the European Social Fund under Malta's Operational Programme II – Cohesion Policy 2007- 2013 'Promoting an equal and inclusive labour market.' Through this project, funds are granted to eligible Applicant Organisations for the recruitment of disadvantaged and disabled persons. The total fund allocated to the ESF 3.114 Employment in the Social Economy (ESEP) is EUR 1,095,172.

The aim is to contribute towards the integration of disadvantaged and disabled persons in the labour market and to facilitate access to employment through financial assistance to organisations operating in the social economy and upgrade the skills of those furthest away from the labour market through work experience.

The organisations that can benefit from this Project are those that do not engage in an economic activity as defined in Article 107 of the EC Treaty. Organisations can be of any form including a partnership, association, non-governmental



organisations or other body of persons, whether vested with legal personality or not and are recruiting new employees.

### **3. What are the main challenges for the future development of the social economy and social enterprises?**

The main challenges for the future development of the sector include the protection of capital resources, economies of scale, finance, income related matters, continued increase of female participation in social enterprises, market oriented social enterprises and the availability of specialist human resources owing to competitive forces in the market.

In Malta, social enterprises, in view of their particular nature and objectives, operate under framework conditions that differ from those of traditional firms, where the aim of the latter is prevalently financial profit. In this scenario, social enterprises are still not well understood due to their diversity in structure, goals and operations when compared to traditional enterprises. These factors contribute to their general lack of visibility in the wider public sphere.

- I. Another challenging issue, which is highlighted in many of the policies endorsed by Member States, is the fact that jobs provided by these social enterprises need to be market oriented. This means that jobs which employees, especially persons with disability, perform must deem to provide the employee skills development.
- II. One important challenging issue that social enterprises face is finance. Finance is the motor for all business development and a social enterprise is no exception. The lack of access to appropriate finance can be as significant barrier to growth. Although access to finance has improved for social enterprises in recent year, the social investment market is undercapitalised and fragmented. There are gaps in provision, duplication of efforts and the system lacks overall capital. In the mainstream finance sector an investment bank can take on the role of connecting the market, supplying capital to intermediaries, tying the market together and identifying gaps.
- III. Another challenge listed in the definition of social enterprises deals with income. Some may be of the idea that social enterprises can run 100% on donations. In Malta, most Voluntary Organisations depend on 100% donations, but this definitely does not classify them as social enterprises. It is highlighted that social enterprises must perform normal business/trading activities and income generated must mainly come from the provision of goods and services. Donations may be given to these enterprises however social enterprises must not merely depend on donations as their major sources of cash.
- IV. In Malta, the rapid enactment of legislation that would legally recognise social enterprises and that would enable them to tap EU funding would contribute positively and it would also help them to get more access to normal sources of funding such as bank loans. In Malta, at present, banks do not provide any bank guarantees to social welfare NGOs thus making it difficult for them to participate in projects partially funded from EU funds.<sup>2</sup>

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<sup>2</sup> 'Study on Practices and Policies in the Social Enterprise Sector in Europe – Final Report': Austrian Institute for SME Research and TSE Entre, Turku School of Economics Finland, Vienna, June 2007.



- V. Similarly to France, Malta would like to ensure generational renewal in the social enterprises' sector considering that Malta is facing considerably larger and faster ageing population than the average EU27.

Challenges which these organisations are expected to face in the near future mostly relate to finance. It is expected that less people will give donations which at present constitute a big part of their turnover and there will be a decrease in membership due to the increase in the cost of living. Micro-organisations have stated that one of their main challenges is competition from larger organisations.

#### **4. A brief assessment of the learning value of the French good practice to your country.**

Malta finds the French note on good practices in the area of social entrepreneurship to be of most interest. The key elements taken from this note include: improving recognition of the social economy, structuring the sector, developing new funding mechanisms and developing innovative business models.

On the need to improve recognition, Malta considers that education and observatories are two important paths towards achieving such. As regard the education system, as previously mentioned, the Government of Malta has already committed funding for an "Entrepreneurship through Education Scheme" to enable schools to implement projects with an entrepreneurial spirit.

With regard to observatories, Malta also takes note of the French good practice. In fact, the University of Malta is planning to establish an Observatory to strengthen research on business and the self-employed. Malta is also introducing a scheme with the name *Active*. This scheme intends to target unemployed young persons to explore entrepreneurship opportunities. The potential applicant will be able to choose self-employment or membership in a cooperative.

Malta positively notes the Proposal by France with regard to *Structuring the sector* and will determine how it can be applied to the Maltese social economy sector.

With regard to *Developing social enterprise (through new funding mechanisms)*, whereas Malta can follow on the French funding tool mechanism by trying to create incentives for the creation of more social enterprises and to tap funding opportunities, as previously stated, Malta is benefitting from a European Social Fund project on Employment in the Social Economy (ESEP) where funds are granted to eligible Applicant Organisations for the recruitment of disadvantaged and disabled persons.

Malta notes that in France, there are three main ways being developed to support the growth of the social economy, namely:

- To increase knowledge about the social economy and its visibility through for example, collecting statistics for monitoring purposes and establishing common principles for what constitutes the "social economy".
- Financial support (totalling EUR 1.9million) is being made available for young social entrepreneurs.
- Work is underway on creating an environment which nurtures the growth and success of social enterprises, through supportive legislation, access to funding (e.g. the investment for the future programme) and local level support on the ground.

In this regard, in line with the first point, as previously mentioned Malta has already launched a project which includes a study on social economy and what defines



Social economy as a tool in finding solutions to social needs that are not sufficiently addressed either by the market systems or the welfare state. Malta believes that the main function of social enterprises in society are to contribute within society at grass root level by taking enterprising initiatives to address the needs of community population that come from vulnerable sectors in society. However, as highlighted in the French good practice, Malta, needs to spend more of its resources on conducting further studies and collecting further statistics on social economy/enterprise.

With regard to the third point, as previously highlighted, Government intends on publishing a White Paper for consultation with the aim of eventually introducing a 'Social Enterprise Act'. Eventually, once this Act comes into being, social enterprises would be legally recognised as such, and thus would be able to tap into EU funding or approach local banks for financial loans. Moreover, the Maltese government has aimed at nurturing growth and support for social enterprises by adopting a scheme of exempting those NGOs with a social aim and that conform to the NGO Act 2007 from paying income tax.

- On a general note, it is common practice that social enterprises try to limit the number of employees due to financial constraints and therefore rely mainly on volunteers to provide their services. This is also the case in Malta.
- Unlike France, Malta does not have a Higher Council for the Social Economy (CSESS) as a national forum for consultation between the actors of the social economy and the government.
- The challenge in France to tackle the effects of retirement (608,000 persons) particularly women from the social enterprises, is also felt in Malta considering that Malta is facing considerably larger and faster ageing population than the average EU27. However, the Government of Malta is encouraging women to remain in the labour market, thus in social enterprises by providing various incentives such as:
  1. providing additional childcare centres – it is proposed to built 4 more child care centres;
  2. tax relief of up to EUR 1,300 for parents sending their children to child care centres;
  3. Women returning to work after 5 years or after having children will maintain one year tax free status;
  4. promoting the employability prospects of older workers through reducing and preventing early exit from the labour market by the implementation of the: (i) Employment in the Social Economy project mentioned earlier and funded by EU Funds and; (ii) Employment Aid Programme.

