



EUROPEAN POLICY BRIEF



HOW CAN POLICY MAKERS IMPROVE THEIR COUNTRY'S SUPPORT TO SOCIAL ENTERPRISES?

This policy brief is based on the results of the first 18 months of research conducted in the EFESIIS -Enabling the flourishing and evolution of social entrepreneurship for innovative and inclusive societies- research project and provides to policy makers advices on how to support social enterprises in their country

4th November 2015

INTRODUCTION

The policy problem addressed in this brief is about which policies should be enacted to provide a favourable environment for social enterprises. The policy implications and recommendations drawn here are based on the first 18 months of research and a wealth of interviews and focus groups with stakeholders from the partner's countries. The policy implications address the following aspects: legal, tax benefits and tax rates, bankruptcy legislation, positive aspects of local policy environment, negative aspects of local policy environment, public awareness and education

EVIDENCE AND ANALYSIS

The legal dimension

In terms of the 'legal' dimension, the majority of our countries do not provide regulations, designed specifically for social enterprises. Only few countries (e.g. Italy and France) have such specific regulations, while others are discussing the possibility of developing them (e.g. Serbia). However, the absence of a specific legal framework does not prevent the development of social entrepreneurship. In fact, social enterprises undertake their activities using a wide range of legal frameworks, such as social cooperatives, foundations, mutuals, charities, and civil society associations, among others.

Moreover, where a specific legal framework does exist, this is not unanimously regarded as a positive aspect; on the contrary, in some contexts it can be viewed as a constraint. For example, in Italy, very few social enterprises have decided to adopt the legal status specifically designed for them, and the Italian government is now considering how to improve this legal framework. In Serbia, where social entrepreneurship is at an inception phase, the social economy community is concerned that a new law could introduce a restrictive definition of social enterprises. This definition would prevent a large proportion of organisations which currently operate as *de facto* social enterprises by means of other statuses - such as a civil society organisation (CSO) - from qualifying as formal social enterprises. Furthermore, in Serbia, the draft law on social enterprises risks leaving key issues unresolved. For example, CSOs in Serbia can develop economic activities but they cannot apply for credit and are prevented from registering products that they have invented or produced, while social enterprises registered as limited liability companies, cannot apply for donations nor project funding.

Sometimes, there are also contradictions between regulations and laws governing social enterprise. For example, in Serbia again people recognized by public authorities as disabled cannot work, which prevents them from getting involved in social enterprises activities, as they are in other contexts, particularly Italy, where a law was passed to facilitate employment access for vulnerable individuals.

Tax benefits and tax rates

Among the interventions that our findings suggest support an enabling ecosystem for social enterprise is improving tax benefits or providing preferential tax rates for activities or donations related to social entrepreneurship. It also appears helpful to reduce the bureaucracy associated with delivering public authority services.

Bankruptcy legislation

A further legal reform that our research suggests helps create an enabling environment is easing or changing existing bankruptcy legislation. Social entrepreneurship is a very risky activity, where success is often the outcome of previous failures. However, in several countries (particularly Austria) potential social entrepreneurs refrain from developing their entrepreneurial ideas to avoid incurring the legal consequences of potential bankruptcy. A legal system that allows people to recover rapidly from an entrepreneurial failure, such as in the United States, would facilitate the development of social entrepreneurship.

Positive aspects of local policy environment

The policy environment is an aspect of the ecosystem intertwined with the legal framework. This must be discussed from several view-points, in particular considering the nature of the administrative system and territorial level of policy, and the policy fields in which social enterprises work (e.g. employment, housing, etc.).

In all eleven countries, stakeholders considered the local policy level as most relevant for social enterprises. Local authorities are pivotal actors in the development of a supportive social enterprise ecosystem. Some stakeholders consider local authority support as the key-ingredient for success (e.g. Poland). Local authorities have such a preeminent role in the configuration of the social enterprise ecosystem primarily because they provide opportunities for social entrepreneurship in conjunction with social services, or delivery of state health and welfare services. In contrast, social entrepreneurs regard national governments as beyond their reach and influence, and this is even more so in the case of supranational level agencies, such as the EU.

Stakeholders regarded the importance of local policy-making in determining the social enterprise ecosystem as having both positive and negative aspects. Among the positive aspects referred to were the spatial proximity of key actors and stakeholders, which is considered beneficial in enabling innovation to be transferred from grassroots civil society organisations to more institutionalised policy domains.

Negative aspects of local policy environment

The negative aspects of the pivotal role of local authorities are also related to their spatial proximity and the risk of developing nepotism and clientelism. In several countries – notably Poland, Italy and Sweden - a narrow conceptualisation of social capital (*'who you know, rather than what you know'*) is regarded as a valuable asset for a social enterprise to prosper.

Relationships between local authorities and social enterprises are often filtered through public procurement systems that have offered social enterprises opportunities to grow in size and capacity and become recognized contributors to social value creation. However, this opportunity is now being scrutinized in several contexts and in fact considered detrimental to social entrepreneurship. For example, in Italy, a country with a long tradition of social entrepreneurship development through public procurement, discussions and focus groups held with stakeholders revealed that procurement mechanisms have corrupted the genuine nature of social entrepreneurship, having turned them into cheap modes to deliver what were previously public services. Moreover, procurement regulations are considered to have weakened the creation of synergies among and collaboration between social enterprises by emphasising competition instead.

Another downside of the importance of local authorities in determining the social enterprise ecosystem is that, in all the countries studied, such an ecosystem appears fragmented and lacks a coherent, systemic framework. An ecosystem that is so reliant upon local authority support is fragile as it makes social enterprises dependent upon contingent circumstances. Therefore, social entrepreneurs are asking for a specific body to be established to coordinate all the activities used to support social enterprises.

Public Awareness and education

Finally, our research unveiled that an important component of an enabling ecosystem is to increase public awareness of what social enterprises do. It also found that stakeholders advocate nurturing an entrepreneurial culture among younger generations, and in particular among young people considering a career in social entrepreneurship. The lack of a proper managerial or entrepreneurial culture was highlighted as one of the reasons for the failure of enterprises and poor mismanagement practices. Public authorities should consider widening educational curricula and provision to include social entrepreneurship in order to increase public awareness of the sector, but education in entrepreneurship is also required specifically tailored for social entrepreneurs.

POLICY IMPLICATIONS AND RECOMMENDATIONS

- 1) Social enterprises should be involved in the co-planning of public policy delivery rather than regarded as merely delivering on a “on demand” service.
- 2) Public procurement procedures should be revised to consider the social value impact of service delivery rather than focus primarily on narrow economic factors.
- 3) Governments should set a coherent policy framework, including legal, financial and cultural aspects, supporting social enterprises and allowing them to operate consistently across the entire territory of a country. The legal and financial framework in which Social Enterprises operate should provide them enough freedom in terms of types of resources they can use and have access to, types of activities they can perform and sectors they can work in.
- 4) Policy-makers should not consider the social economy as a cost but as an investment that can make societies both more inclusive and profitable
- 5) Policy makers should invest further resources in developing public awareness and education, about the potential residing in social enterprises, particularly among younger people.

RESEARCH PARAMETERS

EFESEIIS endeavors to produce new knowledge about the social and solidarity-based economy. It provides a better understanding of Social Entrepreneurship using analysis of data gathered in 11 European countries. By 2016, EFESEIIS aspires to provide information to a wide range of stakeholders – policy makers, financial organisations, local authorities and individuals – to help remove the barriers preventing the growth of Social Entrepreneurship.

The overall design of the research has three main components:

- A theoretical framework that integrates different explanatory factors (public policies and institutions, organizations' features, and individual characteristics) while embracing an evolutionary perspective.
- A cross-national comparative design that includes eleven European countries with different traditions of welfare states and social and institutional approaches to social entrepreneurship: Albania, Austria, England, France, Germany, Italy, Poland, Scotland, Serbia, Sweden, and The Netherlands.

An integrated methodological approach based on multiple sources and methods (an analysis of state traditions, policies and practices towards social entrepreneurship, a survey of social enterprises, case studies, a series of in-depth interviews with new social entrepreneurs, focus groups with stakeholders, and a social experiment with different types of entrepreneurs).

PROJECT IDENTITY

PROJECT NAME Enabling the Flourishing and Evolution of Social Entrepreneurship for Innovative and Inclusive Societies (EFESEIIS)

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FUNDING SCHEME

FP7 Framework Programme for Research of the European Union – Collaborative project SSH.2013.2.1-2 – Social Entrepreneurship for Innovative and Inclusive Societies

DURATION

December 1st, 2013 – November 30, 2016 (36 months)

BUDGET

EU contribution: € 2,470,700.00 Euros

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FURTHER READING

National reports on Social Enterprises in: Albania, Austria, England, France, Germany, Italy, Poland, Serbia, Scotland, Sweden, The Netherlands available at: <http://www.fp7-efeseiis.eu/national-reports/> .