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Commission

SOCIAL ENTERPRISES  
AND THEIR ECOSYSTEMS  
IN EUROPE

Country report

**MALTA**

Vincent Caruana  
Rocío Nogales

*Social Europe*

This report is part of the study “Social enterprises and their ecosystems in Europe” and it provides an overview of the social enterprise landscape in Malta based on available information as of October 2019. It describes the roots and drivers of social enterprises in the country as well as their conceptual, fiscal and legal framework. It includes an estimate of the number of organisations and outlines the ecosystem as well as some perspectives for the future of social enterprises in the country.

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**MALTA**

Vincent Caruana

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This report provides an overview of the social enterprise landscape in Malta based on available information as of October 2019. The report updates a previous version, submitted by ICF Consulting Services to the European Commission in 2014. The current report has been prepared as part of a contract commissioned by the European Commission to the European Research Institute on Cooperative and Social Enterprises ([Euricse](#)) and the EMES International Research Network ([EMES](#)). Vincent Caruana from the University of Malta and Rocío Nogales from EMES International Research Network were responsible for the revision of the report.

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Countries included in the three social enterprise mappings by the European Commission

No	Country	TYPE	2014	2016	2018-19
1	Albania	Fiche	-	-	✓
2	Austria	Report	✓	-	✓
3	Belgium	Report	✓	✓	✓
4	Bulgaria	Report	✓	-	✓
5	Croatia	Report	✓	-	✓
6	Cyprus	Report	✓	-	✓
7	Czech Republic	Report	✓	-	✓
8	Denmark	Report	✓	-	✓
9	Estonia	Report	✓	-	✓
10	Finland	Report	✓	-	✓
11	France	Report	✓	✓	✓
12	Germany	Report	✓	-	✓
13	Greece	Report	✓	-	✓
14	Hungary	Report	✓	-	✓
15	Iceland	Fiche	-	-	✓
16	Ireland	Report	✓	✓	✓
17	Italy	Report	✓	✓	✓
18	Latvia	Report	✓	-	✓
19	Lithuania	Report	✓	-	✓
20	Luxembourg	Report	✓	-	✓
21	Malta	Report	✓	-	✓
22	Montenegro	Fiche	-	-	✓
23	The Netherlands	Report	✓	-	✓
24	North Macedonia	Fiche	-	-	✓
25	Norway	Fiche	-	-	✓
26	Poland	Report	✓	✓	✓
27	Portugal	Report	✓	-	✓
28	Romania	Report	✓	-	✓
29	Serbia	Fiche	-	-	✓
30	Slovakia	Report	✓	✓	✓
31	Slovenia	Report	✓	-	✓
32	Spain	Report	✓	✓	✓
33	Sweden	Report	✓	-	✓
34	Switzerland	Report	✓	-	-
35	Turkey	Fiche	-	-	✓
36	United Kingdom	Report	✓	-	✓

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## List of acronyms

- > **CCF** Central Cooperative Fund
- > **CICOPA** International Organisation of Industrial and Service Cooperatives
- > **CORE** Corporate Citizenship & Corporate Social Responsibility Platform
- > **CSR** Corporate Social Responsibility
- > **CTM** Third World Cooperation (*Cooperazione Terzo Mondo*)
- > **EC** European Commission
- > **EU** European Union
- > **FEBEA** European Federation of Ethical and Alternative Banks
- > **FSWS** Foundation for Social Welfare Services
- > **GPP** Green Public Procurement
- > **ICA** International Cooperative Alliance
- > **KKĠ** Fair Trade Cooperative Society Limited (*Koperattiva Kummerċ Ġust*)
- > **MCAST** Malta College of Arts Science and Technology
- > **MCF** Malta Cooperative Federation
- > **MCVS** Malta Council for the Voluntary Sector
- > **MEUSAC** Malta-EU Steering and Action Committee
- > **MFSA** Malta Financial Services Authority
- > **MUHC** Malta University Holding Company Ltd
- > **MWAM** Migrant Women Association Malta
- > **NGDO** Non-Governmental Development Organisation
- > **NGO** Non-Governmental Organisation
- > **NPO** Non-Profit Organisation
- > **NSO** National Statistics Office
- > **PV** Photovoltaics
- > **SBI** Social Business Initiative
- > **SDG** Sustainable Development Goal
- > **SKOP** Maltese Non-Governmental Development Organisations' Platform (*Solidarjetà u Koperazzjoni*)
- > **SME** Small and Medium-sized Enterprise



- > **SO** Social Organisation
- > **VAT** Value Added Tax
- > **UM** University of Malta
- > **VO** Voluntary Organisation
- > **WFTO** World Fair Trade Organisation
- > **ŻĦN** Young Christian Workers Association (*Żgħażaġħ Haddiema Nsara*)

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## Executive summary

### Background

Malta is a small market economy with a long history and tradition of voluntary associations (VOs) and cooperatives. Before formal recognition, VOs fell under the freedom of association right, which is included in the country's constitution. The country's social enterprise origins date back many centuries. The following three traditions and dynamics can be considered as the main roots and drivers of social enterprise in Malta: 1) the non-profit, civil society and voluntary sector tradition; 2) the cooperative tradition; and 3) the public policy driver.

### Concept, legal evolution and fiscal framework

Malta has no legally recognised form of social enterprise, yet a number of VOs and cooperatives can be considered *de facto* social enterprises. The two main policy frameworks at a national level, which enable the existence of such *de facto* social enterprises, are: 1) the Voluntary Organisations Act of 2007 that created an authority responsible for the registration and monitoring of VOs; and 2) the Cooperative Societies Act of 2001. The launch of the Social Enterprise Act White Paper (2015) is considered a milestone towards creating a specific legal framework for social enterprises; however, it is still to become law, with no timescale set. This white paper's launch acknowledges the role of the European Commission (EC) as an external driver in the development of Malta's policy and legal framework. It also recognises the need to further sustain and develop the sector beyond what is already possible through the existing legal frameworks that regulate VOs and cooperatives.

### Mapping

At present, several VOs and cooperatives are working to combat social problems at a local level. An estimated 32–62 Maltese social enterprises fulfil the EU operational definition. A cursory analysis of the database of VOs indicates that the majority characterised by their social enterprise dimensions operate within social, health and community support sectors, as well as those associated with social inclusion, the environment, local development and animal welfare. Although cooperatives are traditionally evident in the fishing industry and agriculture, in recent years they have also appeared in new sectors such as childcare and care for youth and the community, fair trade, waste management and energy, and the work integration of people with disabilities, which show high development potential.

## Ecosystem

Key social enterprise actors include the public sector, research institutes, networks and financial intermediaries. The Ministry for the Economy, Investment and Small Business is responsible for the Social Enterprise Act's future implementation. Given the lack of a specific legal and policy framework for Maltese social enterprises, no publicly funded support schemes are specifically designed for them. The University of Malta (UM) aims to support and advance the social, economic and professional development of social enterprises and the social economy through tertiary education provision. Although there are no specific networks for or organised by social enterprises or social entrepreneurs in Malta, existing networks do provide a space for discussion. For example, the Malta Cooperative Federation has been very vocal in positioning social enterprise as a main area of interest and representation. VOs regarded as social enterprises can apply for funds and donations, and carry out income generating activities that contribute to their operational costs. Large VOs often establish service delivery contracts with the government. Cooperatives tend to generate most of their income through trading and sometimes supplement such income through grants and membership fees.

## Perspectives

The current economic climate's impact on the social and voluntary sector's competitiveness and related challenges such as higher rent costs and housing have made social enterprises all the more necessary. But most *de facto* social enterprises cannot currently access the majority of funds that are available for small and medium-sized enterprises (SMEs) through Malta Enterprise. Research findings indicate that *de facto* social enterprises are highly vulnerable to changes such as the loss of government contracts or added compliance criteria, which can lead to their existence being jeopardised. Nevertheless, while a lot of effort is being made to support the business sector through economy-boosting grants and funds, the potential of social enterprises is undervalued and so only those with solid financial backing and good business planning exist. Current debates mainly focus on the opportunities that are already in place to strengthen and develop social enterprises and to what extent the forthcoming Social Enterprise Act might contribute to their development.

Major changes are concurrently under way. The VOs Act has recently been updated and discussions are ongoing for revisions of the Cooperatives Act and the Social Enterprise Act's eventual adoption. The final outcome and inter-relationship of such policy considerations are still uncertain. In the meantime, new bottom-up initiatives are being developed. The further development of Maltese social enterprises depends on the combination of two distinct drivers: adequate policy development (i.e., a proper institutional and regulatory framework) and pro-active bottom-up initiatives.



# 1

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## BACKGROUND: SOCIAL ENTERPRISE ROOTS AND DRIVERS


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Malta may not have a legally recognised form of social enterprise, but a number of its voluntary organisations (VOs) and cooperatives fulfil the EU operational definition criteria, which can be considered as de facto social enterprises.

The country's social enterprise phenomenon dates back many centuries. Its non-profit, civil society and voluntary tradition, cooperative tradition and public policy are the main roots and drivers of Maltese social enterprise.

Traditionally, the Catholic Church has been particularly active in the social sector. More recently, new secular-based organisations have taken a leading role in voluntary, social and environmental work. Such organisations often engage with the government to co-plan social service provision with public authorities, thereby obtaining total or partial financial coverage. While cooperatives were once restricted to operating in the fishing industry and agriculture, new types of cooperatives are being set up in response to unmet needs in social service provision and work integration.

Over the past decade, the top-down impetus to develop Malta's social enterprise concept has been especially stimulated by the European Union through its Social Business Initiative (SBI). Simultaneously, the bottom-up movement promoting social economy has recently increased in importance triggered by a growing need to provide support to vulnerable sectors of society.



## 14 | Background: social enterprise roots and drivers

Malta is a small market economy with a long history and tradition of VOs and cooperatives. However, only the latter have been formally recognised: all other entities fall under the freedom of association right, which is included in the country's constitution. Although a number of VOs and cooperatives fulfil EU operational definition criteria and may be considered as *de facto* social enterprises, no legally recognised form currently exists for social enterprises.

The country's social enterprise phenomenon dates back many centuries. The following three traditions and dynamics can be considered as the main roots and drivers of its social enterprises:<sup>1</sup>

- > the non-profit, civil society and voluntary sector tradition,
- > the cooperative tradition,
- > the public policy driver.

### 1.1. Non-profit, civil society and voluntary sector tradition

The Maltese non-profit sector is vibrant and diverse with organisations stemming from church and faith-based organisations, political and cultural groups, sport organisations, musical band clubs and foundations, which each play a key societal role. Many have altruistic purposes and are often related to well-being. Others are related to hobbies or leisure.

Before the VOs Act was ratified in 2007, no overall authority was previously responsible for VO requirements nor their registration, monitoring and supervisory structures. Organisations defined themselves as VOs, non-governmental organisations, charities, mission groups or, more generally, non-profit organisations (NPOs). Despite the various terminology used, they were all *de facto*, non-registered associations set up under the Maltese constitution, which acknowledged the freedom of association right in the country's *Carta Magna*. According to Azzopardi (2011), church organisations and other VOs amounted to some 40 organisations with 3,500 volunteers serving 40,000 people in need in the 1990s. By 2004 the number of socially oriented VOs had increased to 149 involving 1,444 employees and 5,749 volunteers. By 2011, according to the

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(1) Further to these three drivers, socially oriented initiatives in Malta include the explicit advancement of corporate social responsibility, ethical business and “do-good” business by a number of organisations, which can also market themselves as “caring corporations” and “purpose-driven organisations”. Socially oriented initiatives are also driven by a number of individual social entrepreneurs, who fall outside the scope of this report.

National Statistics Office (2012), 29,840 persons aged 12 and over were doing some form of voluntary work with more than half of these doing work related to institutional care and other social activities. Data from the VO Directory confirms this upward trend of VOs with a strong social purpose: at the time of publishing this update, the database indicates 207 entries under the sector “social organisations”.

The Catholic Church and other faith-based organisations have traditionally been active in the social sector, providing shelter for orphans and young single mothers, social housing, basic education and respite homes for people with health problems, disabilities or the elderly. In fact, Maltese social security service development can be traced back to the Order of the Knights of St. John who ruled over the islands and, as hospitaliers, cared for the sick and poor (Department of Social Security n.d.). Residential homes for children were traditionally managed by religious congregations and became particularly important during WWII and its aftermath, which left many children orphaned (Malta Diocese 2013). In 1929 the first Malta Catholic Action group was founded among university students. It was instrumental in founding the *Dar tal-Providenza* complex for people with disabilities. Currently, it organises a “meals on wheels” service in several parishes in cooperation with the Maltese Cross Corps, which is financially supported by civil authorities (Archdiocese of Malta 2013).

In recent decades social services traditionally offered by faith-based organisations such as childcare in homes or the integration of people with disabilities have been re-conceptualised and adjusted according to modern standards, understanding and specialised interventions, which have led to an increase in costs. Furthermore, the staffing of services, which was often previously offered by religious orders, whose vocational numbers are now in rapid decline, is being increasingly provided by lay employees. These changes and related economic implications have spurred such organisations to engage with the government to co-plan social service provision with public authorities, thereby obtaining total or partial financial coverage. As a result, faith-based organisations are also improving their planning capacities to become more sustainable.

Volunteering has a rich, long-established cultural tradition in Malta, which is largely rooted in the activity of faith-based organisations, especially their missionary and social welfare work. However, new secular-based organisations have recently taken a leading role in volunteering, including international development cooperation in foreign countries and locally based social and environmental work. This perceptible shift towards a more mixed landscape fronted by both secular and faith-based organisations has also challenged the charitable paradigm; indeed, the sector is now more focused on capacity building and empowerment.

Social enterprise discourse has also been partly triggered by wider discussion of the social economy, a term that was promoted in Malta by a VO in the latter half of the 1990s. At that time, Malta’s lack of a solid social economy tradition and shared

## 16 | Background: social enterprise roots and drivers

understanding of its concept was finally acknowledged. As a result, EU funding was sought and secured to partially address such a gap.

Much work has been done since Malta entered the European Union in 2004 to strengthen civil society. In particular, the VOs Act was introduced in 2007 and a commissioner was appointed to regulate the VO sector. The Malta Council for the Voluntary Sector's recent creation has since enabled the sector to extend beyond the commissioner's regulatory remit and provide support to VOs through networking, training and mentoring programmes, and activities that promote volunteering. The 2007 Act was updated in November 2018 to include the concept of "mandatory enrolment", according to which some VOs must enrol with the Office of the Commissioner, whereas all other VOs are obliged to notify the commissioner of their existence.<sup>2</sup>

### 1.2. The cooperative tradition

Cooperatives gained ground in Malta just after WWII, following the introduction of the 1946 Cooperative Societies Ordinance. At the time, cooperatives were mainly restricted to agricultural and fishing industries. The International Organisation of Industrial and Service Cooperatives (CICOPA) has observed a global trend from the 1970s onwards of new types of cooperatives emerging in response to unmet social service provision and work integration demands (CICOPA 2004).<sup>3</sup> This trend reached Malta in the 1990s when cooperatives expanded their fields of activity to most sectors of the economy. These included the work integration of people with disabilities and consumables such as fairtrade goods for consumers who care about the social and ethical value of the commodities they purchase. These newly established cooperatives did not gain new legal status under a different denomination. Nevertheless, they are often referred to or sometimes define themselves as "social cooperatives". In fact, *Koperattivi Malta* classifies cooperatives under consumer, producer, service, social and worker cooperatives.<sup>4</sup>

Malta's first local fair trade initiative, which was created as a cooperative in 1996, attempts to identify small *de facto* social enterprises (e.g., a workshop for disabled people that produces candles or an organic farming initiative for people with special needs) and create an informal network between them. Currently, only two cooperatives

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(2) The legal evolution of VOs is expanded in section 2.2.

(3) CICOPA has been a sectorial organisation of the International Cooperative Alliance (ICA) since 1947 and has two regional organisations: CECOP-CICOPA Europe and CICOPA Americas.

(4) *Koperattivi Malta* is a non-political organisation whose establishment was envisaged in the Cooperative Societies Act of 2001 for the purpose of representing and promoting the cooperative movement.



are classified by *Koperattivi Malta* as social cooperatives: one promotes fairtrade products and the other integrates people with disabilities into the labour market.

### 1.3. Public policy driver

Partnerships between the Maltese government and VOs acting as *de facto* social enterprises are not new; the phenomenon emerged post-WWII when the pressing need to eradicate poverty acted as a catalyst. As a result, the state began supplementing activities already performed by social sector faith-based organisations, which laid the foundations for the country's welfare state. The Old Age Pensions Act's introduction in 1948 was a key legal improvement based on a financial means test for people aged 60 years and over. In 1990 the Ministry for Social Policy issued its proposals for a social welfare strategy, encouraging citizens to be more caring and supportive on the one hand and helping coordinate different service providers, including church organisations under the Central Social and Family Welfare Agency umbrella, on the other (Azzopardi 2011). Over the years the church and government have maintained good working relationships in many social sectors. For example, church entities have contributed to different government policies pertaining to improving standards of care. Over the past decade, the top-down impetus to develop Malta's social enterprise concept has been especially stimulated by the EC through its Social Business Initiative (SBI).

Simultaneously, the bottom-up movement promoting social economy has recently increased in importance triggered by a growing need to provide support to vulnerable sectors of society. The phenomenon has attracted state attention; the government is now looking for new ways to rationalise its social sector action that could ensure sustainable welfare systems and provide further opportunity for private initiatives, particularly VOs and related institutions. As a result, the government commissioned a study on social enterprises, which was published in 2012, and subsequently issued the Social Enterprise Act White Paper in 2015. The latter acknowledges the EC's role as an external driver, stating that it "has put the social economy at the forefront of its 2020 Agenda, and a significant number of Member States have already enacted legislation to sustain and develop this sector" (Ministry for the Economy, Investment and Small Business 2015a: 3).



# 2


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## CONCEPT, LEGAL EVOLUTION AND FISCAL FRAMEWORK

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Malta does not have a specific legal framework for social enterprises. Its concept of “social enterprise” is still nascent. Trends observed in other countries, where limited liability companies have decided to pursue explicit social aims and adopted inclusive governance, have not so far been observed in Malta. Constraints within the two acts that currently regulate de facto social enterprises—namely the VO Act and the Cooperative Societies Act—hinder the sector’s full potential. For example, the Cooperative Societies Act establishes that a minimum of five members is required to start a cooperative and the VOs Act envisages trading limitations.

The Social Enterprise Act White Paper was issued in 2015 as a first step towards creating a legal and regulatory social enterprise framework, which emphasises the role of stakeholders in the process. It presents limited liability companies as the preferred way of establishing social enterprises; the legislator seems to indicate that limited liability companies are expected to play a key role in covering unmet Maltese societal needs. No indication has been given as to when the white paper will become law nor to what extent, if any, the actual law will reflect the white paper, which has received its fair share of criticism.



## 2.1. Defining social enterprise borders

### 2.1.1. The EU operational definition of social enterprise

This report draws on the organisational definition included in the Social Business Initiative (SBI) of 2011. According to the SBI, a social enterprise is an undertaking:

- > whose primary objective is to achieve social impact rather than generating profit for owners and shareholders;
- > which uses its surpluses mainly to achieve these social goals;
- > which is managed in an accountable, transparent and innovative way, in particular by involving workers, customers and stakeholders affected by its business activity.

This definition arranges social enterprise key features along three dimensions:

- > an entrepreneurial dimension,
- > a social dimension,
- > a dimension relative to governance structure.

Provided that the pursuit of explicit social aims is prioritised through economic activities, these three dimensions can combine in different ways; it is their balanced combination that matters most when identifying the boundaries of social enterprise.

Building upon this definition, the Commission identified a set of operational criteria during the previous stages of the Mapping Study (European Commission 2015, 2016) and refined them again for the purpose of the current phase of the study (see appendix 1 for further details).

### 2.1.2. Application of the EU operational definition of social enterprise in Malta

Malta does not have a specific legal framework for social enterprises. As the concept of “social enterprise” is still nascent, the more general and widespread concept of “social economy” is often used synonymously. The terms “social enterprise” and “social cooperative”, though rather uncommon, are self-defined by organisations. In popular jargon, even the concept of corporate social responsibility (CSR) is at times used interchangeably with social enterprise. This loose use of concepts reflects the lack of any law that explicitly recognises social enterprises, often causing confusion. Although Malta does not as yet have a Social Enterprise Act, a white paper and accompanying draft law were published in 2015 (Ministry for the Economy, Investment and Small Business 2015b).

However, a number of organisations registered under the VOs Act or Cooperatives Act satisfy the EU operational definition of social enterprise and are thus regarded as *de facto* social enterprises. The following two legal forms constitute the core focus of this study:

- > voluntary organisations (VOs),
- > cooperatives (“cooperative societies” in legal terms).

Both are described in more detail below and summarised in table 1.

### Voluntary organisations

The VOs Act (Chapter 492 of the Laws of Malta) allows VOs to act as *de facto* social enterprises, though it limits their possibility to engage in economic activities.<sup>5</sup> Three exclusions are defined in a VO’s statute that permit the organisation in certain circumstances to act as a *de facto* social enterprise: 1) the profit motive; 2) the promotion of private interests; and 3) the provision of any income, capital or property to the founder/shareholder (Deguara Farrugia Advocates and APS Consult 2012). Whereas some VOs are created to promote the interest of members (e.g., hobbies, sports and music), most carry a clear social purpose in their mission statement. The VO’s very premise dictates that it is a non-profit-making entity that uses any surplus money to achieve the social goals defined in its mission statement. Furthermore, a VO is independent, autonomous from the government and managed in an accountable and transparent manner by its administrators to fulfil its express purposes.

Article 38(1) of the VOs Act clearly states that a VO shall not be established for trading purposes nor to promote the interest of a commercial enterprise nor engage in trade as its principal activity. The VO Commissioner must ensure that this provision of the law is fulfilled and has the power to both refuse an application and unroll an already registered organisation if found to be in breach of this stipulation. However, the act also enables income generating activities when not established specifically for trading purposes. A clause specifies that the organisation can continue to be deemed non-profit-making even if “it buys or sells or otherwise deals in goods or services where such activities are exclusively related to its principal purposes” (part 1 of the law); VOs have to establish an appropriate legal entity should they wish to carry out trading activity that could raise funds to achieve its purposes. Article 38(4) refers to a number of activities that a VO may directly perform to achieve its purposes that are not legally recognised as trading activities, including charging fees for educational services, the

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(5) Article 3 of the VOs Act defines a VO as “... an organisation which is created or established: (a) for any social purpose including that which qualifies as a public purpose or for public benefit; (b) as non-profit making; and (c) is voluntary.” The act also regulates organisations that do not fit the EU operational definition of social enterprise, which are therefore not included here. The full act is available at: <http://www.justiceservices.gov.mt/DownloadDocument.aspx?app=lom&itemid=8958&l=1>.

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sale of goods and services to members, and receiving admission fees. Indeed, an application to register as a VO has been refused at least in one case on the grounds that trading was considered the entity's main activity in spite of its clear social purpose and non-profit status (see *Koperattiva Kummerċ Ġust* case study, appendix 3).

In practice, charity and visitors shops are allowed. Furthermore, organisations that enter into public contracts or public-private partnerships are always allowed to continue such practices as this type of contract is not seen as contrary to Article 38(1). For the purposes of this report, such practices are considered to be valid economic activity for an organisation to qualify as a *de facto* social enterprise.

Evidently, the act is not fully clear and a level of interpretation is required by its regulator, the VO Commission. Article 38(6) recognises this anomaly, whereby, in case of doubt, “a ruling on whether any activity is a trading activity or not for the purposes of this article shall be given by the Commissioner on the application of any interested party and his decision shall be subject to appeal to the Board of Appeal”. In this respect, revisions were drawn up to further clarify the act in November 2018, which are explained in section 2.2. regarding the legal evolution of Malta's social enterprise below.

The Civil Code (Chapter 16 of the Laws of Malta) does not exclude foundations, which cannot in principle engage in active trading, from registering as VOs to engage in income-generating activities under Article 38 of the VOs Act (Government of Malta 2016a). Furthermore, a foundation registered under the act can create another subsidiary organisation—whether a limited company or a cooperative—if it can be deemed to help attain its aims.

In conclusion, although the clause imposes trading limits to restrict the number of VOs that can use this legal type and be considered *de facto* social enterprises, it does not exclude them.

### Cooperatives

The cooperative is the second organisational form to include a number of entities acting as *de facto* social enterprises. Cooperatives perform economic activities and generate profits but are primarily aimed at promoting the interests of their members as consumers and workers rather than investors, unlike conventional enterprises. As most Maltese cooperatives presently have no primary social aim, few examples exist of cooperatives that pursue a social, common purpose. However, these cooperatives can be regarded as social enterprises based on the EU operational definition.

Table 1. *De facto* social enterprises

Indicator	Voluntary organisations (VOs)	Cooperatives
<b>Key national legislation</b>	Voluntary Organisations Act XXII of 2007 (Chapter 492 of the Laws of Malta).	Cooperative Societies Act XXX of 2001 (Chapter 442 of the Laws of Malta).
<b>Economic dimension</b>	<ul style="list-style-type: none"> <li>&gt; Many depend on donations and grants. However, some voluntary organisations generate income from market sources following their engagement in the delivery of services.</li> <li>&gt; Many operate charity shops or visitor shops.</li> <li>&gt; Some large VOs have service contracts with the government.</li> <li>&gt; The law prohibits VOs from being established specifically for trading purposes, to promote the interests of a commercial activity or principally engage in trade (article 38(1) of the VO Act).</li> </ul>	<ul style="list-style-type: none"> <li>&gt; They engage in economic activity, operate like conventional enterprises and follow principles laid down in their act.</li> <li>&gt; They aim to generate income from market sources in a sustainable manner.</li> </ul>
<b>Social dimension</b>	<ul style="list-style-type: none"> <li>&gt; They have an explicit and primary social aim. However, for the purposes of this study, musical band clubs, sports clubs and “hobby” organisations are considered grey areas, since they mainly serve the needs of their members.</li> <li>&gt; Their social aim (public benefit) is also recognised by having non-taxable status under the Income Tax Act.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; They tend to serve the needs of members, yet their activities may also include a social dimension.</li> <li>&gt; Newer types of cooperatives are committed to providing social services that contribute to the potential development of a new type of cooperative: the <i>de facto</i> social cooperative, which until now has had no basis in law. They serve the society at large by engaging in work integration, youth services, environmental services and fair trade.</li> </ul>
<b>Limits on distribution of profits and assets</b>	<ul style="list-style-type: none"> <li>&gt; They are in principle non-profit entities.</li> <li>&gt; They must submit their accounts to the commissioner for auditing purposes. All organisations must declare engagement for sales/trading activity.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Limits on distribution of profits and assets are defined in their act. A cooperative is obliged to transfer at least 20% of its surplus at the end of each accounting period into a reserve fund.</li> <li>&gt; They need to contribute 5% of their surplus/profit to the Central Cooperatives Fund.</li> <li>&gt; The law allows cooperatives to enshrine in their statute the renunciation of the right to a share of profits or limits to such rights as agreed by members.</li> </ul>

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Indicator	Voluntary organisations (VOs)	Cooperatives
<b>Independence and participatory governance</b>	<ul style="list-style-type: none"> <li>&gt; By law, they are independent from the government at central and local levels.</li> <li>&gt; They are considered to be expressions of participation, solidarity, pluralism and subsidiarity that focus on the continued enjoyment and enrichment of democratic life in Malta (Section 9b of the Act).</li> <li>&gt; Administrators are bound to act autonomously and independently when seeking to fulfil the express purposes of such an organisation and must not be subject to the control of any other person or authority nor bound in any manner, directly or indirectly, to act under the direction or in the interest of any other person (Section 3.2b of the Act).</li> </ul>	<ul style="list-style-type: none"> <li>&gt; They are autonomous associations of persons voluntarily united to further their aims.</li> <li>&gt; As jointly owned and democratically controlled enterprises, their policies and decision-making processes are determined by members in accordance with cooperative principles.</li> <li>&gt; Elected persons are accountable to their members.</li> <li>&gt; A cooperatives board is appointed by the government to register, monitor and supervise cooperative societies and ensure compliance with the act's provisions.</li> </ul>

The trend observed in other countries for limited liability companies to act as *de facto* social enterprises that both pursue explicit social aims and adopt inclusive governance have not as yet been observed in Malta. Rather Maltese limited liability companies focus on developing their CSR strategies, which falls outside the scope of this report. Furthermore, no trend has been observed for VOs operating in the social sector to create subsidiary organisations under the Companies Act (Chapter 386 of the Laws of Malta). Stakeholders consulted for the purpose of this study indicated that the administrative work required to set up a limited liability company is an excessive burden for most Maltese VOs. Therefore, limited liability companies are not included in table 1 below nor further analysed in this report.



## 2.2. Legal evolution

This section provides information on the evolution of Malta's social enterprise legislation regarding VOs and cooperatives followed by information on the country's Social Enterprise Act White Paper.

### Voluntary organisations

Since 2012 VOs that have enrolled with the Office of the Commissioner are legally bound to submit annual returns and accounts in a timely and accurate manner.<sup>6</sup> Compliance is a precondition for VOs before they can apply for grants, sponsorships and other financial aid from the government and enter into a contract or other engagement with public authorities.

Following years of discussions and consultation, further amendments to the VOs Act came into force in November 2018 (Government of Malta 2016b). However, it is still too early to appreciate what implications these changes may have upon VOs that perform as social enterprises. For instance, the 2018 amendments disallow religious organisations from enrolling under the VOs Act. Yet they can still form non-religious organisations registered as VOs. Indeed, at the time of writing, religious organisations tend to set up a new VO. This may result in an increase of *de facto* social enterprises under the VOs Act.

In addition, these same amendments significantly update VO trading regulations as reflected in Article 38.<sup>7</sup> VOs can now regularly carry out activities that are “related and ancillary to the principal purpose and objectives of the organisations in order to achieve their public purposes”. The article adds that VOs can perform other trading activities as long as they do not amount to more than 10% of the income generated in any one year and places onus on the VO's administrators to determine this balance. Moreover, some previously permitted activities have been modified or clarified (e.g., “fees for educational services” have been expanded to include “operations and activities carried out by schools, training centres and other educational institutes and the charging of fees for educational services”). What was once referred to as “sale of goods and services to members” has been significantly expanded to include income generated by the organisation itself through volunteers or employees who sell goods or provide services to *bona fide* visitors. Moreover, in cases other than permitted trading activities, VOs should now “establish a limited liability company to carry out acts of trade and the administrators of the voluntary organisation shall ensure that such establishment shall not burden the human and financial resources of such organisation beyond its means”.

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(6) Subsidiary Legislation 492.01 (Annual Returns and Annual Accounts) Regulations of 2012.

(7) All citations in this paragraph refer to this article.

The article also specifies that such limited liability companies shall “carry out those acts of trade which are related or ancillary to the principal purpose and objectives of the voluntary organisation, shall be non-profit making in accordance with this Act [...] shall have directors who do not receive any remuneration for their services for carrying out such functions”.

## Cooperatives

In 2014 a consultation process was launched to review the Cooperative Societies Act, which is currently on hold. Stakeholders belonging to the cooperative sector consulted for the purpose of this study hope it will be resumed soon. Indeed, changes to current legislation are likely to be introduced. A key, potential change concerns “social cooperatives” becoming a distinct cooperative form. According to those interviewed, it is highly likely that cooperative stakeholders would be actively involved in changing the act line by line.

A shift towards cooperatives developing a stronger social commitment is actively promoted by the Malta Cooperative Federation (MCF), which acts as an important lobby for the recognition of Maltese social enterprises. Limited options are available when choosing a suitable legal form for an organisation with a strong social commitment; cooperatives provide a good solution based on both their cooperative values and principles that are in harmony with social commitment and the fiscal advantages offered by the Cooperative Societies Act (see section 2.3.). This act allows rather than creates the conditions for private entities to deliver welfare services.

The goals pursued by new cooperatives that are emerging from bottom-up initiatives to provide social services, facilitate the work integration of people with disability or deliver environmental services are not recognised as different from traditional cooperative pursuits by law. Moreover, the cooperative legal form offers an attractive institutional choice for those who want to engage in social service provision and would otherwise be restricted by VO trading limitations; the cooperative provides a traditional connection to solidarity values.

However, both acts that currently regulate *de facto* social enterprises include constraints that hinder the development of their full potential. For example, the Cooperative Societies Act establishes that a minimum of five members are required to start a cooperative, whereas the VOs Act envisages trading limitations. In view of these circumstances, it is likely that “social cooperatives” could become crucial vehicles for social enterprise to flourish in Malta provided that they continue to emerge and are formally endorsed by the government.

## The Social Enterprise Act White Paper

In August 2010 the Ministry of Finance, Economy and Investment launched a call for tender to conduct a study entitled the Social Enterprise Project (Deguara Farrugia Advocates and APS Consult 2012). The call also provided a working definition of what constitutes a “social enterprise”: “A social enterprise is a business with primarily social objectives whose surpluses are principally re-invested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners.” Moreover, “a social enterprise is not defined by its legal status, but by its nature: its social purpose, the way that its social mission is embedded into the business in its structure and governance, and the way it uses the profits it generates through its trading activities.”<sup>8</sup>

The study’s results were published in January 2012. After its public consultation in June 2015, the Ministry of Economy, Investment and Small Business issued the Social Enterprise Act White Paper as a first step towards creating a legal and regulatory framework for social enterprises (and the social economy), emphasising the role of stakeholders in this process.<sup>9</sup>

The white paper’s launch was described as “intended to provide background information on the social economy and on its potential to address some of our society’s needs [...] and introduce proposals to build a framework to enable the creation and development of social enterprises in Malta”. It also intended to “give a boost and an opportunity to [...] emerging business models and most importantly to the social purpose and the disadvantaged persons they will serve and assist”.

The document highlights social enterprises as important contributors to the social and economic development of a country whose distinctiveness arises from the attention that these organisations pay to the social consequences of their activities and their participative governance structures. It notes that Malta has a vibrant voluntary sector that provides services in a vast array of general interest areas, is an active promoter of gender mainstreaming and attracts a strong volunteer base of about 24,000 people. However, it also observes that the sector is strongly dependent on donations and is fragmented, making it hard to achieve economies of scale. In addition, most organisations that could be regarded as *de facto* social enterprises lack the necessary commercial acumen, which makes their long-term sustainability rather unlikely.

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(8) This subsection is largely based on text from the white paper and all quoted text has been extracted from this document.

(9) This subsection is largely based on text from the white paper and all quoted text has been extracted from this document.

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The legal framework envisioned by the white paper shall:

- > establish a new legal framework within the social economy with a clear commercial orientation that promotes sustainability of operations;
- > ensure that social economy organisations are properly capitalised and that most of the profits generated are reinvested within the organisation itself or to support their social objectives;
- > favour the growth of an equity/asset base that will make social economy organisations more bankable and enable them to procure finance from the market on their own merit;
- > develop different best practice models for social innovation using disciplined management methodologies to the benefit of vulnerable people within society;
- > provide opportunities to start-up organisations and individuals with social entrepreneurial projects by providing clear direction to help develop their idea and implement it successfully with the community.

Although the white paper often refers to the social economy, it limits its scope to social enterprises: “The Act is not meant to regulate the whole social economy but provides for a social enterprise label to qualify organisations that pursue a social objective while operating in the commercial market”. Furthermore, it recognises the public’s interchangeable understanding of different terms such as “non-profit organisations”, “charities”, “voluntary organisations”, “trusts” and “pure commercial entities” that do not necessarily reflect the legal and fiscal frameworks they cover, clarifying that: “This will be a new legal framework and we believe that few (if any) existing organisations would fit into the established parameters without any changes to their statutes and organisational structure”.

The white paper refers to limited liability companies as the preferred means of establishing “social enterprise companies”. In fact, it states: “the main recommendation that this new legislation proposes is to allow businesses to structure themselves and acquire the status of social enterprises” (ibid.: 3). The legislator considers that with such legislation in place “the business community has further opportunity to flourish whilst it provides core opportunities to those members of our society who most require the goods and services provided by social enterprises”. Based on these statements, the legislator seems to indicate that limited liability companies are anticipated to play a key role in covering unmet Maltese societal needs.

According to the Minister for the Economy, Investment and Small Businesses, the act will “allow businesses to consider alternative ways of achieving corporate social responsibility”. However, the white paper also recognises that companies currently registered under the Companies Act will need to undergo changes to make them

eligible for social enterprise status: “we believe that few (if any) existing organisations would fit into the established parameters without any changes to their statutes and organisational structure”.

The draft act envisages two sub-types of social enterprise companies: 1) those whose commercial activity is directly aimed at achieving a social objective through the delivery of social services; and 2) those specifically aimed at employing disadvantaged people or persons with a disability. The white paper quantifies each option’s eligibility under the act as:

- > carrying out any act of trade which is principally aimed towards the fulfilment of a social purpose when at least 70% of its total income is acquired from such activity;
- > carrying out an act of trade while not less than 30% of the total number of workers engaged or employed by it in any capacity are disadvantaged or disabled workers.

Although the limited liability company is the recommended legal form for social enterprises, the white paper concedes that the sector’s reality might be different: Article 7(1) defines “social purpose organisations” as those that seek “social purpose”, thereby opening the door to other entities to apply for the “social enterprise organisation” label from the regulator.<sup>10</sup> The white paper does not specify the concrete organisational types that could access this label or the criteria that should be applied but does mention cooperatives as a specific type of potential social enterprise organisation.

If the act is ratified as proposed, each “social enterprise company” would be identified with a unique name, including the term “social enterprise” (or “SC”) before the words “limited” (or “Ltd.”). In the case of a “social enterprise organisation”, its name would include the term “social enterprise” (or “SO”). Any organisation that until now refers to itself as a “social enterprise” would no longer be able to do so unless registered under the eventual act.

The white paper defines disadvantaged persons as those facing difficulties entering the labour market without assistance. These include migrant workers, members of ethnic minorities, the long-term unemployed, recovering drug addicts and ex-prisoners. Once ratified, the document would open up possibilities for people whose needs are not being fully catered for through the current legal framework (see section 5.).

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(10) “Social purpose” is defined as an aim which benefits the community and includes the advancement of education (including physical education and sports); the advancement of health; social and community advancement (including the integration of disadvantaged or disabled persons); the advancement of culture, arts and national heritage; the advancement of environmental protection and improvement (including the protection of animals); the promotion of human rights, conflict resolution, democracy and reconciliation and the relief of poverty, pain and suffering, and other humanitarian needs.

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As an incentive to potential shareholders or investors in social enterprises, the paper proposes that up to 10% of profits generated by social enterprise companies could be distributed.<sup>11</sup> A social enterprise company would be able to engage volunteers provided that they do not amount to more than 50% of the company's staff. The regulator would be in a position to issue guidelines pertaining to remuneration and wages.

The extent to which the actual law will reflect the white paper, if any, has not as yet been indicated. Indeed, the paper has received its fair share of criticism. For example, the MCF has strongly criticised the document and related act's potential implications on the cooperative sector, especially as limited liability social enterprise companies would receive "preferential" treatment when compared with cooperatives and other legal forms of social enterprise.<sup>12</sup> They suggest a more level playing field that would encapsulate different legal forms and treat all organisations that fulfil the criteria equally. Some criticism to the current draft act emphasises its bias towards limited liability companies and points to the need for more flexible statutory thresholds regarding, for example, the regulation of dividend distribution and trade income percentages (Farrugia 2016).

At the time of writing, no indication has been given as to when the Social Enterprise Act White Paper and related act will become law. Therefore, until the government clearly determines its next step, the law's potential form will remain an issue of debate and speculation.

### 2.3. Fiscal framework

This section provides information on the fiscal framework regarding VOs and cooperatives, followed by information on the Social Enterprise Act White Paper.

No specific fiscal framework currently exists for organisations registered under the VOs Act and the Cooperative Societies Act that could be considered *de facto* social enterprises according to the EU operational definition.

#### Voluntary organisations

VOs, irrespective of whether or not they conduct any permitted trading activity, are exempt from paying income tax. They are granted tax exemption based on the general interest objectives they pursue. As previously highlighted, their permitted trading activity is limited to those activities that form a source of funding for approved public

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(11) The current figure of a 10% limit on profit distribution, which might change when the actual act is finally published, suggests an asset lock of 90%.

(12) Malta Cooperative Federation (n.d.c) outlines the MCF's feedback to the white paper.

benefit. Furthermore, within the 2019 budget, the government has announced that all VOs with an income below 10,000 EUR will be exempt from paying any form of tax.

Article 14(3) of the VOs Act states that the “certificate of enrolment” issued shall not determine the fiscal status of a VO or the taxability of its income and transactions. Conversely, as detailed in Article 42 (2), the minister responsible for social policy — with the concurrence of the minister responsible for finance—may: make regulations relating to the fiscal status of VOs that include different rules for distinct categories or classification of purposes; establish the criteria for granting any exemptions, in whole or in part, from any law relating to taxation, duties or other charges; and determine any fiscal rules on their activities and donations received. This article’s lack of specificity further highlights the vacuum in which *de facto* social enterprises operate when registered under the VOs Act.

## Cooperatives

Cooperatives are exempt from paying income tax and, therefore, enjoy a certain advantage over conventional enterprises. This exemption was issued under the Income Tax Act 19488 and not under the Cooperative Societies Act (Fabri *et al.* 2006).

## The Social Enterprise Act White Paper

The white paper highlights the role of the EC and its policies in supporting social enterprise development. Should the act come into force, social enterprises would be legally recognised, enabling them to tap into EU funding or approach local banks for financial loans. The expectation is that organisations with a social enterprise label—whether “companies” or “organisations”—would be eligible for all incentives available to commercial enterprises under Maltese law. According to this concept, the nature of social enterprise activity is considered commercial and, therefore, would be placed on a par with other players in the market. Any VO that might opt to register as a SO or establish a subsidiary company under the draft act would therefore become eligible for funds and opportunities available through Malta Enterprise (see section 4.2.).

In its current version, the document does not foresee any specific fiscal incentives for social enterprises. And yet, as with the VOs Act, it states that the competent minister may establish *ad hoc* fiscal regulations for organisations and their activities that have been awarded SC or SO status.





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## MAPPING

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The National Statistics Office (NSO) holds no specific data on social enterprises. A database on cooperatives is held by the Board of Cooperatives and a database on VOs is held by the VO Commissioner. These sources of data were used to estimate the approximate number of social enterprises in Malta in combination with previous studies conducted on the social economy sector. It is considered that 32 - 62 Maltese social enterprises meet the definition adopted in this study.

Analysis of the database of VOs indicates that the majority characterised by their social enterprise work operate within the social, health and community support sectors and in sectors associated with animal welfare, the environment, development, philanthropy and social inclusion. In recent years, cooperatives have started engaging in new sectors such as childcare and care for youth and the community, fair trade, waste management and energy, and the work integration of people with disabilities.

Research indicates that de facto social enterprises are highly vulnerable to changes such as the loss of government contracts, which can lead to their existence being endangered.



## 3.1. Measuring social enterprises

NSO holds no specific data on social enterprises nor on VOs; however, a future survey is envisaged that will collect information on the latter.

Instead, a database on cooperatives is held by the Board of Cooperatives<sup>13</sup> and *Koperattivi Malta* and a database on VOs is held by the VO Commissioner. They have been used to estimate the approximate number of social enterprises in Malta in combination with previous studies conducted on the social economy sector.

### Voluntary organisations

The 2012 Social Enterprise Project, albeit somehow outdated, is the only comprehensive research conducted so far on the phenomenon in Malta (see section 2.1.1.). The study analysed the social economy sector in detail, focussing on organisations that operated as *de facto* social enterprises and organisations with the potential of becoming social enterprises. The research concluded that Malta had around 750 organisations that could potentially operate as social enterprises.<sup>14</sup> Out of them, 394 were VOs, 236 sports clubs, 63 musical band clubs and 57 cooperatives.

Malta's voluntary sector is a growing field. At the time of writing, the most recent information on the number of applications submitted to the Office of the Commissioner for VO registration had been constant in the last decade. During the last year under review, 151 applications were received and the total number submitted since the office was created in 2008 amounted to 1,379.<sup>15</sup>

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(13) The Board of Cooperatives is responsible for registering, monitoring, and supervising cooperative societies. The Minister for the Economy, Investment and Small Businesses in charge of cooperative societies is responsible for appointing its members.

(14) This figure refers to those potentially fulfilling the function of a social enterprise and does not in any way infer those with intentions or otherwise of taking up such a role after the eventual publication of legislation and a regulatory framework. Moreover, it is not clear which definition of social enterprise has been used to perform this estimation.

(15) Annual report of the Office of the Commissioner for VOs (2016).

Table 2. Classification of VOs

Classification	Number of VOs	Percentage of total VOs*
Social and community	608	44.08%
Education and sport	551 (Sports 114)	39.95%
Culture, arts and national heritage	469 (Musical band clubs 82)	34.01%
Philanthropy	230	16.69%
Health	184	13.34%
Promotion of human rights	123	8.91%
Environment and animal welfare	94 (Animal welfare 36)	6.81%
Religion	65	4.71%
Other classification	Number of VOs	Percentage of total VOs*
VOs from Gozo	101	7.32%
Youths	66	4.78%
Children	70	5.07%
University of Malta	18	1.30%

\* The percentage of total VOs has been calculated on 100% of all applications to the commissioner since operations were started, namely 1,379 organisations.

Source: Annual report 2016, Office of the Commissioner for VOs (2016).

Estimates of the number of VOs that fulfil the EU operational definition of social enterprise are not available. In order to obtain an approximate figure, two tools have been employed and triangulated together:

1. An analysis of VO categories. Sports clubs and musical band clubs have been eliminated—despite most of them satisfying both governance and economic/entrepreneurial criteria through the provision of training and teaching at a fee, it is difficult to establish whether they satisfy a general interest aim as most activities are offered only to their members. Official classifications are rather broad, as in the case of “social and community”. No official sub-categories are available. Yet, on closer analysis, those listed under “social and community” include a small percentage of what could be termed disability organisations, development

organisations and animal welfare organisations, which are often charity shops. The yellow pages only lists 11 charity shops, some of which belong to the same VO. The number is probably at least double that, as some do not register in the directory. A very small number of other VOs have shops that stock educational material or products made by disadvantaged members of the same organisation. Larger social organisations have service contracts with the government which, for the purposes of this report and according to the operational definition, are considered valid economic activity. The “social and community” list also includes a small number of VOs that provide services to vulnerable persons, some of which include economic activity such as selling products made in workshops or other products that help fund the organisation. Those classified under “health” as VOs such as St John Ambulance conduct economic activity mainly linked to training and courses. A few others such as those working on mental health issues classified both under “health” and “social and community” often include economic activity, including service contracts and sales from a halfway house. This qualitative analysis allows a very indicative estimate of 25–50 VOs that can be considered as social enterprises.

2. An analysis of informal attempts made by other actors to create lists of Maltese social enterprises that are not available publicly (personal communications). As these lists are being compiled to help consumers make ethical shopping choices, they include a very wide scope of organisations and normal businesses that address environmental, healthy living, worker rights, animal rights or poverty eradication concerns. Most do not fulfil the EU operational definition of social enterprise—especially the governance criterion—and therefore have been excluded from this study. For example, a list that includes organic farms or large, renowned companies that carry a small range of fairtrade goods does not take account of social enterprise operational criteria such as limits on profit and assets distribution and participatory governance. However, as an indication of the sector’s breadth, even expansive lists include no more than 75 organisations; once exclusions are made, such lists would be significantly shorter. Furthermore, informal discussions among several Maltese stakeholders familiar or interested in social enterprises have struggled to be added to such lists. However, given Malta’s size and networking amongst likeminded VOs, it is safe to assume that these lists are indicative of a “ballpark figure”.

Although VOs have the potential to develop into social enterprises, the majority do not fulfil the economic criteria. In all, when the two figures are combined, it can be estimated that Malta has between 25 and 55 VOs.

## Cooperatives

The *Koperattivi Malta* database lists 31 services cooperatives, 17 producer cooperatives, 16 workers' cooperatives, 3 consumer cooperatives and 2 social cooperatives; however, none of these categories have any legal basis. The most up-to-date and reliable directory of cooperatives is published by the Board of Cooperatives on its website, which lists 71 cooperatives and two cooperative associations; no attempt has been made to categorise the list.

Due to a lack of available information on which cooperatives can be considered *de facto* social enterprises, one-on-one analysis of the complete list of cooperatives was performed for the purpose of this study. Analysis was based on their mission statements and discussions held with the MCF. The process indicated that a maximum of seven Maltese cooperatives show the characteristics outlined in the EU operational definition of social enterprise.

When estimates for cooperatives and VOs are combined, approximately 32 - 62 Maltese social enterprises meet the definition adopted in this study.

**Table 3. Estimated number of social enterprises in Malta**

Category	Estimated number
VOs	25 - 55
Cooperatives	7
<b>Total</b>	<b>32 - 62</b>

## 3.2. Social enterprise characteristics

### 3.2.1. Voluntary organisations

This section partly relies on findings from the Social Enterprise Project study (Deguara Farrugia Advocates and APS Consult 2012), which was undertaken for all VOs operating in the Maltese social sector. Although only a small minority of these VOs would meet the EU social enterprise criteria, they constitute a key sector for social enterprise growth. Due to the lack of recent data available on *de facto* social enterprises registered under the VOs Act, this section is also supported with qualitative data taken from the exploratory case studies for this report (appendix 3.) and other information gleaned through secondary data and personal contacts.

### Fields of activity

Analysis of the database of VOs indicates that the majority characterised by their social enterprise work operate either within: 1) the social, health and community support sectors for children, the elderly and people with special needs; or 2) sectors associated with animal welfare, the environment, development, philanthropy and social inclusion. Examples are included in appendix 3. to illustrate *de facto* social enterprise VOs engaged in different fields of activity.

### Sources of income

The Social Enterprise Project indicates that most VOs are dependent on donations and government support to run their activity. Some VOs charge fees for their services. However, fees are sometimes lower than the cost borne by VOs to provide the service; a share of the costs is usually covered by the public sector as established in agreement with the government. Inspire, the Equal Partners Foundation, the Richmond Foundation Malta and the St Jeanne Antide Foundation are all examples of VOs that have entered into service contracts with the government. Inspire emphasises the diversity of its income streams to develop greater stability (see appendix 3). The Migrant Women Association Malta (MWAM) has recently financed its food truck, SAHA, through the Social Impact Awards, ZAAR (a donation/reward-based crowdfunding platform) and the Corporate Citizenship & Corporate Social Responsibility (CORE) Platform.

Research indicates that such *de facto* social enterprises are highly vulnerable to changes such as the loss of government contracts, which can lead to their existence being jeopardised.

### Labour characteristics

As per the EC definition of SMEs, 86.3% of VOs are classified as micro-organisations, 8.8% are small organisations and 5% are medium-sized organisations. However, they collectively have considerable social and economic weight within the social sector, employing 2.9% of the Maltese labour supply. The majority of paid work exists within SMEs, whereas the majority of volunteers are engaged within micro-organisations. Although this may indicate that micro organisations have fewer financial resources to pay employees, it could equally reflect the high value given to volunteering in Malta (Deguara Farrugia Advocates and APS Consult 2012).

In spite of the sector's general dependence on volunteers, a large organisation such as Inspire employs around 150 employees to provide a service for 1,000–1,200 people.<sup>16</sup> In contrast, an organisation such as the Youtheme Foundation, a voluntary organisation that helps educate youngsters through active participation in the community, has no

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(16) The organisation also has 50 volunteers on its staff.

employees; it carries out all of its economic activity through the cooperative Say It! that volunteers founded (see sub-section on cooperatives below).

### **Governance models**

According to the Social Enterprise Project, most organisations covered by the study have clear aims and objectives, which in most cases are specified in their mission statements. 94.4% of organisations regulate themselves and their members by means of a statute. Each organisation's statute ensures that it is well organised and follows democratic processes, mainly in relation to amending the statute, appointing a chairperson and management committee or board. Many of the organisations have clear internal structures and 84.6% hold a register of their members. Since 2012 all VOs must hold financial reports (as outlined in section 2.2.); when the Social Enterprise Project was conducted, this regulation was not yet in place.

## **3.2.2. Cooperatives**

### **Fields of activity**

Traditionally, cooperatives in Malta have mainly engaged in the fishing industry and agriculture. However, in recent years they have also explored new sectors such as childcare and care for youth and the community, fair trade, waste management and energy, and the work integration of people with disabilities, which show high development potential (see case studies in appendix 3.).

### **Sources of income**

Sources of income vary according to the nature of each cooperative. In the case of the Fair Trade Cooperative Society Limited (*Koperattiva Kummerċ Ġust* or KKG), its income derives from a mix of sales from its shop and *ad hoc* stalls, donations and projects, including those funded by the EU. Say It! generates its income through its shops (fairtrade goods and a fairtrade café) and its printing press, as well as its participation in EU-funded projects. In EMPOWER's case, people with disabilities provide services to Maltese society in return for payment. Meanwhile, *Koperattiva Energija Pożittiva's* plan is to develop its income by generating solar energy.

### **Labour characteristics**

No public data are available on the use of paid workers and volunteers by cooperatives that can be considered social enterprises. In certain cases, employees are also cooperative members. Information provided in the exploratory case studies (appendix 3.) was gleaned from stakeholders consulted for the purpose of this study.

### Governance models

The governance model for cooperatives is well established by law and undertaken according to acceptable worldwide cooperative principles. *Koperattivi Malta* suggests that its “emphasis is on the importance of local governance, a strong emphasis on empowerment, participation and organisation as an excellent vehicle to serve a community purpose” (*Koperattivi Malta* 2010: 44). Although no specific law defines cooperatives as “social cooperatives”, they can legally renounce the full or partial right to distribute profits so that they can be channelled to the cooperative’s cause, as in the model adopted by KKG. In the case of Say It!, once all expenses are accounted for, 70% of its surplus goes to the Youtheme Foundation and 30% is shared amongst its members, giving them the choice to use them as they wish. Beyond renouncing or limiting profit distribution, no other particulars have been noted that distinguish Maltese cooperatives in relation to EU governance criterion characteristics. Both KKG and Say It! emphasise the training of members and staff to ensure that their workers and volunteers understand their respective social enterprise ethos and values, and can effectively participate in the organisation’s operations.



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## ECOSYSTEM

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Social enterprise key actors include the public sector (policymakers, public bodies and regulators), research institutes, networks and financial intermediaries. No specific social enterprise networks nor labels/certification systems that formally recognise social enterprises currently exist in Malta. Given the lack of a specific legal and policy framework for Maltese social enterprises, there are no publicly funded support schemes specifically designed for them. Within the context of such a vacuum, EU funding has played a significant role in developing social enterprise as both a concept and practice in Malta.

VOs that can be regarded as social enterprises acquire funding through applications and donations and carry out income generating activities that help cover their operational costs. Small organisations tend to provide services free of charge or against a subsidised fee, whereas large VOs normally establish service delivery contracts with the government. Cooperatives tend to generate most of their income through trading and sometimes supplement such income through grants and membership fees.

Social enterprise research is still in its very initial stages. No data exist on the demand Maltese de facto social enterprises have for finance, yet consultation suggests that demand exceeds supply. The supply is diverse and encompasses banks, a microfinance initiative, crowdfunding, foundations attached to private enterprises and network financing.

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## 4.1. Key actors

No specific social enterprise / social entrepreneur networks nor labels/certification systems that formally recognise social enterprises currently exist in Malta. However, as outlined in section 2.2., the legislation under development envisages the introduction of social enterprise labels and a related register. Furthermore, no social investment market that specifically targets social enterprises is in place. The absence of a legal structure, which would provide a clear definition of what constitutes a Maltese social enterprise, has contributed to diverse and often opposing interpretations by stakeholders associated with existing organisations or those that have an interest in social enterprise policy and research. The role of local authorities such as municipalities is rather limited and no direct link has been found that connects Malta's municipalities with its social enterprises.

Key actors include the public sector (policymakers, public bodies and regulators), research institutes, networks and financial intermediaries. Table 4 below presents some of these actors.

**Table 4. Main social enterprise ecosystem actors in Malta**

Type of institution/Organisation	Actor
<b>Policymakers</b>	<ul style="list-style-type: none"> <li>&gt; Ministry for the Economy, Investment and Small Business</li> <li>&gt; Ministry for Family, Children's Rights and Social Solidarity in particular through the Foundation for Social Welfare Services (FSWS)</li> </ul>
<b>Public bodies and regulators</b>	<ul style="list-style-type: none"> <li>&gt; Valletta 18 Foundation (public body)</li> <li>&gt; The Malta Council for the Voluntary Sector (MCVS) appointed every two years by the Minister of Education and Employment</li> <li>&gt; The Commissioner for VOs (regulator)</li> <li>&gt; The Board of Cooperatives (regulator)</li> </ul>
<b>Research institutes</b>	<ul style="list-style-type: none"> <li>&gt; The University of Malta (UM), in particular through the Centre for Labour Studies</li> <li>&gt; Take Off, Malta's first technology business incubator based within the Centre for Entrepreneurship and Business Incubation at the University of Malta (UM)</li> <li>&gt; The Malta College of Arts Science and Technology Entrepreneurship Centre</li> </ul>

Type of institution/Organisation	Actor
<b>Networks</b>	<ul style="list-style-type: none"> <li>&gt; The Malta Cooperative Federation (MCF)</li> <li>&gt; Koperattivi Malta</li> <li>&gt; CSR networks such as CORE Platform</li> </ul>
<b>Financial intermediaries</b>	<ul style="list-style-type: none"> <li>&gt; Traditional banks</li> <li>&gt; APS Bank, a member of the European Federation of Ethical and Alternative Banks (FEBEA)</li> <li>&gt; The Central Cooperative Fund (CCF)</li> <li>&gt; Malta Microfinance Ltd</li> <li>&gt; The Social Impact Awards</li> <li>&gt; Innovative instruments for social finance such as ZAAR Crowdfunding</li> </ul>

The Ministry for the Economy, Investment and Small Business is responsible for the Social Enterprise Act's future publication in collaboration with the Ministry for Family and Social Solidarity as a privileged partner. The latter houses the Foundation for Social Welfare Services (FSWS), which aims to promote the empowerment of vulnerable persons in the pursuit of dignified lives and employment. The Social Enterprise Unit falls under the FSWS.

The commissioner for VOs is responsible for strengthening the voluntary sector by increasing its visibility and guaranteeing its transparency and accountability. As a regulatory body, the commissioner's office also monitors and supervises VO activities.<sup>17</sup> As foreseen by the VOs Act, the Malta Council for the Voluntary Sector (MCVS) supports the development of a more effective and efficient voluntary and community sector in Malta through the delivery of a range of support and capacity building services, including information, advice and training (Office of the Commissioner for VOs, n.d.).

The Valletta 2018 Foundation was the public body responsible for projects when Malta hosted European Capital of Culture in 2018. Through one of its projects, the foundation aimed to promote a new culture of catering sector operators, who adopted responsible practices and followed progressive commitments to change aimed at contributing to a long-term, sustainable legacy. Furthermore, the Valletta Design Cluster, a Valletta 2018 flagship project, aimed to create a community space for cultural and creative practice, including a space for reflecting on the sharing economy and bringing those interested in social enterprises together. It claimed that "increased participation, self-reliance, and community resilience are some of the benefits that can come from these models" (Valletta Design Cluster 2018: online). The Valletta 2018 Foundation has been

(17) See the "Mission and Purpose" section of the Malta Council for the Voluntary Sector (n.d.a.).

superseded by the Valletta Cultural Agency, which is still in its initial stages of creating a clear identity yet may well be an important actor within culture, the arts and social enterprises.

## 4.2. Policy schemes and support measures for social enterprises

Given the lack of a specific legal and policy framework for Maltese social enterprises, no publicly funded support schemes are specifically designed for them. A memorandum of understanding was signed between the Ministry of Economy, Investment and Small Business and the Ministry for Family and Social Solidarity in April 2016 in preparation for an eventual regulatory framework (University of Malta 2018). The document aims to develop social enterprises by providing opportunities for new business models to emerge and creating new possibilities for disadvantaged persons (Malta Independent 2016). However, it is still a statement of intent that has not as yet been developed into concrete policy measures. The country's lack of policy schemes and support measures for social enterprises limits their access to business support and finance. The sector also encounters barriers linked to sustainability and scalability. However, cooperatives and VOs acting as *de facto* social enterprises do have access to specific schemes.

EU funding has played a significant role in developing social enterprise as both a concept and practice in Malta. EU programmes have spurred the development of projects linked to social economy through various budget lines since the turn of the century when Malta's first social economy project, Mediterraneo 2000, was launched. Since then various VOs, cooperatives and other entities have benefitted from EU funds, especially in relation to increasing awareness of social and environmental concerns.

### 4.2.1. Support measures addressed to all enterprises that fulfil specific criteria (and which may benefit social enterprises)

Malta Enterprise is a national economic development agency which aims to attract new foreign direct investment and facilitate the growth of existing operations. It also acts as Enterprise Europe Network's national contact point through which companies based in Malta can develop links with counterparts in over 60 other countries. Malta Enterprise does not specifically focus on social enterprises and its commonly offered support measures target conventional enterprises and exclude VOs. It normally addresses sectors (such as manufacturing, pharmaceuticals, biotechnology, aviation and maritime services and logistics) that are distinct from typical *de facto* social

enterprise fields of engagement. However, the following initiatives may be of interest to *de facto* social enterprises (Malta Enterprise, 2018):

- > Business START (B.Start) is Malta Enterprise’s seed funding support for start-ups intended for small undertakings that have a viable business concept. Cooperatives are eligible to apply for the fund—VOs are not, even if they run commercial activities—yet no data exist on the current take up by cooperatives.
- > Soft Loans. This initiative supports enterprises through loans at low interest rates for partially financing investments in qualifying expenditure.
- > LEAP2ENTERPRISE. This initiative, implemented by Malta Enterprise in collaboration with the FSWS and Jobsplus Corporation, is designed to assist vulnerable individuals in setting up sustainable, income-generating business activities.

Potential benefits gained through Malta Enterprise might become more relevant for social enterprises once the law is in place.

#### 4.2.2. Support measures addressing non-profit associations and foundations (and which may benefit social enterprises)

There are a number of grant schemes and support measures that VOs and in some cases cooperatives can access to further their social aims.

##### **Voluntary organisations**

VO “privileges” are outlined in the VOs Act, which specifies that registered VOs may make public collections without any further authorisation and benefit from grants, sponsorship or other financial aid.<sup>18</sup> VOs enrolled under the act can benefit from a number of funding opportunities that might be of particular interest to *de facto* social enterprises. These include co-financing initiatives for VOs that can be used to manage specific project development issues but are not necessarily well equipped to deal with the demands of the required financial element stipulated under the respective EU funded programme that the beneficiary had applied for. The co-financing funds are intended to complement and not replace existing activities supported by EU funding (Malta Council for the Voluntary Sector n.d.b.).

For several years Malta’s government has committed funding to an Entrepreneurship through Education Scheme that promotes the growth and development of entrepreneurial spirit through education (Vassallo and Mifsud 2012).

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(18) See Articles 4(2) and 4(4) of Chapter 492 of the VOs Act.

## Cooperatives

Every cooperative must contribute 5% of the surplus from its activities, operations, investments and any other sources of income to the CCF at the end of each accounting period. The resulting public fund may be used to “further cooperative education, training, research, and for the general development of the cooperative movement in Malta and for other purposes as may be stipulated in CCF regulations” (Malta Cooperative Federation: n.d.d online). The fund’s essential aim is to further solidarity among cooperatives (Fabri *et al.* 2006).

The above mentioned Entrepreneurship through Education Scheme is also open to cooperatives; for example, Say It! has made use of the scheme to further its educational work (see appendix 3).

## EU funding

The Malta-EU Steering and Action Committee (MEUSAC) provides personalised assistance and support to VOs and other organisations in practical aspects related to EU funding opportunities, including: one-to-one meetings with potential beneficiaries to discuss project proposals and identify EU funding possibilities; practical advice on project planning and design to ensure the eligibility of projects for those EU funding programmes being considered; the provision of specific technical assistance to help beneficiaries draw up funding applications; tailor-made, hands-on information sessions for VOs; the dissemination of EU funding information via email alerts; and a customer care help desk that caters for any queries on EU funding opportunities (MEUSAC 2018).

Both VOs and cooperatives that are *de facto* social enterprises have been at the forefront of tapping into these EU funds. Some examples are considered below:

- > SOS Malta carried out a project aimed at increasing awareness, knowledge and engagement of the Maltese business sector’s contribution to achieving Sustainable Development Goals (SDGs) on a local level (SOS Malta n.d.a) after receiving EU funding awarded through the Maltese Non-Governmental Development Organisation (NGDO) Platform, SKOP.
- > EVA, a European Entrepreneurship VET Model and Assessment Framework for Ethnic Minorities, is a project co-financed through the EU programme Erasmus+ with partners in Denmark, Italy, Germany, Malta and Cyprus. Its main goal is to support and promote migrant and ethnic minority entrepreneurs and help them overcome difficulties that might prevent them from starting and growing businesses in Europe (SOS Malta n.d.b).
- > KKG has participated in a number of EU-funded projects on social economy and fair trade, including CampActive, I Shop Fair, F.R.A.M.E., Play Fair, Enlarging Fair and Make Fair Trade Greener.

### 4.3. Public procurement framework

The Financial Administration and Audit Act (Chapter 174 of the Laws of Malta) is Malta's principal piece of legislation that forms its legal public procurement framework. It was revised in 2016 to incorporate the 2014 EU public procurement directives. Relevant EU public procurement directives have since been integrated into the national legal framework.

At present, Maltese social enterprises are not regulated by any specific legislation concerning social clauses or reserved tenders. The draft Social Enterprise Act makes no mention of procurement. Its white paper only highlights options for possible changes to public procurement rules and for public aid in the sector (Ministry for the Economy, Investment and Small Business 2015b). Beyond mandatory Green Public Procurement (GPP), no specific mechanism currently leverages money that is already spent on government contracts to further the social good and create an added value outcome. Such practices might well be the subject of the aforementioned possible changes to public procurement, whether they pertain to disadvantaged or vulnerable communities or to reducing carbon emissions, and might prove to be crucial for opening up or creating new social enterprise market opportunities.

A number of large *de facto* social enterprises registered under the VOs Act have established service agreements or public private partnerships with the government. The system typically works in the following way: the VO identifies a need and starts discussions with the relevant ministry to persuade the government to fund the delivery of services filling that gap, which often results in a win-win situation; the VO then offers a service to those in need at a reduced rate or for free and the government does not need to provide the structure nor required expertise. Such agreements often enter as a line budget in government expenditure. In the past such agreements were renewed annually, often avoiding their definition as long-term strategies by VOs. The current tendency is to extend the validity of agreements for up to three years, after which time they can be renewed or renegotiated.

In 2008 the Family and Social Solidarity Ministry entered into a contract with the VO Richmond Foundation for the use of Villa Chelsea, a residential and day community-based programme and respite care for people with mental health issues (Malta Independent 2008). In 2012 the VO Inspire secured an agreement with the government for the provision of therapeutic services and the renewal of a long-established disability education service for three years (Inspire 2018). In December 2018 the VO St. Jean Antide Foundation signed a contract for 165,000 EUR as help towards employing two social workers to complement the foundation's then current staff and strengthen support services for vulnerable persons (e.g., people affected by mental health issues and domestic violence) (Azzopardi 2018). In the environmental education field, both the Ministry for Education and Employment and the Ministry for Resources and Rural

Affairs support the VO Nature Trust in running Ekoskola and Young Reporters for the Environment programmes, which are educational services that empower students in sustainable decision-making and actions. Similarly, the VO Birdlife Malta offers an environmental education programme *Dinja Waħda* in collaboration with the Ministry for Education and Employment (Birdlife, 2018).

Conversely, in other instances, a public body identifies an unmet need and then selects a social enterprise to undertake the task, thereby creating a partnership. The *Tal-Kultura* programme within the Valletta 2018 foundation mobilised active citizens to volunteer within the Valletta 2018 cultural programme and contribute towards the creation of a legacy of volunteering within the local arts and culture sector (Valletta 2018, n.d.). To this end, it collaborated with SOS Malta, a VO with long-term experience of promoting volunteering and civic participation.

Such agreements are contingent on the policy direction of whoever happens to be in government, which can create a controversially uneven playing field.

Malta does not have a strong lobby that advocates for fair and social criteria within tendering processes. However, in the past, the KKG has lobbied for the integration of fair trade principles when tenders are issued for public contracts (e.g., for public school uniforms). Similarly, at UM, there is an *ad hoc* research team that is furthering the cause of green and social procurement. Moreover, the Minister of Environment launched a public consultation for a national GPP action plan in November 2018 which proposes that ministries are bound to opt for environmentally friendly products in all calls for tenders issued up until 2025 (Grech 2018). If this proposal is adopted, it may act as impetus for social enterprises active in the environmental field to provide such products.

## 4.4. Networks and mutual support mechanisms

No specific social enterprise or social entrepreneur networks exist in Malta, but *de facto* social enterprises do have transversal networks.

### Voluntary organisations

The Malta Council for VOs supports the development of a more effective and efficient voluntary and community sector in Malta and Gozo through the delivery of a range of support and capacity building services, including information, advice and training. Support areas include: financial regulation and accounts; management of EU funds; technical assistance; volunteers' engagement; and fund raising, communication and campaigning.



Larger conventional companies have used CSR initiatives to set up partnerships with VOs. In 2015 the CORE platform, was launched under the auspices of the Office of the President of Malta. It “earmarked the creation of an instrument to support companies, civil society and communities to come together and deliver joint initiatives that will improve the quality of life and success of people and businesses respectively” (Malta Business Bureau 2015: online).

An initiative held in April 2018 called DoSomethingGood (2018) attracted a sizeable crowd of mainly young people with an interest in CSR and social entrepreneurship, plus VO representatives and other interested parties from the private sector. It provided a forum for attendees to join in a conversation about fostering new partnerships and collaborations between the community and corporate world to enable better business practices and a more sustainable future for all. In the absence of specific social enterprise fora, this forum created an opportunity to network and discuss future possibilities and scenarios together. While the extent to which DoSomethingGood has created a lasting network still remains to be seen, its significance lies in the various observations that were made regarding this being the right time to move forward and create an enabling social enterprise law; grassroots initiatives are prepared for such a step forward with a number of new projects in the pipeline.

## Cooperatives

Operational support for cooperatives is provided both by *Koperattivi Malta*, which was set up in 2001, and the MCF, which was established in 2012. The former supports its members to achieve the highest standards set out in the Cooperative Codes of Governance and offers member cooperative societies the opportunity to network and synergise with cooperative organisations outside Malta (Malta Cooperative Federation n.d.b).

Both organisations provide education, training and information to cooperative society members, including support for starting up and managing cooperatives. MCF members include cooperatives that can be considered *de facto* social enterprises. The federation also offers practical support such as helping potential social enterprises that opt for the cooperative format to draft a business and sustainability plan. The MCF’s specific interest in the social enterprise and social cooperative sector may well prove important to the provision of a future network and mechanism that could develop and support the sector.

*Koperattiva Energija Posittiva* represents an example of the potential of international networking activities promoted by the cooperative movement in Malta. The cooperative was founded in Malta in 2017 through the support, cooperation and bridge funding of Italian partner cooperative, *Energija Posittiva*. Both offer citizen action for concrete energy generation and act as active investment in alternative energy.

## 4.5. Research, education and skills development

Malta's research framework is largely composed of actors linked to the UM and the Malta College of Arts Science and Technology (MCAST).

The UM's research agenda was developed in collaboration with the FSWS through a signed collaborative agreement in July 2018 (University of Malta 2018). The two entities are exploring possible joint ventures linked to programmes of higher and further education in the fields of social economy, social enterprise and cooperative learning, both in Malta and internationally. The Centre for Labour Studies is the UM's main provision for supporting and advancing the social, economic and professional development of social enterprises and the social economy through tertiary education services. For example, in 2018 the UM's senate approved a certified course in how to run cooperatives, which will be offered by the centre. In addition, the UM's Centre for Entrepreneurship & Business Incubation hosts Take Off, the first technology business incubator set up in Malta, which supports the creation of successful science, technology, engineering, creative media and knowledge-based start-up enterprises. Take-Off also supports community projects and charities and maintains a specific interest in setting up social enterprises (University of Malta 2017).

The MCAST Entrepreneurship Centre supports young entrepreneurs to succeed in the Maltese market by providing tailor-made business training, business registration, enhanced access to markets and a space for the development of ideas and a working business model. Although it does not focus specifically on social enterprises, it can be an important actor once a regulatory framework is in place. It also works in partnership with non-profit, public and private sector organisations, while focussing on supporting start-ups to grow into enterprises (Zarb 2017).

Both *Koperattivi Malta* and the MCF have an educational role in relation to cooperatives. Principle objectives in the MCF's statute include: encouraging education about cooperatives; providing training; carrying out research; and collecting information to advance the movement (Malta Cooperative Federation 2013). *Koperattivi Malta* offers a business advisory service for different cooperative developmental stages from pre-start-up to scaling-up and winding up.

## 4.6. Financing

VOs that can be regarded as social enterprises acquire funding through applications and donations and carry out income generating activities that help cover their operational costs. Small organisations tend to provide services free of charge or against a subsidised fee, whereas large VOs normally establish service delivery contracts with the government.

Cooperatives tend to generate most of their income through trading and sometimes supplement such income through the CCF, grants and membership fees.

### 4.6.1. Demand for finance

No agreed estimates exist on the demand Maltese *de facto* social enterprises have for finance. Current debate and consultation with stakeholders suggest that demand exceeds supply, which is usually required to cover operational costs.

In the case of VOs, the Amendments of 2012 (Annual Returns and Annual Accounts) determine that accounting responsibilities are proportional to revenue, in an attempt not to burden small VOs with core administrative costs pertaining to their financial reports. As mentioned in section 4.2.1., social enterprises in the form of VOs are not entitled to access funds available for SMEs through Malta Enterprise.

In the case of small social enterprises registered under the Cooperative Societies Act, even basic administrative costs pertaining to accountancy and auditing are often a challenge.

The enactment of legislation legally recognising social enterprises could facilitate their access to traditional sources of funding such as bank loans. At present, a significant proportion of the funding for small organisations tends to come from donations and state grants, whereas large organisations often enter into contracts with public authorities for the delivery of welfare services.

### 4.6.2. Supply of finance

Finance is supplied by banks, a microfinance initiative, crowdfunding, foundations attached to private enterprises that support the social sector and act as institutionalised CSR initiatives, and network financing. In the case of social enterprises registered under the Cooperative Societies Act, access to finance is also ensured by the CCF, a funding agency, reserve and solidarity fund uniquely addressing the financing needs of Maltese cooperatives.

## Banks

Some *de facto* social enterprises rely on traditional banks or the APS Bank, Malta's only ethical bank. The APS Bank, a member of the European Federation of Ethical and Alternative Banks (FEBEA) is especially keen to support social enterprise development. In 2012 the bank published *Social Enterprise Sector*, which contributed to kickstarting a debate on the design of a specific regulatory framework for social enterprises. The bank has filled a gap in the supply of local ethical finance, which had previously been serviced by foreign banks, as happened when the KKG did not want to make use of traditional banks for its operations and had to rely on an overseas loan.

## Microfinance

Malta Microfinance Ltd. is a non-profit, financial institution founded in 2013 by the St. Andrew's Scots Church, licensed and regulated by the Malta Financial Services Authority (MFSA). "The company lends to people struggling financially, especially Maltese women and migrants, to enable them to improve their lives. Malta Microfinance aims to bridge the gap for people who cannot access banks and their services. This can inhibit them from various opportunities and/or forcing them to borrow from informal sources leading to a spiral of debts" (Malta Microfinance Ltd. n.d.: online). Malta Microfinance's launch somewhat mitigates for otherwise disadvantaged groups that cannot access bank services.

## Crowdfunding

Crowdfunding has been gaining momentum since 2016 in Malta due to the establishment of the Foundation for the Promotion of Entrepreneurial Initiatives by the Malta Business Bureau and Malta University Holding Company Ltd (MUHC) and its launch of ZAAR—a donation/reward-based crowdfunding platform. The project's aim is to support local start-ups and entrepreneurs to raise finance for their projects and business ideas through alternative means (University of Malta 2016). The platform includes a specific focus on social enterprises since it undertakes projects and initiatives related to "crowdfunding, social entrepreneurship, seed funding, the start-up ecosystem and other EU-funded projects" (ZAAR, n.d.: online).

## Foundations

Since 2016 the Gasan Foundation and Inspirasia Foundation have organised the Social Impact Awards, bringing the private sector and innovative changemakers together to develop exceptional projects that will have a positive social impact on Malta (SIA Malta 2018). The support they provide is both financial and non-financial (e.g., mentoring) and is directed at implementing positive impact projects.

Some foundations attached to private enterprises such as the HSBC, Gasan, Inspirasia and Vodafone foundations support the social sector as CSR initiatives of their founding

companies. Corporate relations with companies is crucial for the supply of finance for large VOs. Consultation with stakeholders has indicated that, in the case of smaller VOs, potential donors are often reluctant to engage, particularly when the long-term sustainability of the VO is perceived to be uncertain.

### Network financing

Malta also displays a few examples of “bridge funding” or “network financing”. For example, *Koperattiva Energija Pozittiva* obtained credit through the mediation of Italian cooperative *Energia Positiva*.

### CCF

CCF provides soft loans and less frequently grants (e.g., for the financing of staff training). Significantly, since 2018 the MCF, which promotes and takes a keen interest in social enterprises, became eligible to tap such funds.<sup>19</sup>

However, some restrictions are imposed on the eligibility for such funds. Cooperatives should be eligible for funding, as long as they conform with all the following provisions of the act: they declare an annual surplus of at least 15,000 EUR and pay a minimum annual contribution of 750 EUR to the fund in at least two out of the last three years declared in their audited financial statements (reviewable upwards of every three years); the audit reports on their financial statements are not seriously modified/qualified within the last two financial years; and the society’s payments of their fund contribution are made within nine months of the year’s end based on its financial statements. However, these eligibility criteria are disadvantageous to smaller cooperatives as they link access to funds to a minimum turnover and contribution. Such a threshold-based limitation on accessibility has led to criticism that the CCF fund reflects the survival of the fittest rather than cooperation.

### Long-term financial instruments

As highlighted by stakeholders, the supply of short-term support such as technical assistance, grants and subsidies can temporarily bolster a social enterprise. Nevertheless, long-term financial instruments would be the best way to assure the sustainability of organisations and the longevity of services provided to their beneficiaries. The supply of social risk capital into the sector is, according to consulted stakeholders, a vital component to enable the sector’s growth.

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(19) Through the subsidiary legislation 442.03 on the Central Cooperative Fund Regulations of 21 October 2016.



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## PERSPECTIVES

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The further development of Malta's social enterprise sector depends on the combination of two distinct drivers: adequate policy development and bottom-up initiatives. A low unemployment rate and lack of a strong civil society voice advocating for the social enterprise act's ratification means that the sector's future policy scenario is still unknown. However, interest in social enterprises and their needs has significantly increased in Malta in recent years, as reflected by the lively if somewhat fragmented debate among some civil society actors on innovative ways of dealing with emerging social challenges.

The main barriers to social enterprise development in Malta include: the general public's limited awareness of social enterprise's key role and potential; a lack of legal recognition; limited social enterprise advocacy; and insufficient access to finance and scaling-up. Adequate responses to such constraints could also create new sectorial opportunities.

Potential sectors where social enterprises are likely to play a key role in the future include: social housing; support for the increasing risk of mental health issues; and the provision of environmental services.



While Malta's Social Enterprise Act, which aims to establish a specific legal framework for social enterprises, is still under discussion, other "burning" issues have also appeared on the political agenda. Current interest is particularly being shown in new technological developments, including: research and debate on artificial intelligence; the push to become a cryptocurrency hub; and the enactment of a set of legislation regulating blockchain technologies. In addition, the country's low unemployment rate of 3.8% as of August 2018 in combination the lack of a strong civil society voice behind the act suggests that it is not a political priority. Within this context, it is unclear when the act will be ratified and so its immediate future is unknown.

## 5.1. Overview of the social enterprise debate at the national level

The social enterprise debate at a national level revolves around the interaction between top-down and bottom-up factors, different concepts of social enterprise and a general lack of clarity regarding the status quo, as well as some issues specific to VOs and cooperatives.

### Top-down and bottom-up factors

Both top-down and bottom-up factors currently influence the standing of social enterprises.

On the one hand, the EU acts as a top-down driver, aware as it is of the replicable solutions to socioeconomic challenges that social enterprises can provide across Europe, including social cohesion enhancement, local and regional development and environmental protection. In fact, some stakeholders consider that the public debate around social enterprise is mostly driven top-down by the State and public policies, including those implementing EU policies. Such stakeholders fear that if the act is ratified only in response to an external driver and not as the outcome of a participatory process, it is unlikely to be effective.

On the other hand, a lively though fragmented debate is evident among some civil society actors on innovative ways of dealing with emerging social challenges that could utilise both established and newly set-up initiatives (with others in the pipeline), acting as bottom-up drivers.

No trend has been observed for conventional enterprises registered under the Company Act to move towards a structure that could encompass the three criteria identified in the EU operational definition of social enterprise.



## Different concepts of social enterprise

Malta shows no shared understanding of what constitutes a social enterprise. The debate is often confused by different concepts. For example, a social enterprise is generally perceived as an NPO rather than an enterprise pursuing explicit social aims. Another widespread perception is that a social enterprise is actually a conventional enterprise engaged in promoting CSR. This lack of shared understanding highlights the importance of reframing discourses around social enterprise that help adopt a common language based on their key features and acknowledge their beneficial impact upon local economies and societies.

## Lack of clarity

The benefits of the Social Enterprise Act, besides introducing specific social enterprise labels, are not clear to all of the stakeholders consulted. They also raised questions about the act's possible advantages regarding recognition and access to funding and support schemes. Some surmise that adding certain specific clauses to the existing Companies Act could serve just as well, rather than having a new act altogether. Others consider that such an act would be better housed under the Cooperatives Act rather than existing as a separate form of legislation. Both views suggest that the act is still a contested subject with an as yet undetermined final outcome.

Stakeholders expressed concern that an unequal power dynamic influences civil society's ability to compete with standard businesses. In general, whereas the move from conventional towards social enterprise is not considered particularly demanding for conventional enterprises, it is thought demanding for most VOs, especially in relation to administrative and reporting requirements. This imbalanced situation may hamper the capacity of many VOs to transform into social enterprises that can address new societal needs.

## Existing barriers for VOs

According to stakeholders consulted for the purpose of this study, the formation of social enterprises from VOs implies a number of barriers to overcome given the legally imposed limitations on VOs carrying out economic activities.

Since 2014 the activities and events around social enterprise such as the Social Impact Awards and DoSomethingGood.eu have increased and are generating more interest; beyond the public debate on legal recognition, new initiatives are emerging. Various stakeholders commented on the struggles faced by VOs in relation to financial sustainability and considered better awareness of the potential of social enterprise could help them strengthen their social mission. Clearly, as the sector is still emerging, there is need for not only a legal framework or clear policies but also more support measures, structures and education.

According to some stakeholders, possible risks for social enterprises may result from their high dependency upon public contracts or public private partnerships. Indeed, social enterprises once fully integrated in the local welfare system may be pushed to adopt the organisational culture and managerial practices typical of public agencies. This phenomenon, which especially concerns VOs, can impinge on the organisational culture of social enterprises and jeopardise their propensity to respond to unmet needs that are not acknowledged by public policies.

### Existing barriers for cooperatives

The MCF has been very critical about the white paper and draft act in its current versions, arguing that while “the Regulations for limited liability companies are comprehensively considered, [...] the Regulations that the Minister may prescribe, which may or may not allow social cooperative enterprises to be considered as social enterprise organisations are not included in the documentation provided.” (Malta Cooperative Federation 2015: 3). This lack of a level playing field is a core point in the national debate linking social enterprises with cooperatives.

The establishment of new cooperatives is to a certain extent hampered by the requirement of engaging a minimum of five persons as founding members. There is a push by the MCF to reduce the number to three as in most parts of Europe. Such a change would also make the cooperative structure a more concrete possibility for those who want to start a social enterprise.

Research also shows that compliance with the Cooperative Societies Act is strictly enforced, making it difficult for small-scale cooperatives to fulfil all their requirements in due time, often resulting in hefty fines that further jeopardise their existence.

The Cooperative Societies Act’s revision has been stalled. However, once reactivated, it will be discussed and revised together with local cooperative representatives and its relationship to the eventual Social Enterprise Act will also be at the centre of any discussions linking social enterprises with cooperatives.

## 5.2. Constraining factors and opportunities

The main barriers to social enterprise development in Malta include: the general public’s limited awareness of the sector’s key role and potential; a lack of legal recognition; limited social enterprise advocacy; and insufficient access to finance and scaling-up. Adequate responses to such constraints could also create new sectorial opportunities.

## Limited awareness

Recognition is often referred to from a strictly legal framework perspective. Little attention is paid to acknowledging the improvements and added value that a vibrant social enterprise sector can bring to the welfare of local communities and territories. Stakeholders emphasised an inadequate breadth of learning opportunities for social enterprises that could help fully exploit their capacity to address new challenges. Moreover, scarce learning opportunities exist for school pupils and students to think and act like changemakers and put their entrepreneurial skills, collaboration and empathy towards solving the social and environmental problems they see around them.

## Legal recognition

In most cases, social enterprises cannot access Malta Enterprise's business support services and funding because they are not recognised as legal entities within an appropriate legislative framework. The absence of adequate recognition prevents social enterprises from accessing fiscal breaks, exemptions and dedicated support policies, the lack of which are major hurdles to their development. The social enterprise sector as such remains self-regulated. Although occasionally seen as positive, stakeholders shed light on the tendency of some organisations to name themselves as social enterprises without operating/functioning as such.

The rapid enactment of legislation that could legally recognise social enterprises would enable them to tap into new sources of EU funding. Most importantly, it would also help them to secure more stable access to traditional sources of funding such as bank loans. The sourcing of start-up and working capital to undertake a viable commercial activity remains difficult. Consultations indicate that the lack of a strong civil society voice advocating for required changes and the lack of a representative championing the cause within decision-making bodies contribute to slow progress in this area.

Many stakeholders pointed out that the lack of a clear identity for social enterprises is reflected in the sector's missing legal framework. Furthermore, although the white paper envisages a label linked with registration, the final format is unknown. The Social Enterprise Act may be considered by many as a potential turning point for the development of Maltese social enterprise, but it is also criticised for fragmenting rather than uniting the social economy, of which social enterprises are often considered a sub-sector in the national debate.

## Advocacy

Besides recognition through a legal framework, stakeholders pointed to the importance of a voice to unite the wider, fragmented social economy sector. This is also aligned with the sector's need for a stronger collaborative culture.

The number of Maltese bottom-up initiatives has increased in recent years and include: crowdfunding; microfinance; social impact awards and innovative projects; new social enterprise research at the UM; and the newly established Valletta Design Cluster. The positive feedback at the end of the DoSomethingGood event held in April 2018 is example of significantly increased interest in bottom-up social enterprises.

### Access to finance and scaling-up

As mentioned in section 1., public policy, especially European policy, are key drivers for both social enterprise emergence and development. EU funding schemes (e.g., the Erasmus+ programme) that have contributed to the development of the voluntary sector are of particular note in Malta and yet could be redressed to support the development of social enterprises.

Scaling-up has often been a particular problem for VOs. However, certain VOs embrace their aspiration to be sustainable and address society's most pressing problems as an opportunity to reflect on alternative forms that might enable them to better fulfil their mission statement.

## 5.3. Trends and future challenges

Stakeholders gave a broad variety of answers when asked about social enterprise development scenarios and trends. Despite the sector's limited size and lack of a united voice and strong lobby, the interest in Maltese social enterprises and their needs has increased significantly in recent years.

Notwithstanding Malta's low rate of unemployment, consultations highlighted the potential of social enterprises to create employment and work integration for marginalised people, including former drug addicts and ex-convicts. In spite of economic development and prosperity for parts of the population, Caritas considers that the gap between Malta's rich and poor is growing. Within the bands of society that it identifies as at risk of poverty are those "depending on pensions or non-contributory benefits, those with mental health issues, those completing a drug rehabilitation programme, young separated people who cannot make ends meet and elderly people who are not homeowners" (Carabott 2018). Furthermore, the recent surge in rent costs has hit those on a low income, the poor and underprivileged the hardest. Whereas VOs have taken a social enterprise approach to some of these areas such as the provision of community mental health services, other areas of intervention are only in the pipeline or a future possibility. Sectors where social enterprises are likely to play a key, future role include: social housing, given the increasing costs of rents in Malta that can contribute to homelessness; psychiatric support in light of the increasing risks of mental health

issues; and the provision of environmental services (e.g., recycling). The challenge is whether or not and to what extent an enabling social enterprise law and supporting structures could fully harness the potential of social enterprise in such areas.

Another challenge centres around the different understandings of social aims and public benefit, which are to a certain extent generated by the current compartmentalisation of economic, social and environment factors. The absence of a clear understanding as to what may be of social benefit contributes to tensions. For example, one organisation may be regarded as a major contributor to overcoming an environmental challenge by some stakeholders and a major contributor to a social problem by others. Whereas such contradictions comfortably coexist under current Company Law, they could easily become a major source of tension within a social enterprise framework, unless clear guidelines regarding what constitutes a social aim and public benefit are established. A sustainable development framework that links economic, social and environmental pillars, whereby all three aspects are required to achieve a strong public benefit, could provide an adequate, overarching response.

Social enterprises are also considered a means of supporting community development through the provision of general interest services and the social and territorial innovations they trigger. Learning opportunities gained through exchanges amongst different social enterprises in Europe and internationally are also considered important. EU funding has enabled VOs to develop capacity building programmes that benefit new groups interested in setting up social enterprises and connect them with the European and international social enterprise community.

Amendments to the VO Act in 2018 (outlined in section 2.2.), which allow VOs to establish a limited liability company to run its economic activities, shed light on how responsible authorities now see the role of VOs. This shift, which presupposes that more attention is paid to economic sustainability, may pave the way for expansion in the number of VOs engaged in trade and, as a result, social enterprises; therefore, a future trend in VOs opening limited liability companies to further their social mission and strengthen their sustainability is anticipated. Given that the limited liability company is the preferred form for social enterprise organisations envisaged in the draft Social Enterprise Act, these amendments pave the way for more and more VOs to set up as social enterprises.

Further development of Malta's social enterprise sector depends on two distinct drivers in combination: the development of adequate policies (i.e., a proper institutional and regulatory framework) and bottom-up initiatives.

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# APPENDICES

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## Appendix 1. The EU operational definition of social enterprise

The following table represents an attempt to operationalise the definition of “social enterprises” based on the Social Business Initiative (SBI) promoted by the European Commission.<sup>20</sup>

Main dimension	General definition	Relevant Indicators ( <i>not exhaustive list</i> ) (yes/no or range from low up to very high)	Initial minimum requirements (yes or no)	Examples/boundary cases comments
<b>Entrepreneurial/ economic dimension</b>	Social enterprises (SEs) are engaged in the carrying out of stable and continuous economic activities, and hence show the <b>typical characteristics that are shared by all enterprises</b> .	<ul style="list-style-type: none"> <li>&gt; Whether the organisation is or is not incorporated (it is included in specific registers).</li> <li>&gt; Whether the organisation is or is not autonomous (it is or is not controlled by public authorities or other for-profit/non-profits) and the degree of such autonomy (total or partial).</li> <li>&gt; Whether members/owners contribute with risk capital (how much) and whether the enterprise relies on paid workers.</li> <li>&gt; Whether there is an established procedure in case of SE bankruptcy.</li> <li>&gt; Incidence of income generated by private demand, public contracting and grants (incidence over total sources of income).</li> <li>&gt; Whether and to what extent SEs contribute to delivering new products and/or services that are not delivered by any other provider.</li> <li>&gt; Whether and to what extent SEs contribute to developing new processes for producing or delivering products and/or services.</li> </ul>	SEs must be market-oriented (incidence of trading should be ideally above 25%).	<ul style="list-style-type: none"> <li>&gt; We suggest that attention is paid to the development dynamic of SEs (i.e., SEs at an embryonic stage of development may rely only on volunteers and mainly on grants).</li> </ul>

(20) In accordance with Articles 48, 81 and 82 of the Treaty, as interpreted by the Court of Justice of the European Communities, “**an enterprise should be considered to be any entity, regardless of its legal form, engaged in economic activities, including in particular entities engaged in a craft activity and other activities on an individual or family basis, partnerships or associations regularly engaged in economic activities.**”

Main dimension	General definition	Relevant Indicators ( <i>not exhaustive list</i> ) (yes/no or range from low up to very high)	Initial minimum requirements (yes or no)	Examples/boundary cases comments
<b>Social dimension (social aim)</b>	<p>The social dimension is defined by the aim and/or products delivered.</p> <p>Aim: SEs pursue the explicit social aim of serving the community or a specific group of people that shares a specific need. "Social" shall be intended in a broad sense so as to include the provision of cultural, health, educational and environmental services. By promoting the general-interest, SEs overcome the traditional owner-orientation that typically distinguishes traditional cooperatives.</p> <p>Product: when not specifically aimed at facilitating social and work integration of disadvantaged people, SEs must deliver goods/services that have a social connotation.</p>	<ul style="list-style-type: none"> <li>&gt; Whether the explicit social aim is defined at statutory/legal level or voluntarily by the SE's members.</li> <li>&gt; Whether the product/activity carried out by the SE is aimed at promoting the substantial recognition of rights enshrined in the national legislation/ constitutions.</li> <li>&gt; Whether SE's action has induced changes in legislation.</li> <li>&gt; Whether the product delivered—while not contributing to fulfilling fundamental rights—contributes to improving societal wellbeing.</li> </ul>	<p>Primacy of social aim must be clearly established by national legislations, by the statutes of SEs or other relevant documents.</p>	<ul style="list-style-type: none"> <li>&gt; The goods/services to be supplied may include social and community services, services for the poor, environmental services up to public utilities depending on the specific needs emerging at the local level.</li> <li>&gt; In EU-15 countries (especially in Italy, France and the UK) SEs have been traditionally engaged in the provision of welfare services; in new Member States, SEs have proved to play a key role in the provision of a much wider set of general-interest services (e.g., from educational services to the supply of water).</li> <li>&gt; What is conceived to be of a meritorial/general-interest nature depends on contextual specificities. Each national expert should provide a definition of what "public benefit" means in her/his country.</li> </ul>



Main dimension	General definition	Relevant Indicators ( <i>not exhaustive list</i> ) (yes/no or range from low up to very high)	Initial minimum requirements (yes or no)	Examples/boundary cases comments
<b>Inclusive governance-ownership dimension (social means)</b>	<p>To identify needs and involve the stakeholders concerned in designing adequate solutions, SEs require specific ownership structures and governance models that are meant to enhance to various extents the participation of stakeholders affected by the enterprise. SEs explicitly limit the distribution of profits and have an asset lock. The non-profit distribution constraint is meant to ensure that the general-interest is safeguarded. The non-profit distribution constraint can be operationalized in different ways.</p>	<ul style="list-style-type: none"> <li>&gt; Whether SEs are open to the participation and/or involvement of new stakeholders.</li> <li>&gt; Whether SEs are required by law or do adopt (in practice) decision-making processes that allow for a well-balanced representation of the various interests at play (if yes, through formal membership or informal channels that give voice to users and workers in special committees).</li> <li>&gt; Whether a multi-stakeholder ownership structure is imposed by law (e.g., France).</li> <li>&gt; Whether SEs are required to adopt social accounting procedures by law or they do it in practice without being obliged to.</li> <li>&gt; Degree of social embeddedness (awareness of the local population of the key societal role played by the SE versus isolation of the SE).</li> <li>&gt; Whether the non-profit distribution constraint is applied to owners or to stakeholders other than owners (workers and users): whether it is short-term (profits cannot/are not distributed or they are capped) or long-term (asset lock); or both short and long-term.</li> <li>&gt; Whether the cap is regulated externally (by law or defined by a regulator) or it is defined by the SE by-laws.</li> <li>&gt; Whether limitations to workers' and/or managers' remunerations are also imposed (avoid indirect distribution of profits).</li> </ul>	<p>SEs must ensure that the interests of relevant stakeholders are duly represented in the decision-making processes implemented.</p>	<ul style="list-style-type: none"> <li>&gt; Ownership rights and control power can be assigned to one single category of stakeholders (users, workers or donors) or to more than one category at a time—hence giving ground to a multi-stakeholder ownership asset.</li> <li>&gt; SE can be the result of collective dynamics or be created by a charismatic leader (in principle a sole owner is admitted by some national legislations provided that the participation of stakeholders is enhanced through inclusive governance) or public agency.</li> <li>&gt; Different combinations concerning limitations to profit distribution envisaged (e.g., most successful solution: capped dividends supported by total asset lock such as Italian social coops, CIC, SCICs).</li> </ul>

## Appendix 2. Data availability report

Legal typology	Source of data (name, type & link)	Data provider (name & type)	Year of reference timeline of updates	N° of organisations	N° of workers	Turnover	Degree of reliability (1 to 4) and explanation
Cooperatives	<a href="#">Cooperatives directory</a> Administrative register	The Co-operatives Board (Government agency)	2019 Regular	✓	N.A.	N.A.	4 - Official data
VOs	<a href="#">VO Commissioner</a> Administrative register	VO Commissioner (Government agency)	- Regular	✓	N.A.	N.A.	4 - Their role includes registering and keeping a database of NGOs
VOs	VO Commissioner Private correspondence	VO Commissioner (Government agency)	2018 Every three weeks	✓	N.A.	N.A.	4 - Their role includes registering and keeping a database of NGOs
VOs	<a href="#">National Institute of Statistics (NSO)</a> Statistical register	National Institute of Statistics (Official Statistics)	2019 Regular	N.A.	N.A.	N.A.	4 - Official statistics - most authoritative source

## Appendix 3. Exploratory case studies

### Exploratory case 1

#### Koperattiva Kummerc Gust<sup>21</sup>

Fair Trade Cooperative Society Limited (*Koperattiva Kummerc Gust*, KKĠ) is a Maltese-registered fair trade cooperative, which was set up in 1996. Since then it has actively promoted ethical trade through regular outreach programmes using formal, non-formal and informal learning processes. This educational work empowers the cooperative's members, its associates and partners, members of civil society and the general public to become active, socially responsible and critical citizens and consumers. In brief, the KKĠ operates an ongoing learning structure and addresses the educational needs it faces by: encouraging the empowerment of its members; promoting collaboration within the cooperative's internal projects; promoting understanding and collaboration with other voluntary and socially committed organisations; and running educational programmes.

The KKĠ is actively involved in the Maltese social economy. It has pioneered research that identifies and empowers a number of local VOs that contribute to making a more socially aware economy. Stronger links have been forged between social economy representatives, which have created a ripple effect that is currently leading to further collaborations. The cooperative regularly organises events that generate interest on a national level and are attended by members of civil society, political representatives, religious representatives, the media and general public. Chiefly, these are Worldfest, the celebration of World Fair Trade Day in May, and Taste the World, an open festival which achieves a healthy balance between non-formal education and entertainment. The KKĠ also manages and runs a fairtrade shop the Ark (*I-Arka*) in the capital, Valletta.

The cooperative is an offshoot from the Third World Group, a VO that was the country's primary group supporting volunteers abroad from the 1970s. Its philosophy at that time was very much linked to alleviating poverty through direct contact with the poor. Yet after years of volunteering, members of the Third World Group wanted to integrate services for the poor into their daily lifestyles, even if and when they were no longer available to work directly with those in need. Through contact with social organisations in southern Italy, namely the *Centro Regionale di Intervento per la Cooperazione*, the Third World Group learnt about fair trade and was eventually introduced to fair trade suppliers such as *Cooperazione Terzo Mondo* (CTM) in Italy.

As the country's major social enterprise paradigm at that time followed a charity model, often based on a colonial and even missionary approach, it was a huge challenge for the Third World Group to introduce a new model based on justice through trade. The

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(21) Interview with president, John Axiaq, on 29 October 2018.

KKĠ was one of the very first social enterprises to embrace the cooperative model in Malta. Alongside the now defunct Franco Si, it became one of the very first social cooperatives.

During the KKĠ's first two years, its membership was restricted to Third World Group members. Once the cooperative was consolidated and fair trade became better understood among the Maltese public, its membership was opened up more generally. At a certain point, its membership reached 100. However, based on a clause which states that all members are "jointly and severally liable" for all of the cooperatives actions, the number of members was reduced to only those that were active. Therefore the number was brought down to 10 members only. Of these 10, three are members of the board. Bookkeeping is done internally and then passed on to an auditor. 2,000–3,000 EUR are necessary just to cover basic costs. The current set up makes sense for fully dedicated members but not small organisations that are mainly voluntary.

The KKĠ's beneficiaries are its producer organisations in the South, who produce handicrafts and food sold in the shop, and Italian and French social enterprises, who also produce items for sale in the shop. Another beneficiary is its consumer base, who can shop ethically, and educators, for whom a number of resources, guides and handbooks have been produced. Education has been a major pillar since the KKĠ's inception. In its early years, the KKĠ was the only fairtrade food and handicrafts supplier in Malta, but a multiplicity of actors now exist; although the country's consumer base has more choice, awareness has also increased.

The number of KKĠ workers has varied from two to five, who either work in the shop or as administrators. Staff are often employed on a project-by-project basis and, therefore, are hired on a short-term basis. Most projects are educational, including the Development Education and Awareness Raising projects funded through the Non-State Actors Local Authorities budget line.

Volunteer numbers vary from two to eight with one person usually acting as a coordinator. In the past the KKĠ received its "volunteers" through the Employment Training Corporation (ETC, now Jobsplus) scheme that provided an opportunity for unemployed people to undertake work experience.

The Board of Cooperatives has become very demanding; fines for non-compliance are high and disproportionate. The KKĠ's overall profit from shop sales is not enough to cover the running costs of managing and auditing its business (each annual audit costs about 1,300 EUR).

As a result, the KKĠ is currently considering other legal avenues, including registering as a VO. When the cooperative previously tried to register as a VO, its application was denied due to its significant trading activity. It will need to find an alternative means of managing its shop if it is to successfully register and gain access to VO funding.

The KKĠ's mechanisms of scaling are threefold: 1) to engage in the education and training of educators; 2) to connect with the Church; and 3) to work on a project basis, including visiting schools and, therefore, widening outreach. In principle, education and awareness increases consumer demand for fairtrade goods; and yet, this does not necessarily translate into increased sales for the KKĠ, as shoppers tend to buy according to their convenience and can now call on a multitude of ethically biased retail outlets.

The KKĠ's business model focuses on the following: retail sales; other sales generated from *ad hoc* stalls, participation in fairs, etc.; and funding from agencies such as Europaid, the Maltese NGDO platform and SKOP's presidency fund. The KKĠ does not enjoy any specific fiscal breaks, except those pertaining to normal cooperative law. 5% of its surplus is paid to the Central Cooperatives Fund. Once the KKĠ received a grant from the fund in the region of 1,000 EUR. The KKĠ pays Value Added Tax (VAT) on sales, national insurance contributions (social security) for its shop worker and income tax for employees working on projects as per legal requirements.

The main barriers faced by the KKĠ are the following: 1) a lack of managerial skills; 2) its retail model suffers from limited access to capital; 3) as a retailer, it requires a van, warehouse, ability to buy in bulk, etc., which is not always possible due to the operation's small scale; 4) consumers do not want to pay twice the price or significantly more for fairtrade goods; 5) the early demand for handicrafts has been overtaken by street sellers; 6) difficulties keeping up-to-date with the marketplace; and 7) its position as either a retailer or re-seller poses difficulties (i.e., opting for the latter option would mean trading with other shops and having an efficient delivery system).

The KKĠ's key partners are: 1) SKOP; 2) *Koperattivi Malta*, which nonetheless does not focus on social enterprise nor *de facto* social cooperative-related issues; 3) the CCF, though the KKĠ does not contribute to the foundation as it does not often register a profit; 4) the World Fair Trade Organisation (WFTO), as a member; 5) the CTM, as a member; and 6) Etimos, an Italian foundation that supports small enterprises and social enterprises, as a non-active member.

The KKĠ does not enter into any type of contractual agreement with public agencies except when it applies for and receives funding from public funded calls for project proposals. Typically, the KKĠ generates around 10% of its money through sales, between 10%–20% through public donations and the rest through EU funding mainly for educational projects.

Since its beginning, the KKĠ has not wanted to use traditional banks for its operations due to its high commitment to ethical standards. Instead, it took a loan to buy its shop through Italy's ethical bank (*Cooperativa Verso la Banca Etica*), as there were no ethical banks in Malta at that time and an Italian organisation had offered to act as its

guarantor. This agreement was subsequently renegotiated with APS bank in Malta when it officially became an ethical bank. Some internal donations were also forthcoming. The shop was fully paid for in 2011. The KKĠ is currently involved in an ethical banking awareness raising project; its meeting with APS bank has been very positive.

## Exploratory case 2

### Koperattiva Energija Pożittiva<sup>22</sup>

Positive Energy Cooperative (*Koperattiva Energija Pożittiva*) is a cooperative that was founded in Malta last year with the support and cooperation of its Italian counterpart, *Energia Positiva*.<sup>23</sup> The cooperative shares its namesake's aims, offering citizens the opportunity to produce, use and actively invest in renewable energy. Though the Maltese cooperative had been in the pipeline for some time, certain initial issues arose in connection with difficulty accessing funds from the Malta Cooperative Federation, which led to a number of opportunities being lost in the meantime (e.g., the use of a large school's roofs that was given to a commercial company in the meantime).

The cooperative's development highlights the wonders of networking—*Energia Positiva* heard of this “dream” opportunity through the international network that exists within cooperative structures.

The cooperative's main recipients are householders whose domestic roofs are not suitable for photovoltaics (PVs), which in Malta is a huge problem. A lot of “grabbing” has already taken place throughout the private sector.

The organisation currently has no employees; its five founding members are doing all of the preliminary work. A pilot project is envisaged on a roof in Marsascala with around 50 panels, which will enable the cooperative to set up the necessary administration and prepare for the larger market.

One of the main issues a social enterprise often faces is where to start—in the case of *Koperattiva Energija Pożittiva*, its initial capital outlay was provided by *Energia Positiva* as a loan, which acted as bridge finance. The cooperative's business model is quite simple: firstly, a site is identified, which has to be a roof; secondly, an agreement is

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(22) Interview with founder and president, John Mallia, on 8 November 2018.

(23) *Energia Positiva* is a cooperative of people in Italy (Members) who share the ownership of renewable energy production plants, becoming in turn owners of their own freely chosen “virtual” plant. It is a concrete initiative that aims to offer citizens the opportunity to produce and use energy from only renewable sources, helping them to reduce the costs of their bills and improve the environment.

settled with the roof's owner to rent it for a minimum of 20 years with rights of access and space guaranteed; thirdly, how many panels the roof can take is assessed and their purchase is offered to the public. On average, each PV panel costs around 500 EUR. The aim is to calculate the correct number of PV panels that will zero the household's electricity bill. However, if a family would like to invest more, there is always the option to increase their number of panels. The cooperative has not set a minimum purchase and its maximum is still to be decided. Discussion currently revolves around the threshold that might discourage big investors; only the general assembly can make such decisions and, as every new member can take part in an agreement, the interest of its members is crucial. The cooperative gains income by selling the energy produced. Every new member agrees to a minimum guaranteed return of 7% over 20 years, approximately equal to a PV panel's lifecycle. The cooperative's return is nearer 10% as it is responsible for installing the solar panels, their maintenance and replacement; new members do not incur any risk. Enough is left from the cooperative's return to cover the cost of its administration, marketing and other possible investments. In line with the cooperative's values, a member's investment is "easy in, easy out" (i.e., if after three years an investor would like their money back, they can apply to withdraw from the cooperative). The cooperative returns EUR 500 minus the value of the renewables' loss of efficiency back to the investor or the difference is reimbursed by the new, replacement member. Part of the investment is intended for education. The model finances itself. After approximately 10 years, the panels will have been paid for and the investor can then receive "free" energy. Different scenarios on any eventual profit are also currently being discussed (e.g., deductions from electricity bills/credit towards energy bills).

The main barrier the cooperative faces is its late arrival to this market compared with the private sector, which has more resources. Discussions are currently taking place with Enemalta, the Maltese Islands' leading energy services provider, regarding the cooperative's feed in tariff.<sup>24</sup> Currently, *Koperattiva Energija Pożittiva's* tariff is calculated on the year it applied, whereas Enemalta should employ positive discrimination because it is a social cooperative. Meanwhile, the cooperative does not suffer from a lack of technical skill because its Italian counterpart provides technical support.

*Koperattiva Energija Pożittiva's* key partners are the Ministry of Education and Employment and schools. The ministry negotiates the use of school roofs, which has two potential benefits: 1) it provides a space for community members that otherwise would have no space on which to install solar panels; and 2) the school itself and parents can invest in the solar installation. The cooperative also offers schools the

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(24) See page 16 of the Report on financial barriers and existing solutions published as part of the Project REScoop20-20-20, available at [https://ec.europa.eu/energy/intelligent/projects/sites/iee-projects/files/projects/documents/rescoop\\_20-20-20\\_financial\\_barriers\\_and\\_existing\\_solutions\\_en.pdf](https://ec.europa.eu/energy/intelligent/projects/sites/iee-projects/files/projects/documents/rescoop_20-20-20_financial_barriers_and_existing_solutions_en.pdf)

chance to use some of their surplus to reinvest in environmental education. Hands-on education explains how PV panels work and conserve energy.

No contractual agreements with public agencies are currently in place, though discussions are in progress with the Ministry of Education and Employment.

*Koperattiva Energija Pożittiva* does not enjoy any particular fiscal breaks, except those included in standard cooperative law. It pays no taxation but invests 5% of its surplus in the CCF.

The cooperative's financing mechanism is based on the simple model described above. Administrative costs are incurred. No generated surplus is currently returned to its members, as set out in its statute.

Credit is received from *Energia Positiva* through bridge funding as a loan, which could also be considered network financing from one organisation to another based on the concept of "success breeding success".

### Exploratory case 3

#### Youtheme Foundation

The Youtheme Foundation is an NPO whose aims and objectives are to: support young people and their initiatives in the community; contribute to community development through various charitable initiatives; empower community leaders towards active citizenship; and raise funds through sponsorship, donations, fund raising activities or through any other means the board may determine. The foundation is a voluntary, non-profit-making and autonomous organisation (VO 873) recognised under the VOs Act of the Laws of Malta.

It is the brainchild of two friends and youth workers from Malta—Simon Schembri and Albert Debono. After having met and worked together at various youth initiatives when young, they shared the aspiration of becoming youth workers and setting up a youth work practice. Their vision was to provide a wide spectrum of services for community development ranging from training courses to concerts, from talent competitions to publications and consultancy services.

Say It! is the Youtheme Foundation's social enterprise set up as a cooperative, which provides young people with a platform for their ideas, talents and initiatives. It seeks to be a self-sustainable resource and service centre for youth work. Say It! is the entrepreneurial arm that enables the foundation to fund its core administrative needs whilst also supporting its youth work and development.



The Youtheme Foundation is an offshoot of the Young Christian Workers' Association, *Żgħażaġħ Haddiema Nsara* (ŽHN). One of the foundation's founders used to work for the international network and forged links with many countries. The ŽHN's founders wanted to create a network whereby the European reality could raise funds for the developing world in a sustainable manner. Youtheme's founders kept the network established through ŽHN and built on existing relationships.

The Youtheme Foundation is its own decision-making body. Decisions such as the recent choice to keep money aside as capital for a new cafeteria are also taken by the foundation. The social enterprise aspect of the operation is registered as *Koperattiva Youth Theme* but branded as Say It!. The cooperative passes all of its income to the foundation and is a member of the MCF. Say It! has two retail outlets—a fairtrade shop and a fairtrade cafeteria—and a printing press, which is a business incubation centre called *Koperattiva Youtheme* operating as Say It! printing.

Those who work three years or more with Say It! have the opportunity to become members. The cooperative was established as a means of protecting the foundation against what could go wrong in the business. The printing press is a means to an end.

The foundation has seven people in its management team, which in practice also constitute the board. The cooperative has five board members and 35 members, most of whom have at one time or another worked in the shop. The foundation has no VAT number and no employees. Say It! has two full-time employees and another eight part-timers, equivalent to another two full-timers. It also has around 30 volunteers. No-one does solely shop work and all projects include training based on the initiative's ethos and aims.

Although 100% of all surplus income after expenses originally went back to the foundation, 70% is now automatically received by the foundation and 30% is shared between members, who are at liberty to use them as they wish but, in practice, tend to return the investment to the foundation.

The cooperative originally started as a limited company but later became a cooperative after struggling to meet Malta Financial Services Authority demands. The MCF supported this transition.

The foundation's fields of engagement are mainly broadened through funding from the president's funds and other funding streams. Its business model focuses a lot of attention on who they employ, experimentation and the belief that change is good and necessary.

The main barriers that the social enterprise faces include struggling to grow whilst being restricted by administrative demands. Financial accountability is considered a difficult task and so the enterprise employs an accountant. The foundation's director

considers that the level of administrative demands are inappropriate for their scale of operation.

Key partners include the MCF and WFTO. Any contractual agreements entered into with public agents concern projects chosen through open calls for proposals such as the Erasmus+ scheme, the president's scheme and schemes through the government's education department, including Entrepreneurship through Education, Art for Education and the Arts Council (*Kreajttiv*).

The foundation channels all of its economic activity through Say It!, which enjoys fiscal breaks as per cooperative law. Its shops and printing press provide around 60% of financing, while around 40% is financed through grants.

Use is made of traditional banks. Originally, the enterprise worked with the APS Bank, Malta's only ethical bank, but encountered difficulties: when Say It! undertook a project with a Polish school the bank was unable to receive payment in zlotys.

The foundation's director highlighted the need to establish an enabling environment proportional to the size of the organisation. For example, fines for a few days' non-compliance when returning audited accounts late are considered disproportionately high. In addition, CCF funds are not accessible to the foundation due to a certain threshold, which is reflective of survival of the fittest rather than cooperation.

## Exploratory case 4

### Inspire Foundation<sup>25</sup>

Inspire is a VO that believes everyone has the right to equality and inclusion. It aims to help all those with a disability under its care to achieve this by providing individuals and their families with educational, therapeutic and leisure services. It also advocates for inclusion, educates the general public, raises awareness among peers and is Malta's best knowledge base for disability. Inspire helps over 1,000 individuals with various disabilities, including down syndrome, autism and cerebral palsy. Its many services and disability programmes are offered at a highly subsidised rate or sometimes even for free. The foundation raises money through its eight charity shops that sell used and occasionally new goods around Malta and Gozo. The shops stock clothing, shoes, furniture, books, toys, tools and other items.

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(25) Interview with former CEO and current board member, Nathan Farrugia, on 7 November 2018. See: <https://inspire.org.mt> and <http://www.empower-coop.org>

In keeping with its mission statement, Inspire wanted to further empower people with disabilities to become independent. Therefore, it established Empower, a cooperative for people with disabilities who would not otherwise be employed in the standard jobs market. The initiative was set up by a group of Maltese business people in January 2011. Services provided by the cooperative include: office work, manual labour, catering, hospitality and tourism related services, agriculture and retail activities. It intervenes and supports people with disabilities working in various employment settings, including open employment, assisted employment, and sheltered employment.

Empower caters 100% for vulnerable people and beyond 95% of its employees are disabled. It has 20 members of staff.

People with intellectual disabilities cannot become members of the cooperative, but their parents can. Its six board members are business people who volunteer their time for free.

Together with Jobsplus, Empower has registered as the Lino Spiteri Foundation, a 50/50 partnership that works in collaboration with the government. As an enabler, it provides job coaching to Empower.

Empower now has a life of its own, which is largely distinct from Inspire.

The Inspire Foundation, meanwhile, is the result of a merger between two leading VO charities from the disability sector: the Eden Foundation and *Razzett Tal-Hbiberija*. Both organisations transferred all of their resources and employees over to the new foundation to provide their former services in a one-stop-shop model avoiding duplication, enhancing service delivery and being more cost effective, leading to long-term sustainability and added value.

Inspire currently has around 150 employees, 50 volunteers and between 1,000–1,200 clients. Its major expansion was built on the foresight of modern client needs such as multisensory therapy, which eventually led to its construction of multisensory theatres (i.e., its expansion is evidence based and driven by the needs of clients).

Its governance model follows that of a typical VO with a board of trustees, who are all volunteers. Inspire is not a membership-based VO and some of its trustees are parents.

The business model adopted by the social enterprise is one of diverse income streams to achieve stability. The organisation needs to raise more than 3 million EUR a year to keep running smoothly, which cannot be raised from charity alone. Therefore, its other revenue streams include: charity shops and car boot sales; donations; revenue generating activities such as paid schools visit to its animal park; and leasing property. When choosing its business model, Inspire asked itself: “How do we monetise services that we are providing for people with disabilities free of charge?” As a result, it offers

health professionals such as physiotherapists a share of paying clients; in other words, customers that are not disabled pay for services that are free to the disabled.

The main barriers that the social enterprise faces are financial, since funds available from Malta Enterprise to SMEs are not accessible to VOs (i.e., Malta Enterprise does not adopt social criteria). The fact that Impact cannot claim back on VAT could be a restriction, but, as it does not charge VAT, this has not become an issue. In addition, most services it procures are VAT free (e.g., health services).

Inspire's key partners are the government, which is also a client, and companies that make donations and generally support the enterprise. It does not enjoy any particular fiscal breaks beyond those standardly given to registered VOs operating in the social sector (i.e., it does not pay tax). Inspire provides community services VAT free, which can frustrate private sector competitors. For example, it manages a swimming pool with high running costs such as VAT-rated chlorine that it nevertheless provides as a free service to some members. Inspire makes use of traditional banks for its operations.

In 2012 Inspire entered into contractual agreements with public agencies for both new therapeutic services and the renewal of a long-established Disability Education Service agreement, which were secured by the government for a three-year period from 2013 to 2015. Inspire has contracts with the Ministry for Education and Employment for the provision of educational services for children with disabilities in schools and one with the Ministry for the Family, Children's Rights and Social Solidarity regarding the lifelong learning of adults with disabilities.

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## Appendix 5. List of stakeholders engaged at national level

The set of 21 Country Reports updated in 2018 and 2019 included a “stakeholders engagement strategy” to ensure that key input from national stakeholders was incorporated. Four categories of stakeholders were set up: academic (ACA), policymaker (POL), practitioner (PRAC) and supporter (SUP). The stakeholders’ engagement strategy followed a structured approach consisting of a questionnaire, one or two stakeholders’ meeting (depending on the country) and one core follow-up group. Such structure enabled a sustained, diverse and committed participation of stakeholders throughout the mapping update process. The full names, organisations and positions of key stakeholders who accepted to have their names published are included in the table below.

Full name	Organisation	Role	Stakeholder category
<b>Damien Attard</b>	Right2Smile	Administrator	PRAC
<b>John Axiak</b>	L-Arka/ Koperattiva Kummerċ Ġust	Director	PRAC
<b>Godfrey Baldacchino</b>	University of Malta	Pro-rector	ACA
<b>Anna Borg</b>	Centre for Labour Studies (University of Malta)	Director	ACA
<b>Jeanette Borg</b>	Merill	Rural network manager	PRAC
<b>Matthew Caruana</b>	ZAAR	Manager	PRAC/ACA
<b>Albert Debono</b>	Say It!	Manager	PRAC
<b>Michela Fenech</b>	Ashoka	Program manager	PRAC
<b>Marthese Formosa</b>	Various	Self-employed	PRAC
<b>Mario Gerada</b>	Foundation of Social Welfare Systems - Malta Government	Head of office	POL
<b>Mark Gilson</b>	DoGoodBusiness/Corporate Citizenship and Corporate Social Responsibility	Project manager	PRAC
<b>Annika Gollcher</b>	SOS Malta	Project manager	PRAC
<b>John Mallia</b>	Malta Cooperative Federation	President	PRAC
<b>Rolan Micallef Attard</b>	Malta Cooperative Federation	CEO	PRAC

Full name	Organisation	Role	Stakeholder category
Angie Mifsud	Regional Business Centre/ University of Malta/CORE Platform	Researcher	ACA
Elena Tanti Burlo	Equal Partners Foundation	Founder	PRAC

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