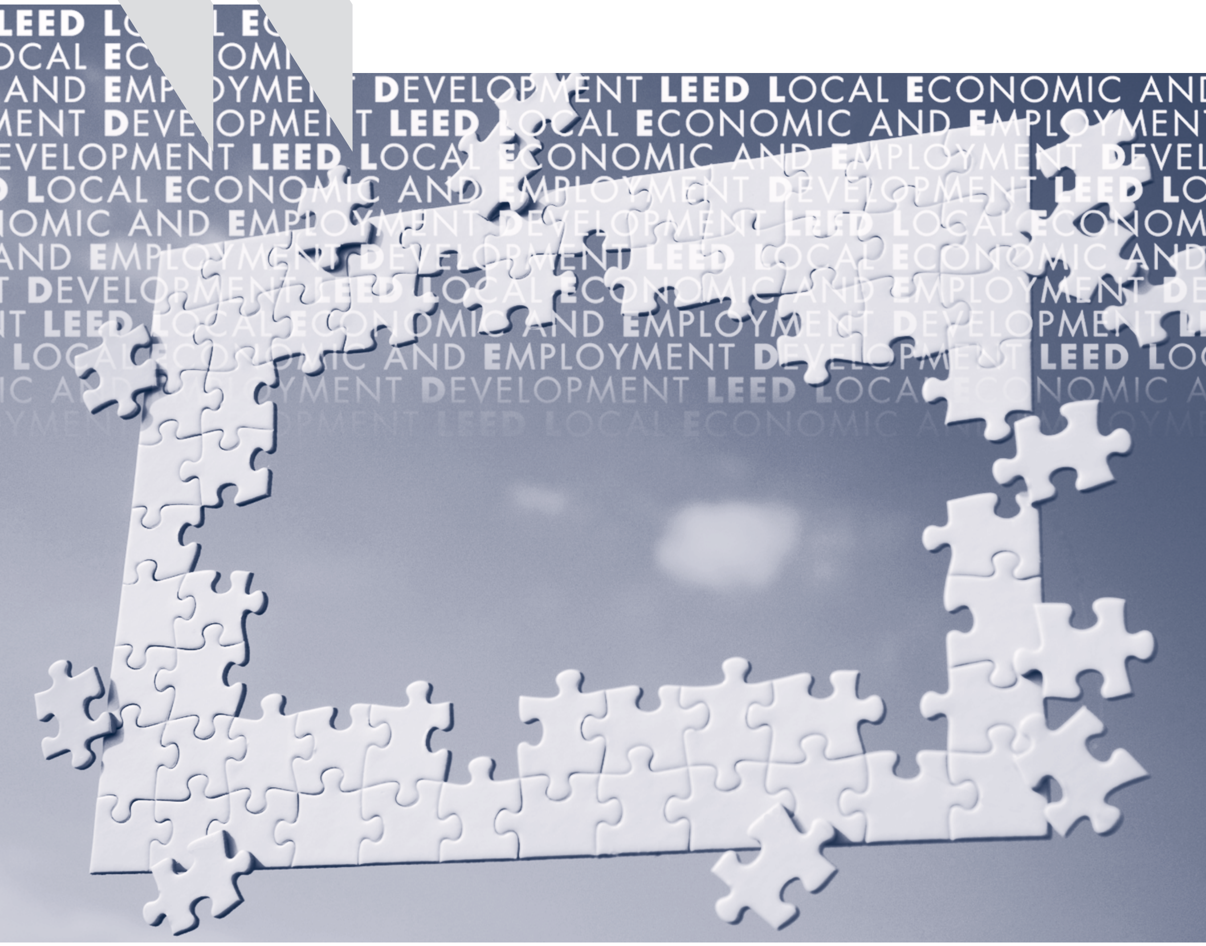
The Social Economy

BUILDING INCLUSIVE ECONOMIES

Edited by Antonella Noya and Emma Clarence



OECD

Local Economic and Employment Development

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OECD

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Foreword

Over the last decade, the attention paid by the LEED Programme (Local Economic and Employment Development) to the development of the sector which is variously called "non-profit", "social economy" and "third sector", has resulted in the preparation of several OECD publications, the organisation of international conferences, seminars and capacity building initiatives, and participation in international and national networks and committees. All of these activities have undoubtedly contributed to raising the visibility of this sector among policy makers in OECD member countries.

The LEED Trento Centre for Local Development, established in 2003 in the north of Italy, with the mission to build capacities for local development in OECD member and non-member countries, focusing on central and eastern European countries, has also contributed to increase the visibility of the sector. The knowledge acquired by the LEED Programme over the years has been channelled towards the countries of Central East and South East Europe, who have shown an increasing interest in the social economy as a model around which to organise economic and social life.

Confirming its belief that "reconciling the economy and society" and "building a plural economy" is one of the objectives that policy makers should pursue to reach a more balanced and sustainable economic development, recognising that social economy organisations are entities which can contribute to create a more inclusive economy, the LEED Programme has expanded its analysis to new areas of research, in order to assess the potential of the social economy sector and its contribution to the growth and to the creation of value in our developed economies.

This publication takes stock of all the expertise that the LEED Programme has gained over the years and builds, particularly, on two international conferences organised in Trento, with the contribution of the Directorate Employment, Social Affairs and Equal Opportunities of the European Commission, the Autonomous Province of Trento, the Trentino Federation of Cooperatives and the Institute for the Development of Non-Profit Organisations (ISSAN) at the University of Trento .The first was on

"*The Social Economy in Central, East and South-East Europe*", and was held in September 2005, while the second one, held in November 2006, was on "*Reviewing OECD Experience in the Social Enterprise Sector*".

The publication offers new perspectives on the economic theory of social economy organisations and presents the challenges confronted by the social economy not only in Western European countries and on the American continent, but also in the countries of Central East and South East Europe.

The book focuses on three main messages: i) that the social economy plays a growing role in OECD countries in tackling the problems of socio-economic inclusion and poverty, and in fostering active citizenship and solidarity together with democratic participation; ii) that public policies should create an enabling environment for the social economy so that it can display all its potential in reconciling economy and society, which is a crucial factor for ensuring sustainable development and more resilient and better performing economies; and iii) that social entrepreneurship is a key component of any strategy aimed at making our societies more entrepreneurial, innovative and competitive.

The publication was prepared by Antonella Noya, Senior Policy Analyst with the OECD/LEED Programme in Paris, who also managed the whole project, and Emma Clarence, Policy Analyst at the OECD/LEED Trento Centre.

Special thanks go to Giulia Galera, (PhD candidate in International Studies – School of International Studies, University of Trento and Researcher at ISSAN, Trento) whose comments were extremely useful, Tina Bielawska, Research Assistant in the OECD/LEED Trento Centre, Vanessa Shadoian, former LEED research assistant, and to Roberto Chizzali and Damian Garnys, Publication Assistants, both of whom assisted in the preparation of this publication.

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Executive Summary

The social economy, whilst in no way a new phenomena, has been reinvigorated in recent decades. While the decline of the welfare state has been an important trigger in stimulating the growth and development of the social economy, other factors including changes to local economies, the exclusion of some vulnerable groups and a gradual move away from traditional conceptions of civil society organisations towards more dynamic, issue oriented organisations have also contributed to the reinvigoration of the sector. Social economy organisations have moved to fill the gaps left by the market and the state, and have shown themselves to be innovative, adaptable and responsive to local needs when provided with the opportunity and environment which enables them to fill their potential.

In Central and South East Europe, social economy organisations have played an important role in addressing the complex issues which the post-1989 transition period raised for both communities and for individuals. However, as in other states, social economy organisations confront important issues around their development, role and sustainability. Exploring issues such as the role of the social economy in economy theory, the contribution it can make to local development and examining how a supportive and enabling environment can be created for the social economy and social economy organisations, this book highlights the fundamental role the social economy has in improving the lives of not only society's most vulnerable, but also communities as a whole. The challenge is to ensure that the social economy is able to play that role to best effect.

What is the social economy?

Given the critical role of the social economy, it is clearly important to develop a sound understanding of what the social economy is. However, defining the social economy is not unproblematic, with different interpretations being utilised in different regions of the world. Broadly, a distinction can be drawn between the United States's conception of the "non-profit sector" and the mode adopted in parts of Europe of the "third system", and now, the social economy. The John Hopkins University

Comparative Nonprofit Sector Project[1] has developed a clear definition of the non-profit sector which focuses on voluntary entities which do not distribute profits (including social clubs, professional organisations, universities and hospitals, etc.). Arguably, this can be considered to be too narrow to be useful in a European context with its different historical traditions. In particular, it is the exclusion of co-operatives, long a feature of many European countries, from the non-profit sector, which makes its use problematic in a European setting.

Indeed, the term "third system", derived from the European Commission's 1997 pilot action "Third System and Employment", has subsequently been broadened out to include all organisations that place a limit on profit distribution. This highlights the important distinction between the US and Europe, and the divergent paths they have taken. The label "social economy" has maintained this distinction. Emerging initially in France in the 19th century, since then the idea of the social economy has responded and altered so as to reflect the historical dimensions and developments of a range of different organisational types which have come to be identified with it.

Attempts to define the social economy have drawn on two main approaches. The first seeks to identify those legal and institutional forms which are part of the social economy, namely associations, mutual benefit societies and co-operatives. The second focuses on the common principles which inform those organisations, notably the primacy of individuals and communities over profit, although without completely limiting the distribution of profit (as the U.S. non-profit approach does).

What is critical about the idea of the social economy is that it seeks to capture both the social element as well as the economic element, inherent in those organisations which inhabit the space between the market and the state. It is important to recognise that not all social economy organisations may be focused on economic activity, indeed the social economy includes advocacy organisations and also those, such as foundations, who redistribute resources. However, the term is a useful one because of its inclusiveness, and ability to incorporate new organisational forms, such as social enterprises which have emerged. Ultimately, however, it is not uncommon to find that terms such as "third sector", "third system", and "social economy", are used interchangeably without any strong delineation of the distinctions, and indeed throughout this book the terms are found without, unless specifically articulated, any difference in meaning.

Exploring the social economy: from economy theory to an enabling environment

The chapters in this book explore the social economy from a myriad of perspectives – both theoretical and practical. What binds them is their acknowledgement of the importance of social economy organisations and the requirement to recognise their diverse roles in addressing the needs of people, accompanied by their wider role within local communities, and at the regional and the national levels. By seeking to highlight how, for example, economic theory needs to develop an understanding that the social economy is more than an adjunct to the state and market, to examining the need for an effective enabling environment for the social economy in Central and South East Europe, this book emphasises that the social economy is a vital component of contemporary society. Recognising this is the first step towards ensuring that the social economy is able to fulfil its potential – a potential with profound implications for the communities in which we live.

Economy theory: inserting the social economy

The social economy is in no way a new phenomenon, it has been poorly served by economic theory, compared to other economic sectors. This has contributed to the view that social economy organisations exist only where there are market failures, rather than as inherently important actors within society. As Carlo Borzaga and Ermanno Tortia explore in the opening chapter, economic theory has, until recent decades, considered social economy organisations to have only a marginal role in market economies. However, given the evidence of their growing importance, it is clear that such perceptions have been misplaced. Therefore, it is necessary for economic theory to more fully engage with those organisations whose primary focus is not upon making, and maximising, profit. Arguing that it was the failure to recognise the importance of such factors as: the role of social economy organisations in addressing and managing market failure; the desire of individuals to behave in ways that are not always self-interested; and, the role of enterprises to act as co-ordinators of different actors, which has hindered the inclusion of the social economy into economy theory, Borzaga and Tortia highlight the importance of developing a new approach which recognises and incorporates the important contribution of the social economy.

Developing such an approach must be rooted in an understanding of those enterprises which do not seek to maximise profit and, crucially, the social element of such enterprises, and must also be able to accommodate the creation and the development of social economy organisations.

Furthermore, there is a need to acknowledge that not all economically productive social economy organisations, such as co-operatives, emerge from market failures. The ideals which inform the desire to address social issues are something which economic theory has been unable to convincingly incorporate, founded as so much of it is on the assumption that individuals are self-regarding. Only by recognising that this is not always so, will economic theory be able to include social economy organisations. Borzaga and Tortia suggest that by viewing the firm as an *incentive structure* a more rigorous approach can be developed. Their view of the firm incorporates both monetary and non-monetary incentives, such as greater levels of job satisfaction, and highlights the importance of intrinsic motivations not only for individuals, but also for the firm, as individuals are shown to exert greater effort where intrinsic motivations are acknowledged and fostered. What this chapter demonstrates is that ways of understanding the economy have to be changed if the role of the social economy is to be fully recognised and its potential fully exploited.

The role of the social economy

Highlighting and reviewing the role of the social economy within the context of contemporary socio-political events and processes is the focus of the chapter by Peter Lloyd. With greater levels of uncertainty, as a result of economic, geo-political and social forces, the social economy has the potential to address the needs of local communities as they respond to these forces. Within the European Union, the key issues of slow economic growth, unemployment, inequalities within and between countries, the impact of enlargement and migration, and the implications of an aging population, are identified by Lloyd as important in our understanding of the possible role and contribution of the social economy. However, there is no single approach to be pursued. Rather, Lloyd emphasises the importance of focusing on culture, geography and history as forces which cannot, and should not, be overlooked. As later chapters demonstrate, it is only by recognising the importance of historical events that the very real problems which co-operatives confront in gaining support and credibility in Central and South East Europe can be understood.

Whether the social economy should be seen as a real alternative to the hegemony of economic neo-liberalism, or rather as a ‘fix’ to the problems associated with neo-liberalism, is briefly explored. Whilst acknowledging these debates, Lloyd suggests that the social economy is usually perceived, in policy terms at least, as an instrumental device for addressing problems. Nevertheless, this is not their only role. Rather social economy organisations can act as a conduit for greater participation. It is such potential that provides succour to the perception that the social economy can act as an alternative to economic neo-liberalism. There are resonances with the discussion in a subsequent chapter by Gonzales who explores the way in which social economy organisations have the potential to act as vehicles for empowerment.

The latter part of Lloyd's chapter examines the role social economy organisations play in work activation, particularly for people from vulnerable groups who may lack the requisite skills to directly enter the workforce. Whilst acknowledging the important role of social economy organisations in this field, and others, Lloyd cautions against overestimating how much social economy organisations can do; they are not, and should not be viewed as, a panacea for all ills. At the same time, the impact upon social economy organisations of ever greater involvement with the state and the market, and the threats and opportunities presented by this, are examined. There is the very real potential for social economy organisations to loose their innovativeness and dynamism, as they face pressures to behave in a more business-like way. This is not to belittle or denigrate social economy organisations, rather it is only by recognising the limitations upon social economy organisations that it is possible to adequately assess the potential for them to meet the challenges which exist in contemporary societies.

The social economy: enhancing local development

The following chapter, by Xavier Greffe, examines the contribution the social economy can make to local development. The ability of social economy organisations to meet local needs has long been highlighted, however it is also that it is their capacity to adapt and respond flexibly to changes at the local level which makes such organisations so important to local development. This is more than simply the benefits of operating at the local level, but is a result of the intrinsic features of social economy organisations. Local development, if it is to be effective, requires, Greffe argues, positive links between the various dimensions (economic, social and environmental) of local development, a positive relationship between all of the actors involved, social capital, and an agreement on the long-term approach to be taken. It is these very points which give social economy organisations such a valuable role in the local development process.

The ability of social economy organisations to make linkages to, and across, the various dimensions of local development is important because it enables an over-arching vision to be developed. The focus is not upon one dimension, or one type of activity only, but on the conjunctions between dimensions and activities and the potential positive, and negative, outcomes. This not only aids the development and implementation of effective policies and programmes for local development, but also assists in generating other results, such as building greater levels of social capital within communities and fostering social inclusion.

Social economy organisations: effectively empowering users?

The debates on the extent to which the social economy can act as vehicles for empowerment, briefly outlined in Lloyd's chapter, are the subject of the chapter by Vanna Gonzales. It is generally accepted that the social economy aims to address market failures and to meet many complex social and economic needs of individuals, and arguably this is at the core of much government and institutional support. However, advocates for the social economy have also emphasised the potential for social economy organisations to act as a conduit for greater participation and democratic engagement. This is more than simply fostering social inclusion; rather it is a way of empowering individuals who, for a variety of reasons, have been excluded and marginalised. Gonzales explores the potential for social economy organisations to act as conduits for alternative voices from amongst the socially excluded, and highlights two types of empowerment: consumer and civic. Consumer empowerment focuses on the development and provision of services tailored to individual needs. Such empowerment, however, is rooted in the ability, and desire, of social economy organisations to move beyond simply addressing the needs of individuals to enhancing the personal autonomy of individuals. Civic empowerment differs from consumer empowerment by focusing not only upon meeting the service needs of users, but on mobilising them as marginalised groups to encourage greater engagement with political and civic structures rather than withdrawing from them. With its wider demands upon social economy organisations, civic empowerment requires them to promote advocacy.

Italy, with its early introduction of a supportive legal framework for the social economy, offers a valuable opportunity to assess the ability and success of social economy organisations in acting as a tool to empower users. Two Italian regions, Lombardia and Emilia-Romagna, with high levels of economic development and long traditions of co-operatives, are, Gonzales suggests, the most likely to have developed social economy organisations who act to empower users. However, as Gonzales demonstrates despite these traditions, social economy organisations are, in the majority of cases, failing to behave in a way which actively promotes empowerment. Gonzales argues that this is linked to the failure to include users in decision making processes. Developing a culture which values and promotes the inclusion of users in decision making processes, rather than viewing them as passive recipients, is a difficult, but important step if social economy organisations are to move beyond merely filling a gap in service provision towards enabling users to participate fully in society.

Gonzales' chapter seeks to explain why social economy organisations fail to foster civic empowerment and it raises a number of important points not only for all social economy organisations, but also for those institutions which seek to promote the role and activities of social economy organisations within society. Rejecting the suggestion that it is a failure on the part of social economy organisations to understand the needs and concerns of users, Gonzales instead highlights the impact of external factors, notably financing. This, accompanied by the emphasis on managerial approaches to funding and a focus upon economies of scale, quality control measures, etc., leaves little space for funders to explore the difficult to measure ideas of empowerment. Rather than seeing social economy organisations as a way of controlling costs, there is a need to shift the focus to social economy organisations as tools for investing in people. Without public officials who are sensitive to the direct and indirect problems associated with social marginalisation, and without adequate private funding, the focus upon managerial and organisational efficiency in public spending/contracting requirements can effectively weaken and crowd-out the ability of social economy organisations to foster consumer empowerment. This raises important questions about sustainability, a theme taken up in the last chapter of the book. Gonzales concludes with five key ways in which user consumer and civic empowerment can be facilitated.

Sharing experiences: the Canadian example

Although the United States has followed a divergent path in its understanding of the social economy, with its focus on the non-profit element, Canada, with its strong historical linkages to both France and the United Kingdom, offers a valuable opportunity to explore the similarities and dissimilarities in the way in which the social economy has evolved and developed, with particular reference to Quebec. As Laville, Lévesque and Mendell demonstrate, the social economy has long been established in Canada, even if, until relatively recently, it was only Quebec deploying the term whilst the rest of Canada utilised the idea of community economic development. This changed in 2004 when the Canadian government established a Secretariat for the Social Economy with financial resources available to support the social economy, and social economy organisations and their development more specifically. Although this commitment has not been continued, the support offered in 2004 was important because it provided a stimuli to the further development of the social economy and actually helped create links between social economy actors which have, despite the withdrawal of resources, continued.

Highlighting the difficulties associated with developing a definition of the social economy, the approach in Canada has been to utilise a range of criteria as a way of identifying social economy organisations. These criteria include the legal status of the organisation and its values. However, there has also been significant emphasis placed on democratic procedures and a management autonomous from the public or private sector, with these being as important as a non-profit criterion. Ultimately such attempts to identify social economy organisations are a process of negotiation, and in Canada this has not been uncontentious.

Whilst some groups sought to emphasise the wide-ranging nature of the idea of social economy, one that includes economically productive entities through to community action groups, others were wary of the emphasis on the "economy" in social economy and the threat of commercialisation that such an emphasis may carry with it. The authors argue that it is possible to recognise the diversity of organisations by situating those organisations which produce goods and services towards the economy part of the social economy, and those that are predominantly political actors (such as advocacy groups) in the social/political part. This enables the potential interconnections and interlinkages between the social and economic to be recognised, whilst also acknowledging the diversity which exists within the social economy. As Laville, Lévesque and Mendell note, this is not merely an academic debate, but one that has important ramifications for social economy organisations. How states define the social economy may have important consequences for the way in which social economy organisations function and the resources which are made available to them.

The final section of their chapter incorporates a discussion of the different theoretical approaches to the social economy. Having briefly outlined the organisational approach, which focuses on and emphasises the type of organisation and the actors within the social economy, Laville, Lévesque and Mendell highlight a relatively new approach – the solidarity economy. This approach rejects the neo-classical approach to economic theory and instead seeks to emphasise, drawing upon the work of Polanyi, the way in which the market, redistribution, and reciprocity are integrated. Finally, having explored the relationships between the social economy, social enterprises and social innovations, Laville, Lévesque and Mendell emphasise the importance of conducting research which examines both organisations and the wider role of the social economy. Only by doing this, and in a partnership between researchers and social economy actors, will it be possible to develop the necessary tools with which to evaluate the social economy and to assist its development.

The social economy: developments since transition in Central and South East Europe

The transition period played a critical role in the reinvigoration of the social economy across Central and South East Europe. Initially seen as a vital part of the re-establishment of civil society, the consequences of the transition period on individuals and communities led to an increasing role in the provision of a wide range of goods and services by social economy organisations. The opening section of the chapter by Eva Leś and Maria Jeliazkova outlines the historical development of the social economy and its re-emergence during the transition period. The development and evolution of the sector has not, however, been easy, and, as Leś and Jeliazkova highlight, co-operatives, a vital part of the social economy in western Europe, North America and Australasia, confront significant hostility in Central and South East Europe and remain underdeveloped. This is a result of the use of the co-operative form during the Communist era as quasi-autonomous state bodies, which served to bring the form into disrepute, hindering its development in the post-Communist era. Rather, it is has fallen to other organisational forms, such as associations and foundations, to emerge as important entities within the society economy, something which is reflected in the framework laws which have been passed across Central and South East Europe.

The second half of the chapter explores the development of the social economy in Central and South East Europe, notably its institutionalisation, by focusing on the legal frameworks which have been implemented and considering how they have evolved over time. Central issues such as how the social economy can be enabled to play a greater role in the provision of social services, the way in which linkages between social economy organisations and other actors (such as local authorities, the central state, etc.) can be improved, and the role of social economy organisations in addressing the needs of vulnerable groups, as well as contributing to meeting a wider European agenda (the European Inclusion Process) are considered. Leś and Jeliazkova highlight the way in which social economy organisations have grown from reactive organisations responding to the impact of the transition process into increasingly stable organisations with greater levels of specialisation, something which enables them to expand their role within society.

Like Lloyd, Leś and Jeliazkova highlight the importance of not overlooking cultural and historical factors which influence the way in which social economy organisations function within a territory. There is no single, "one size fits all" approach which can ensure the viability of the social economy and any attempt to import an approach without considering national, regional and local specificities is unlikely to meet the needs of the social economy. Rather, just as social economy organisations are lauded for the ability to respond and adapt to local needs, so it is important for support mechanisms for the social economy and social economy organisations to respond and adapt to the specific needs of the sector, a point which is echoed in the final chapter by Katerina Hadzi-Miceva.

Sustaining and supporting the social economy in Central and South East Europe

Despite the importance of the social economy, it should not be assumed that the social economy is given adequate support, whether it be structural, legal or financial, to fulfil its potential. As Hadzi-Miceva outlines, social economy organisations have been critical to the transformations which took place in Central and South East Europe after 1989 and have made an important contribution to the relative success and stability of the transition process. Indeed, as Leś and Jeliazkova noted, economic transition came at a very high price for many people in the countries of these areas, and social economy organisations have played, and continue to play, an important role in addressing the immediate needs of vulnerable individuals and groups. At the same time, as Hadzi-Miceva outlines, social economy organisations have been able to provide a voice for groups within society who would struggle to be heard. These important roles have been widely recognised, and most governments in the region have established legislative frameworks for the operation of social economy organisations. However, such frameworks do not always function effectively, and despite the many successes of social economy organisations, it remains that there are many challenges to confront also.

An important element of support for social economy organisations in Central and South East Europe is the idea of public benefit status which has been implemented in countries including Bulgaria, Romania, Poland, Latvia, Hungary and Lithuania. Whilst the form may be different, and the status may be awarded in framework legislation or other, specific legislation, the purpose of granting social economy organisations such status is to provide them with greater benefits than other organisations and to assist them to fulfil their contribution to wider society. It is therefore only granted to those organisations who make a specific contribution to local communities and society generally, and who meet needs which neither the market nor the state are able, or willing, to meet. Benefits which accrue to organisations with public benefit status include tax breaks (such as exemptions, reductions, etc.) and preferential treatment (such as for the awarding of government contracts or the use of the government property). Indeed, some international organisations/donors also use the status as a criterion for funding.

As Hadzi-Miceva notes, an appropriate legal framework not only has important consequences for the foundation and running of social economy organisations, but also on their governance structures, and, crucially, their ability to engage in economic activities. Three main sources of funding are available to social economy organisations:

1. Public funding.
2. Activities which generate income, including membership fees, the sales of goods and services, etc.
3. Philanthropy.

There is no simple solution to the question of how social economy organisations can find the most appropriate source of funding for them and each has potential costs, and benefits, associated with it. Local circumstances must always be taken into account, although it should also be acknowledged that increasing only one source is not an adequate response to the long-term financial viability of the sector. Whilst some social economy organisations may benefit more from income-generating activities, particularly those who provide goods and services, it may not be an appropriate approach for all social economy organisations. Furthermore, it should also be remembered that stimulating one source of income may have unintended consequences, as the introduction of the percentage mechanism demonstrates.

Conclusions and recommendations for action

Whilst the social economy is clearly already making a significant contribution to the lives of individuals and is helping to improve the communities in which we live, as all the authors have emphasised the social economy still has enormous, untapped potential. Fulfilling that potential is of the utmost importance, not only for countries in Central and South East Europe, but in all countries. Effective strategies are needed to provide the institutional and practical support which social economy organisations require if they are to be able to meet the needs of individuals and communities. Such strategies include:

- *Building an enabling environment and implementing supportive policies.* This is more than simply ensuring that the necessary legal frameworks exist which enable social economy organisations to be formed and develop, although these are important in themselves, but also incorporates a meaningful recognition of the role of social economy organisations by other actors from both the public and private sector. Policies which help foster and support social economy organisations are also important. For example, start-ups and innovation in the social economy need to be encouraged, financial instruments (either public or private) need to be available to meet the short, medium and long-term sustainability needs of social economy organisations. However, such tools must be appropriate, no-one approach fits all and it important to recognise the historical, cultural and political features which have to be taken into account when deciding which tools and mechanisms to use.

- *Developing mechanisms for financial sustainability*. It is necessary to recognise that there is no simple solution to how social economy organisations can achieve financial sustainability, although it is evident that social economy organisations need the opportunity to exploit the full range of potential resources, including selling goods and service. Furthermore, in the same way that historical, cultural and political features cannot be overlooked in the development of an enabling environment, so it is with the development of mechanisms for financial sustainability.
- *Including social economy actors in the decision making process*. Social economy organisations, with their links to local communities and their ability to harness resources (such as volunteers) from those communities, have been given a critical role to play in fostering social inclusion. Whether they be directly or indirectly utilised by government to deliver goods and services, it is critical that they be incorporated into the decision making process, bringing with them knowledge, experience and contacts with communities which can assist in the development of more effective policies and programmes.

The social economy is not an abstract concept. With its myriad of organisational forms and activities, the social economy is having a profound impact upon the lives of individuals and communities, with the potential to make an even greater contribution. This potential will only be harnessed if appropriate strategies are adopted and mechanisms are put in place which enable the social economy to function at its best. There are important issues for consideration by policy-makers, social economy organisations, and other actors. Social economy organisations themselves confront difficult questions about how they perceive their role, the answers to which will inform their future activities. Whilst there are great opportunities to share knowledge, experiences and good practices across countries, it is necessary to ensure that local factors are not overlooked. The debates and discussion which the chapters in this book have explored must continue if social economy organisations are to make the critical contribution they can do to the lives of people.

Notes

1. The long-running project can be found at: www.jhu.edu/~cnp

Chapter 1.

Social Economy Organisations in the Theory of the Firm

by
Carlo Borzaga and Ermanno Tortia

Social economy organisations are growing in number and relevance in advanced, developing and transition economies. Whilst their relevance for balanced social and economic development is now widely recognised, economic theory is not yet able to explain their existence properly, reducing it to the presence of market and state failures. The development of an explanation is attempted here in two steps: first, it is necessary to overcome the traditional paradigm of exclusively self-seeking individuals. Economic actors are motivated by a variety of preferences over and above purely extrinsic and monetary ones: on the one hand, relational and reciprocal preferences exert a major influence inside organisations, mainly in terms of procedural fairness; on the other hand, intrinsic and social preferences are often drivers of entrepreneurial activities. The second step is the consideration of a new conception of the firm, near to the evolutionary tradition, which sees production organisations as governance structures not geared necessarily to the maximisation of the net economic result (profit). Instead, the working of firms requires simpler economic sustainability and needs to take into consideration the motivations and needs, including the social ones, of all the involved actors, which, generally, are locally embedded.

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Introduction

Economic theory has devoted little attention to forms of enterprises, other than for-profit or investor-owned, and even less attention to the forms of enterprises not interested in making or maximising profits. The view of economic systems which result from the traditional approach is narrow and simplistic. By failing to consider organisations other than investor-owned ones, there is an underestimation of the contribution that these organisations can make to the functioning of the economy. Hence, two main inconsistencies on which mainstream economic analysis has so far relied upon can be identified. The first is the inconsistency between the exploration by economic theory of, mainly or solely, one typology of enterprise – namely the for-profit enterprise – and the economic reality, which has instead always been populated by enterprises characterised by different ownership assets (such as employee-owned, consumer-owned, farmer-owned assets and non-profit). More specifically, traditional economic analysis tends to consider investor-owned enterprises as the sole efficient form of enterprise, and alternative organisations as an exception doomed to be abandoned through the evolution of the economy and the completion of markets. As noted by Hansmann in his major work on the ownership of enterprise, economists tend to use the term "capitalism" to portray the overall system of economic organisations that may be found in advanced economies (Hansmann, 1996), thus ignoring the specificity and fundamental contribution by organisations that pursue goals other than profit to economic development. Two different trends deny these presuppositions: on the one hand, a recent growth in numbers and economic relevance of organisations pursuing goals other than profit; and, on the other hand, an increase in the number, and economic relevance, of non-profit organisations producing goods and services with entrepreneurial behaviour. Empirical evidence indeed provides confirmation of the persistence of not-for-profit initiatives and their re-emergence in countries where they have been historically persecuted and oppressed.

The second inconsistency refers to the incapacity of mainstream economic theory to explain the existence of enterprises that explicitly pursue a social aim, despite the fact that they are often recognised by law. They are a subset in the whole landscape of organisations pursuing objectives other than profits. However, their presence and diffusion signals a possibility that has always been excluded by traditional "invisible hand" explanations, that is that productive activity (and economic development) can also be sustained with allocation patterns not based on the mere exchange of equivalents. Beyond the traditional equilibrium based on self-seeking preferences and "unintended consequences" the explicit definition of a social aim is connected to the possibility of different allocative and distributive patterns, even if it does not exclude market exchanges *per se*.

Despite the disregard and incapacity of economic theory to explain organisational pluralism, increasing attention has recently been paid to a number of economic initiatives, which were little more than new expressions of the social economy, non-profit or third sector social enterprises. This can be seen, for instance, in the micro-credit initiatives that are spreading in both developing and transition countries to address the needs of impoverished people who are judged un-bankable by traditional credit institutions (Becchetti and Costantini, 2006), or of new forms of enterprises providing social and communal services and re-integrating disadvantaged people into the workplace. In these cases it is clear that something needs to be added to the traditional idea of market exchanges and equilibrium patterns (Borzaga and Defourny, 2001; Nyssens, 2006). Nevertheless, when dealing with similar phenomena, most economic theories limit themselves to recognising the buffer-role allegedly played by these organisations. Contrary to this constrained approach, an analysis of economic systems must include all the different typologies of economic organisations, where the differentiation on the basis of their social content is a qualitative matter that cannot be dealt with just on the basis of the presence/absence dichotomy. A more flexible scheme is needed that is more likely to put organisational typologies on a continuum, where at some point non-profit seeking organisations are also found.

Hence, this chapter will pursue a twofold goal:

- To understand both the rationale of enterprises whose objective is not the maximisation of the profit and the economic value of the organisation.
- To verify the relevance of the social content of the objectives pursued by non-profit seeking organisations.

This is ultimately aimed at grasping the potential of non-capitalistic organisations as vehicles for economic development, especially at a local level.

The fact that economic theory devotes little attention to enterprises that are not investor-owned, as well as to enterprises which pursue social aims, can be traced back to the underestimation of certain phenomena which have recently enjoyed more attention. In particular, such phenomena include the diffused presence of market failures that can be managed by these forms of enterprises; the systematic presence (demonstrated by experimental and empirical research) of behaviour that is not self-interested in economic agents, and; the capability of enterprises to co-ordinate the action of different agents and steer them towards the solution of specific, not solely economic, problems. All these facts seem to undermine the traditional conception of the firm as a mere profit-maximiser, and to support instead a wider conception that sees firms as governance structures geared to co-ordinating economic actors.

Firms display adaptive behaviour and their objective is not necessarily profit, but more generally the creation of economic and social surplus. They look for opportunities to survive and expand, usually at the local level, but in some cases at the national and international levels. The dynamic of the system is steered by their surplus creating ability, which does not refer exclusively to profit, but also the remuneration of other factors of production, to the welfare-increasing potentials for stakeholders other than investors, and for society at large.

Generally speaking, firms can be seen as complex economic actors and problem-solving mechanisms able to adapt to local conditions, which draw their survival and growth potential from localised knowledge and motivations, and embody stakeholders' contributions to firm operation. At the same time, for-profits move from a self-interested approach in which agents maximise only their revenues towards a new and more complex approach which considers the existence of, at least partially, not-self-interested behaviour that is characterised by greater fairness and reciprocity with agents that are not interested only in monetary remuneration. The latter reflects a number of key elements of firm organisation and is better able to explain the development of organisations characterised also by a social aim, which may be explicitly articulated in the organisation's statutes or articles of incorporation.

A definition of the field

Organisations different from investor-owned/for-profit enterprises cover a wide range of organisational forms, which are regulated in various way, usually by national laws. National differences exist as a result of these different legal forms. The socio-political and cultural environments, economic circumstances, and the different degrees of development, all explain the specific organisational forms, namely co-operative, associative and foundational forms, as well as the remarkable increase in commercial enterprise characterised by a social concern (Galera, 2004).

Often, the historical origin of these organisations clarifies their social role. Many co-operatives have been created in the presence of a concentration of market power in order to reduce the damage undergone by the weak stakeholder. Situations of monopoly on the labour or product market, or of rationing on financial markets, are often the basis of co-operative experiences. The existence of non-profit organisations is also usually traced back to the presence of market and state failures in satisfying the demands of social and collective interests, within the criteria of reasonable cost and quality.

The main legal frameworks regulating non-profit organisations are the following:

Associations

Organisations of this kind are the result of a free decision of a group of people who decide to join together to collaborate in seeking a solution to a specific social problem, for example, to advocate either against the market (such as consumer associations), or against the state (such as associations of people asking for welfare benefits and services). Associations can be either general-interest (the class of beneficiaries differs from the one of promoters) or mutual-interest organisations (solidarity among the members is decisive) (Evers and Laville, 2004). These organisations have a variety of names (associations, voluntary organisations, non-governmental organisations, charitable institutions, etc.) in different countries. In countries where associations have been characterised mainly by advocacy and idealistic purposes (such as in Italy, Spain and Germany) they are often prevented from carrying out economic activities in a stable and continuous way. In countries where associations are allowed to produce and sell goods, they have increasingly turned into welfare providers (for example in France, where the associative form is committed to the provision of social and health-care services).

Foundations and trusts

Foundations and trusts are entities underpinned by an endowment from an individual or a group of people, often with the financial support of public bodies and private companies. Their aim is to accomplish specific goals decided by the founders, either for the benefit of a specific group of people or for the community at large. They developed mainly in Anglo-Saxon countries and are, above all, committed to the patronage of social, religious and educational activities, as well as general-interest activities. The main classification is between operating foundations and grant-making foundations. The former pursue their goals through the execution of activities; the latter are committed to grant support for the activities of other organisations.

Co-operatives

Co-operatives are enterprises where ownership rights are assigned to a specific category of agents other than investors (consumers, workers, or producers). They were historically capable of enhancing the ability of certain groups of people to protect their own interests and improve their standards of living. Under the co-operative heading various initiatives that are not explicitly called co-operatives, but which adopt closely related rules and practices may be included (for example, the Spanish *sociedades laborales).* Co-operative organisations developed in different sectors almost everywhere. Traditional co-operatives are mainly committed to members' promotion, while new co-operative forms are devoted also to the pursuit of general-interest goals (for example, the Italian social co-operatives, French *société cooperative d'intérêt collectif,* and co-operatives of social solidarity in Portugal).

Mutual aid societies

Mutual aid initiatives can be likened to a special case of co-operative organisations since they are owned by clients that are usually users of the services of the organisation (like mutual insurance). They were launched in the early nineteenth century to insure workers against work disability, sickness and to make provision for old age.[1] With the introduction of public compulsory insurance schemes, mutual societies were marginalised or institutionalised. Recently, new mutual aid societies have emerged in areas where public insurance schemes did not spread.

Whereas the associative form is equally widespread in civil and common law systems (although with changeable roles, such as advocacy in some cases and productive activities in others), other organisational forms show a more specific geographical diffusion. Foundations, charities and trusts are mostly found in the USA, the U.K. and Australia; whereas co-operative organisations and mutual companies have a stronger tradition in continental European countries. These organisations all pursue a goal other than profit; what distinguishes them are their specific organisational characteristics. The non-profit distribution constraint characterises foundations; member participation and a democratic nature are distinct features of both associations and co-operatives.

As far as co-operatives go, they can be regulated as for-profit or non-profit organisations. A main difference can be found between a number of European co-operative systems and the system in the USA. In Italy, for instance, co-operatives are regulated as quasi-non-profit organisations, whereas in the USA co-operatives are not regulated by any special legislation.

The aforementioned differences hamper the adoption of a common definition encompassing all these types of organisations acceptable at an international level. Different attempts have been made to define this multiplicity, including the following:

- In the USA the “non-profit” concept[2], is centred upon the criterion of the non-profit distribution constraint that underlines the American configuration of the sector. Attention has been paid mainly to organisational forms, other than co-operatives, especially foundations.
- In Europe the “social economy” concept has traditionally been focused on both associations and co-operatives. This approach has taken an analytical perspective which mainly considers organisations’ modes of action like participation, democracy, centrality of the members’ needs (Evers and Laville, 2004)[3].
- In scientific literature the “third sector” concept (or, by the EU commission, the “third system”) serves to overcome the differences between the many national models and to distinguish those organisations from publicly owned (the “state”) and private for-profit (the “market”) ones.

The two definitions mainly used in Europe and in the United States – social economy and non-profit sector – reflect different rationales. The institutional and normative approaches contributed to shaping the social economy concept, whereas the non-profit definition relies on tax exemption. Both approaches show a number of deficiencies, owing to their tendency to exclude some specific organisational forms from the realm of those taken into consideration.

Nevertheless, the current trend is towards a general convergence of the two approaches that have been recently favoured by structural changes and by the influence exerted by each tradition on the other one. It seems possible to utilise a unifying term for a concept capable of comprising the multiplicity of these organisations. Social economy is an appropriate term, for it is more comprehensive (it includes co-operatives) and underlines the productive aspect (it includes the term “economy”).

Moreover, social economy organisations used to be defined in the negative as “not-for-profit” organisations, underlining the exclusion of the profit motivation. However, the negative definition is too narrow and incomplete. The main difference between social economy organisations and for-profit enterprises is the overall aim of their activities, which in the case of social economy organisations has an explicit social dimension, rather than simply the pursuit of profit, and its distribution to owners, being the ultimate goal.

Roles and evolution of social economy organisations

The development of initiatives characterised by a new entrepreneurial spirit focused on social aims has recently contributed to the scientific and political debate on the social economy. Nevertheless, the social economy and the actors inside it have not yet reached a stable role and dimension (OECD, 1999). Indeed, a limited understanding of both the role played by these organisations, and their economic potential, still prevails.

As already emphasised, not all social economy organisations have an economic interest. The roles displayed can range from advocacy to income re-distribution or to production of goods and services. The advocacy action can be either directed at the state (normally welfare institutions), or at the market (as it is in the case of consumers' associations), whereas the re-distributive role (of monetary resources and others), which is especially displayed by foundations, allows for the collection and exploitation of resources which would not otherwise be allocated to public-benefit issues. The productive role consists mainly of the provision of communal services, often allocated to people unable to pay, as a result of donations, volunteers and public financial support. In the case of the advocacy or re-distributive roles, the most common organisations are traditional non-profit ones (especially voluntary organisations, associations and grant-making foundations). Whereas the productive role has been traditionally covered mainly by co-operative organisations, especially in contexts in which they are constrained profit distributors, although foundations, associations, and non-profit companies may also play this role to a lesser extent.

These three functions are not mutually exclusive; an organisation can indeed cover more than one function. Nevertheless, the trend is towards specialisation, specifically in consideration of the high costs connected with the management of different functions and the internal conflicts that can be generated. Until the 1970s, political organisations (such as trade unions, professional associations, local community groups, political parties and movements for human rights) were proportionately more important than social organisations operating in the economic area (organisations that provide social and personal health services, recreation, entertainment, etc.). In contrast, the former have increased much less than the latter in recent years (Schmitter and Trechsel, 2004). According to Schmitter and Trechsel, there is reason to believe that "traditional" organisations representing the interests of specific groups are merging and therefore decreasing in number. In this view, the dynamism can only be coming from entrepreneurs committed to new interests such as the production of cultural, educational, social and recreational services. Moreover, the increase in "unconventional" collective action by environmental, human and animal rights, feminist, anti-globalism and democracy movements – such as protests, petitions, boycotts and demonstrations – have transcended the boundaries of national policies (Schmitter and Trechsel, 2004).

This evolution in the role of organisations consists, on the one hand, of the shift of associations and foundations towards a more productive and entrepreneurial stance, resulting from the engagement of those organisations in the direct production of goods and services. This shift has assumed different patterns in different countries, depending on the role previously played by the sector, its size, and its relationship with the public sector (Bacchiega and Borzaga, 2003). On the other hand, a parallel evolutionary trend has involved co-operatives. Traditionally, the co-operative solution has been strongly related to the conditions of disadvantaged groups, such as in response to the needs of workers, consumers, and craft workers (Monzòn Campos, 1997; Borzaga and Defourny, 2001). This common condition of necessity induced groups of citizens affected by similar needs and interests to gather in order to find a common solution to a shared problem. This explains the creation of single-stakeholder co-operatives.

From the 1970s on, the change in the socio-economic conditions of advanced economies contributed to transforming the context in which the co-operative movement developed (Demoustier and Rousselière, 2005). The completion of markets gradually rendered the existence of co-operative organisations in a number of traditional fields less pressing than in the past. Moreover, the emergence of new needs which the market and the state have not satisfied has prompted the co-operative expansion into new fields of activity. This move stimulated the development of new co-operative models, characterised by the mixed nature of its membership, which are more suited to the production of welfare services (Borzaga and Mittone, 1997) and more similar to non-profit models.

Because co-operatives are progressively less centred on the interests of the members, and associations and foundations are becoming more entrepreneurial, traditional co-operative and associative models have begun to draw together. Furthermore, the peculiarity of the traditional co-operative solution started to re-emerge in transition countries, following 50 years marked by an approach that turned co-operatives into quasi-public enterprises. These developments stimulated the regrouping of the major traditional actors of the social economy, in addition to the diversification of approaches to understanding the nature and role of these organisations. In this respect, the new concept of the "social enterprise" has developed to encompass these changes.

The definition of social enterprise, which refers to both newly created and existing entrepreneurial organisations with a social dimension (Borzaga and Defourny, 2001), has come into use to distinguish the entrepreneurial forms characterised by a relevant degree of public benefit connotation from more traditional non-profit organisations. Social enterprises, which began to develop in the 1980s, are not normally engaged in advocacy activities as a major goal or in the redistribution of financial flows, rather they are primarily involved in the production of goods or the provision of services to people on a continual basis, with a social aim and normally with a non-profit distribution constraint.

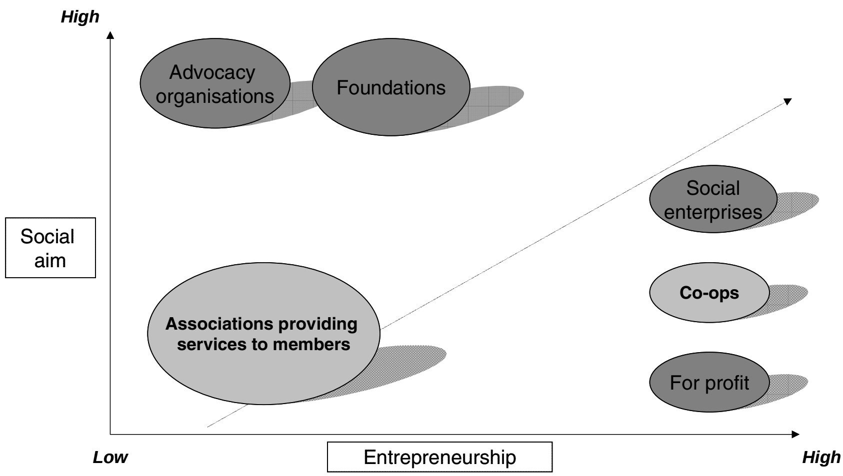
In conclusion, considering the marked differences amongst organisations (in terms of goals and economic value of the activities carried out) a classification synthesised along two different axes is provided (Figure 1.1). This classification allows for the positioning of social economy organisations also in relation to for-profit organisations:

- The horizontal axis measures the level of entrepreneurship from low to high: some of these organisations carry out entrepreneurial activities, even if they are not-for-profit; others pursue different functions, such as the aggregation of preferences and needs, re-distribution and advocacy.

- The vertical axis, from low to high, signals the degree of social vocation by ordering the organisational goals from mutual to public benefit: some not-for-profit organisations benefit the founders and the owners, providing them with goods and services, whilst others benefit people or groups, excluding the founders; a combination of the interests of founders/owners and external individuals may be found in still others.

The recent tendency shared by most not-for-profit organisations is to move right up toward a higher intensity of both entrepreneurship and social content. From a dynamic perspective, associations and foundations tend to strengthen both their entrepreneurial approach as well as their commitment towards the pursuit of general-interest goals. They do this as a result of the production of a wide range of services (hence the move right-up); co-operatives tend to move from the pursuit of the interests of members to the pursuit of more general-interest goals when they provide services also to stakeholders that are not part of their membership. For-profit enterprises are positioned on the bottom-right side of the graph, as they are characterised by a high level of entrepreneurship and self-interest orientation, aimed at benefiting shareholders. Nevertheless, the integration of social and environmental concerns in their business operations, resulting from new social and market pressures, tends to enhance their social responsibility. (Hence, the adoption of corporate social responsibility practices by for-profit enterprises and of accountability schemes by the managers of enterprises to their stakeholders).

Figure 1.1. Classification of social economy organisations



The framework resulting from the intersection of the aforementioned axes, complex in itself, is rendered even more varied by the different national and regional cultures and traditions that have contributed to shaping different approaches (Borzaga and Defourny, 2001). This evolutionary pattern, signalling the endorsement of a more and more pronounced economic and productive role, requires a renewed theoretical elaboration directed at providing a sound interpretation of this phenomenon.

The functioning of social economy organisations

To understand the functions of social economy organisations it is useful to clarify the principles on which they are based and how they are organised. The pursuit of public interest objectives determines organisational principles, and social economy organisations differ from for-profit firms in at least four respects.

Firstly, the founding aim (the principle underlying the start-up of social economy initiatives) is a response to an emerging need in society. Many organisational forms have appeared during the last two decades as a response to new social needs linked to the crisis of traditional family and social ties and to the difficulties public welfare institutions have in answering some of these needs. From the 1970s onwards, local groups and social activists gave rise to social economy initiatives mainly to serve the needs of the wider community. Examples include France’s companies specialising in labour market re-entry, special-interest associations and local neighbourhood councils; Italy’s social co-operatives and social enterprises; Germany’s employment and training corporations; Belgium’s on-the-job training companies and workshops; the United Kingdom’s community businesses and community interest companies; and, Canada’s community development corporations (Borzaga and Defourny, 2001; Nyssens, 2006). Common social, political and ideological goals can contribute to different extents to enhancing collective identity and the cohesiveness of a group. More specifically, a number of experiments – primarily of the co-operative type – have often been part of vast politically inspired undertakings (Defourny, Develtere and Foneneau, 1999).

Secondly, the presence of allocation principles based on solidarity and reciprocity. As already emphasised, social-economy initiatives operate at least in part according to the principle of solidarity and reciprocity. Therefore, exchanges among different agents also take place when the exchange does not comply with an equivalence relation. This aspect characterises social economy organisations as opposed to for-profit enterprises that are, in contrast, structured so as to prevent third parties from gaining net advantages and to ensure the allocation of the residual gain to the owners. Through social economy initiatives, social relationships based on a non-contractual principle of economic action are established. The exchange, which results from this allocation system, generates benefits also in favour of beneficiaries external to the owners. Hence a distributive function is displayed (Bacchiega and Borzaga, 2003).

Thirdly, the inclusion of participation modalities and a democratic decision-making process in the organisational structure. Democracy in the decision-making process refers theoretically to the rule of “one person, one vote” as opposed to “one share, one vote”, or at least to a strict limit on the number of votes per member in self-governing organisations. This principle implies the primacy of workers or consumers over capital. Only foundations – less dynamic in recent years – do not adhere to this principle. By contrast, new organisations tend to enlarge the participation by a multi-stakeholder membership.

Fourthly, a plurality of resources. Operating differently from for-profit and public organisations, social economy organisations must rely on different sources of revenue originating from the market, non-market and non-monetary economy. In other words, social economy organisations generally rely on a mix of paid and volunteer human resources and on a mix of financial resources generated by the sale of goods and services, by public support (in the form of contracts, fiscal advantages and direct subsidies) and by private donations (Evers and Laville, 2004).

Since social economy organisations follow these principles, they and their recent development are widely acknowledged as an effective way to channel social creativity and to enhance democracy, as they have been proven to contribute to innovative service delivery and social cohesion enhancement. Social innovation initiatives have been shown to be particularly suited to addressing new and urgent social concerns affecting a number of vulnerable social categories. Moreover, they have also contributed to giving shape to the aspirations of social movements (for instance environmental groups and feminist movements). Empirical studies provide evidence of the dimensional growth of social economy initiatives in many European countries (Demoustier and Rousselière, 2005). From a political perspective, social economy organisations have proven to be successful in promoting new forms of local democratic participation and empowerment, owing to their capacity to contribute to a participatory democracy wherein citizens can actively express their commitment to economic and social development and civic life in their country.

What is still controversial is the economic rationale of these organisations. Hence, the need for an explanatory key, capable of grasping on the one hand the economic strength and potential of organisations placed in this category, and explaining, on the other hand, the different roles played by these organisations in the economic system.

After the description of social economy organisations' features, it is now time to ask if economic theory is able to explain those features. To understand the economic role played by organisations explicitly pursuing a social goal, such as social economy organisations, one should introduce two extensions with respect to the mainstream approach. They concern the theory of the firm and the interpretation of economic behaviour and will be presented in the following sections.

The social economy and the evolution of the economic theory of the firm

Until 20 years ago, economic theory described firms as production functions aimed at maximising profit; there was no room for the explanation of these organisations. It claimed that social economy organisations, such as co-operatives and non-profits, had a marginal and residual role in market economies. This point of view was supported by counterfactual deductive results, such as in the case of the Ward (1958) model for co-operatives. However, counterfactual results have never been supported by empirical evidence (Bonin, Jones and Putterman, 1993) and the residual role of social economy organisations is an assumption that lacks empirical confirmation.

A synthetic review of the literature so far will contribute to a new and more comprehensive perspective. The first step in reconstructing a theory of social economy organisations was made possible by the development of new institutional economics and the transaction costs theory (Williamson, 1975; 1985). The development of the theory of the firm within the realm of new institutional school can be traced back to Coase's 1937 article "The Nature of the Firm" and was subsequently developed by Alchian and Demsetz (1972) and Jensen and Meckling (1976; 1979). Starting from standard assumptions on maximising behaviour by self-seeking individuals, it tries to "open the black box" constituted by the conception of the firm as a production function and to explain in positive terms the reasons why hierarchical organisations (firms) constitute a better solution than market exchanges on efficiency grounds. Coase (1937) points out that market transactions are not necessarily the most efficient way to co-ordinate agents interested in a particular transaction. He shows how, in a number of cases, it should be preferable to replace markets with a complex organisation. Production inside a hierarchical organisation may incur lower total costs than market costs (transaction costs), justifying the abandonment of free exchanges.

Different authors developed this intuition further, albeit in different directions. Alchian and Demsetz (1972) ascribe the major motivation underpinning the creation of firms (which they identify with for-profit enterprises), to problems connected with the assessment of individual effort in teamwork and the connected spread of free riding. Teamwork may be the most efficient solution when production processes are not divisible. However, it becomes possible only when adequate controls are put in place. In order to prevent controllers from free riding, they should be given the right to gain the residual earnings, spurring their willingness to run the firm efficiently. This incentive is at the heart of property rights, which assigns the right to take strategic decisions and to decide on all the other non-contracted issues, like the destination of its benefits, to a strict minority. In this sense, the assignment of the ownership of the enterprise to investors is implicitly the most efficient solution. Consequently, social economy organisations will find no room to strive and prosper.

Further developments of the theory of the firm came with the property rights school, which deepened the understanding of the role of ownership in defining incentives for economic actors and in supporting efficiency.

Authors such as Grossman and Hart (1986), and Hart and Moore (1996) focused on the causal relation between factor specificity and ownership rights. Ownership rights are assigned to the most specific factor, which, were it not the controlling factor, would be the most likely to undergo morally hazardous behaviour by the other factors of production, since it is the least likely to leave the firm.

The recognition of ownership rights as a pillar in the study of the nature of the enterprise was the starting point of a new theoretical scheme, which was capable of explaining the emergence of different kinds of enterprises in market economies. In this respect, the approach mainly linked to Hansmann stands out. His model, put forward in *The Ownership of Enterprise* (1996), starts from the acknowledgement that the sum of transaction costs (the costs of contracting with non-controlling stakeholders plus the costs connected with the ownership of the firm) defines the emergence and the relative survival rate of different organisational forms in market settings. Surviving organisations incur lower total costs (a brief technical overview of the Hansmann's scheme is in Appendix A).

In this way, the new institutional tradition delivered the most relevant interpretations of the nature and role of firms operating in the social economy. In Hansmann's view, organisations, other than for-profit enterprises, emerge because they are able to minimise costs more efficiently, reaching a superior second best solution. The emergence of co-operatives and non-profits happens because of efficiency criteria. Hence, the Hansmann model emphasises a peculiar mode of organising production, which can be the most efficient when a number of conditions occur. These conditions relate to the level of development of markets and their failures, as well as to the typology of incentives required to render exchanges efficient.

However, in Hansmann's view, the role of social economy organisations is supposed to lessen when markets become more competitive and failures become less frequent, since in the absence of market failures the only organisational form considered capable of reaching efficient solutions is the for-profit firm. Therefore, co-operatives and non-profits are considered transitional organisational forms, which spread when market imperfections are sufficiently severe and tend to disappear when market exchanges are better regulated and competition tends to become perfect. The reason is to be found mainly in the high grade of complexity, which characterises their decision-making processes (Borzaga and Tortia, 2006). Governance costs are low only when members have homogeneous preferences, but this condition will not suffice in the general case, and will stand as an exception. Generally, co-operatives and non-profits are characterised by higher governance costs than for-profit enterprises, incurring a conspicuous competitive disadvantage. Firms operating in the social economy can succeed in reaching high efficiency standards only when the stakeholders of the enterprise share homogeneous characteristics and preferences, this being due to the lessening of ownership costs. Whilst, on the contrary, capitalist members in for-profit enterprises have more homogeneous and well defined objectives (mainly profit) and are able to reach quicker and effective decisions.

Hansmann's theory succeeds in explaining the birth and development of a relevant number of co-operatives and non-profit organisations, highlighting their ability in specific cases to minimise the costs inherent in market contracting and ownership. Nevertheless, his analysis is not exhaustive, for it is not capable of explaining social economy evolution at least with respect to the last two decades. His investigation fails indeed to explain the revitalisation of co-operative social commitment and the efficient and competitive development of some co-operatives and co-operative groups, which were born within contexts of market failures. Moreover, when applied to traditional experiences, this approach fails to explain the development of those co-operatives and non-profits driven by idealistic and ideological motivations, and not simply prompted by severe market failures.

Another critique of Hansmann's approach is that organisational forms tend to be taken for granted and the importance of organisational dynamics is underplayed. The only criteria taken as relevant in explaining organisational survival are market exchanges but this seems to be a limited perspective since the plurality of organisational objectives and actors' motivations deserves a far richer picture than that which Hansmann offers.

Furthermore, his conclusions are denied by a number of limitations inherent in for-profit, investor owned enterprises which cannot be simply overcome by the completion of markets. The possibility to discriminate over prices is one example, since, in the presence of asymmetric information, it will be made possible only by the strong involvement of the beneficiaries and clients in the management of the enterprise (Borsio, 1982).

Hansmann also understates the fact that co-operatives and non-profits can show superior characteristics of efficiency connected to the nature of the production process implemented, even when product and factor markets do not show pronounced imperfections, as it happens when labour is the strategic and most specific factor of production (such as in professional partnerships).

The existence of organisations characterised by the non-profit distribution constraint derives from the existence of market failures due to the presence of asymmetric information on the product market according to Hansmann. Non-profit organisations would be better able to reinforce trust relations with their clients in the presence of market failures than for-profit firms. However, Hansmann never comes to terms with the possibility that the actors governing non-profits, but also co-operatives, are led by motivations other than self-interested ones. In many cases, asymmetric information can be counteracted by reputation and the non-profit distribution constraint is an imperfect indicator of the firm trustworthiness. Indeed, it is not able to halt morally hazardous behaviour, for example, by managers and workers. An improvement of the explanation of the existence of social economy organisations must focus on internal agency relations (Borzaga, 2003).

Labour contract incompleteness is particularly evident in the sector of social services, where social economy organisations usually operate. The relational and non-standardised nature of services provided requires worker involvement and makes hierarchical control and monetary incentives ineffective. Worker participation and autonomy can improve service quality. The social nature of social economy enterprises, and the presence of the non-profit distributing constraint, would allow a different form of worker involvement that is based on the limitation of hierarchical control and of the weight of monetary incentives, which are dominant in more traditional organisational forms like for-profit ones. It is clear, however, that the distinguishing elements are not found in asymmetric information, but in the particular characteristics of the services provided: multidimensionality, high relational intensity, and labour contract incompleteness (Borzaga, 2003).

These features are hard to define as mere market failures insofar as they simply define a specific class of services. The completion of markets does not seem sufficient to ensure the dominance of for-profit firms. More fundamentally, the spread of non-profit organisations in sectors in which for-profit firms do not reach efficient solutions shows the emergence of “not-for-profit” markets, justifying the ontological distinction between the very concept of “the market” and the for-profit firm (Zamagni, 2005). This is why it is necessary to improve the explanation of the reasons why social economy organisations emerge, and why they are able to reach efficiency and counteract free-riding and moral hazards. The new institutional theory of the firm is deficient insofar as it does not take into consideration non-self-interested behaviour and motivations other than purely egoistical ones. It is not able to go beyond the assumptions in which the for-profit economy is founded.

Important contributions to the theory of the firm, which can be used to understand social economy enterprises, came also from the evolutionary stream. Starting from the pioneering works by Penrose (1958), Cyert and March (1963), Simon (1951), and Nelson and Winter (1982), the evolutionary stream stresses the importance of bounded rationality, routines and dynamic capabilities as the crucial elements supporting organisational evolution, survival and competitive potentials. This research tradition views the firm as a problem solver, adapting itself to the environment in order to increase its survival potentials. The stress put on the necessity to develop adaptive capabilities is worth mentioning, since it opens the door to the study of organisational embeddedness and local development. The localised character of knowledge and dynamic capabilities prevents firms from maximising overarching objective functions, but allows them to define their survival niche, that may not be endangered by intense national and international competition. Hence the maximisation of profits and the minimisation of costs are not necessary any more as objectives of the firm. Survival is the key explanatory concept, but the objectives may differ in different kinds of organisation, and the production of economic and social surplus is compatible with very different degrees of net surplus (profits) and costs.[4] Embeddedness (Granovetter, 1985) and localised knowledge (Polanyi, 1967; Antonelli, 1999) become cornerstones in the explanation of why new organisational forms can strive and spread even when they undergo severe competition by traditional forms. This side of the firm behaviour was hardly ever taken into consideration by traditional theories of the firm. It constitutes a research field still in its infancy, whose development potentials are important.

A further consequence is that the choice between different organisational forms is more complex than what is granted by transaction costs theory. Cost minimisation is a crucial criterion, but market failures are not the only factor explaining the emergence of co-operatives and non-profit organisations. In many instances, different potentially competitive solutions are available. Organisational objectives, product characteristics, factor specificity, scale and governance arrangements play a central role. Therefore, organisations need to be autonomous in their choice of the best solutions to pursue their objective, keeping in mind that stakeholder preferences cannot be outplayed from economic explanations. Survival can be explained by different criteria, which favours the complexity of institutional and organisational evolution. Different organisational forms can work out different modalities favouring survival potentials. Hence, different organisational forms will develop different incentive mixes suitable for the pursuit of their own specific goals (Bacchiega and Borzaga, 2001; 2003).

This more complex and flexible vision, putting surplus production centre stage, focuses on production objectives, actors' motivations and governance forms far more than traditional approaches. A new perspective is thereby developed which accounts for the existence of social economy enterprises. However, it needs to be complemented by further critical reflections on the traditional economic approaches. The characterisations of the economic agents participating in entrepreneurial ventures have to be deepened, highlighting their motivational complexity, which cannot be reduced to the influence of monetary incentives. The role of monetary incentives itself needs to be better defined and put in the right context in comparison to other typologies of motivation. The motivational complexity then needs to be studied in relation to the governance of the organisation and the nature of the production activities that are carried out (for example, commercial versus social and/or welfare activities).

Social economy organisations and the relevance of not-self interested motivations

Traditional economic explanations of the existence of complex organisations such as firms, including the one provided by Hansmann and by a part of evolutionary economics, are all based on the assumption of self-seeking individuals. This approach used to be criticised by other disciplines outside economics, and more recently also by experimental economics. Recent developments in economic analysis have started to overcome this major limitation. The inception of the change was triggered by experimental developments (Fehr and Schmidt, 2001) concerning, for example, the ultimatum game[5] and the investment game[6], but also many other experimental settings, and showing that the traditional assumption of self-seeking individuals is utterly unrealistic. Human behaviour is driven not only by the aim to maximise expected utility without any regard to the rules of the game and to the fairness of realised results. Rules exert a crucial influence on results, and a high percentage of players put a very high value on the equity of outcomes. Self-seeking behaviour appears to be a special case, rather than the rule followed by the individuals, and actual outcomes of strategic interaction are hard to predict at the micro-level, showing important variations also when pooled at the population level. Different conceptions of procedural and distributive justice can lead to different outcomes. Culture plays a crucial role as well since the same experiments, most typically the ultimatum game, lead to substantially different results in different ethnical and cultural environments. Given these new robust results, the premises of the traditional economic theory and the theory of the firm seem to be either ill-grounded or at the very least too restrictive.

A new and rich theoretical literature was born with experimental results and the interpretation and rigorous explanation of them. Theories concerning fairness and reciprocity tried to explain fair behaviour based on altruism (Becker, 1974), psychological games and kindness (Rabin, 1993), and inequity aversion (Fehr and Schmidt, 1999). More recently, other authors (Grimalda and Sacconi, 2005) described ethical preferences as conformism to an ideology or a code of conduct. The acceptance of a certain set of rules will have relevant behavioural consequences only if actors expect other players to comply as well. A further and more traditional stream of research focuses on the prescriptive nature of moral norms: the Kantian categorical imperative underpins moral behaviour, which can overcome inferior Nash equilibriums and reach Pareto-optimal outcomes (Sen, 1977).

Indeed, a long list of contributions in economics have tried to explain why experiments modelling the ultimatum game and the prisoners' dilemma often see the players co-operating, while traditional economic theories predicted non-cooperative behaviour, as represented analytically by the Nash equilibrium.[7] On the one hand, the Kantian argument, based on the idea of the categorical imperative that would induce the agents to co-operate also in one-shot games when it would not be in their interest to do so, is one possible solution. On the other hand, the concept of reciprocity helps as well: people co-operate even when it is not in their interest to do so if they expect the other interacting party to co-operate as well. Free-riding when the other party co-operates would inflict a moral cost that can be more painful to bear than the simple economic cost. Hence, it does not come as a surprise to find many players in experimental settings who punish free-riders even when this strategy is costly to them, Pareto inferior in terms of traditional economic theory. The inability of traditional theory to explain actual economic behaviour requires a restart in the study of individual behaviour.[8]

A first synthesis of the new results is found in Ben-Ner and Putterman's (1999) description of individual behaviour as led by three different types of preferences: self- regarding, other-regarding and process regarding. *Self-regarding preferences* characterise the self-seeking economic individual; they concern the individual's own consumption and other outcomes. *Other-regarding preferences* concern altruism and the identification between individual motivations and aims with collective or social aims. *Process-regarding preferences* concern the manner in which the individual in question, and others, behave, including the way in which they attain outcomes of interest. Process regarding preferences may be thought of as values or codes of conduct. Individual preferences and behaviour co-evolve with organisational processes: organisations cannot be thought of without an individual initiative, actions, participation, compliance, etc.. At the same time, organisational values mould individual behaviour and influence preferences. The emergence and sustainability of institutions grows with the degree of matching between individual motivations and organisational behaviour and aims. Indeed, the stricter the correspondence between individual preferences and organisational objectives the higher the probability of survival and dissemination. Also institutional design can help improve the correspondence between individual motivations and institutions that mediate organisational behaviour. Even if it is not possible to predict the overall systemic equilibrium induced by new institutions, equilibrium will be reached thanks to the "invisible hand" of social processes, while individual initiative and explicit design will set new starting conditions.

This strand of the economic literature is relevant for the development of the theory of social economy organisations also because it was linked to the study of non-profit organisations. The relevance of intrinsically motivated and ideological agents in the setting-up of non-profits has been examined by Rose-Ackerman (1996) and by Young (1983, 1997). They deepened the role of ideological motivations in non-profit entrepreneurship highlighting the features of many initiatives with a clear economic content, but harshly at odds with the more orthodox economic doctrines. At the empirical level, the role of not-self-interested motivations has been evidenced by various contributions which have taken into consideration both non-profit organisations and for-profit firms. Leete (2000) shows that wage dispersion in American non-profits is much lower than in for-profit firms, though the average wage level is similar between the two ownership forms. Benz (2005), studying both the American and the UK economies, shows that workers in non-profit organisations are on average more satisfied than workers in for-profit firms.

Toward a new explanation of social economy organisations

These developments, concerning the theory of the firm and organisational behaviour, together with the richer description of individual motivation, can support a new conception of the firm able to explain satisfactorily the emergence of social economy enterprises. It relies on the idea of the firm as an *incentive structure*. An incentive structure can be defined as a mix of constraints and rewards offered to the relevant stakeholders of the organisation. Constraints can be established by law and differ according to the legal form adopted, or they can be voluntarily determined by the organisation itself. Rewards may be of different kinds: economic and non-economic, monetary and non-monetary. In this context, incentives are not understood only in the classic way, as a way to induce agents to follow the decisions of the controlling group even when they are moved by contrasting interests. Instead, incentives, which can be monetary but also non-monetary such as in the case of participation, can also be viewed as supporting co-operative attitudes like the ones that clearly emerge from the new experimental and theoretical literature. Fairness can be interpreted as meta-criteria, or a synthesis of the different incentives, which serves to measure the "goodness of fit" of the organisational setting with respect to individual motivations and objectives, and with respect to their interaction. According to this view, different incentives, both monetary and non-monetary, act together in creating an organisational setting that is perceived to be fair by the actors involved. This way, increased well-being (Tortia, 2006) favours the spontaneous acceptance of the organisations' goals and proves effective in reducing the risks arising from asymmetric information and opportunistic behaviour.

Organisational forms differ because they are characterised by different goals and, as a consequence, by different incentive mixes. For-profit enterprises tend to stress the importance of monetary rewards and need a hierarchical organisation in order to implement them, while co-operatives and non-profit organisations derive their strength from the social goal pursued, inclusiveness, and the democratic nature of the governance structure. Relational and intrinsic components of the incentive mix are added to the more traditional – extrinsic and monetary – ones. Different ownership structures and organisational goals tend to attract agents driven by motivations coherent with organisational objectives. At the experimental and theoretical levels, economists have studied a wide array of different incentive structures. For example, hierarchical relationships and monetary rewards have been studied in the milieu of ultimatum games and gift-exchange games[9], while democratic and flat governance structures often pose problems near to the private production of collective and common goods. In this case, public good games, prisoners' dilemmas and trust games are used in experiments to understand the conditions for the sustainability of co-operation in the short and in the long run (*i.e.* in one-shot versus repeated games). In general terms, experimental results are coherent with the new conception of the firm defended in this study, since co-operation, fairness and reciprocity are widespread features of the final outcomes, contradicting the individualist paradigm of self-interested individuals that would more often lead to non-cooperative results. Also, some empirical studies have led to important results favouring the same conception of the firm.

Organisational behaviour cannot be studied at the experimental level, but important results have been reached by means of surveys specifically designed to study incentive mixes used by different organisational forms. Happiness research has demonstrated that self-reported satisfaction scores and other subjective evaluations can be used as a proxy for the performance of organisations in affecting (improving or decreasing) the welfare of stakeholders directly linked to its operation (such as workers, managers, clients and donors) (Oswald, 1997; Frey and Stutzer, 2002). This methodology was applied in various research concerning non-profit organisations. In this context, the behaviour of non-profit managers and volunteers and donors represented a new and fruitful field of enquire (Marino, 2003; Marino, Michelutti and Shenkel, 2003; Cafiero and

Giannelli, 2003). Volunteers' motivations show a high level of complexity too, where idealistic motivations co-exist with more self-interested objectives. Some of these studies analysed managerial pay structures, finding quite strong differences between managers of different ownership forms. The lowest paid were managers in non-profits who were not, however, less satisfied than those equally ranked in other organisational forms.

With regards to workers, data from the Italian social service sector evidenced a lower wage level, but this result may be due to the younger average age of non-profit organisations, first and foremost of social co-operatives. When workers' motivations, incentive mixes, and well-being are taken into consideration, the recent results go in the direction that is being highlighted. Borzaga and Depedri (2005) and Borzaga and Tortia (2006) worked on a dataset concerning the social service sector in Italy. Self-reported worker satisfaction scores were used to proxy the incentive structures put in place by different organisational forms (public, non-profit, and for-profit). Worker satisfaction was also influenced by elements different from monetary rewards. Self-regarding objectives are an important component of individual satisfaction, but other-regarding objectives, the processes of decision making and individual growth played a crucial role as well. The fairness in the distribution of resources and in the procedures followed appeared to influence crucially the organisations ability to motivate its members and employees, and to improve performance. They show also that the incentive structures and control modalities found in social economy organisations (social co-operatives and other non-profit organisations) are different from those adopted by for-profit enterprises and public bodies. Co-operatives and non-profit organisations base their incentive structure on intrinsic and relational aspects, together with a focus on democracy and involvement in the governance structure of the firm. For-profit firms seem to privilege professional growth and incentive schemes based on monetary incentives and career advancement. Public bodies rely instead on monetary incentives, while involvement processes appear to be weak. Overall, workers in non-profit organisations and co-operatives are the most satisfied, even if differences with for-profit firms are not strong in many dimensions, while workers in public bodies are the least satisfied, and negative differences are often conspicuous and significant. Finally, Tortia (2006), working on the same dataset, shows that the perception of fair procedures is the main determinants of well-being at work, implying a relational component in worker well-being that is absent in traditional economic theorising. Perceived procedural fairness is higher in social co-operatives than in the other ownership forms. More traditional non-profit organisations (foundations and associations) show values of perceived fairness that are in between the ones of social co-operatives and for-profit firms, while the public sector records the lowest scores.

A second important finding was that workers' overall satisfaction with their job was crucially influenced by their motivation. More motivated workers, mainly at the intrinsic and relational level, are more satisfied with their job, while workers driven by mere economic motivations tend to be less satisfied. The motivational factor therefore emerges as crucial in defining the relation between the worker and the organisation. Incentive mixes are more likely to be successful when workers are driven by motivations coherent with the firm objectives and mode of operation. However, the results concerning motivation cannot be generalised, since workers in the social service sector are likely to be driven by motivations that are markedly different with respect to other sectors. The low wage level is likely to frustrate economic motivations, while intrinsic motivations, and the social character of the firm, strengthens relational motivations.

Good incentive mixes are likely to strengthen the relationship between the workers and the organisation: workers satisfied about the way the firm behaves tend to be more loyal. In this field, the key variables appear to be connected with relational aspects, worker involvement and remuneration. The overall emerging picture is that intrinsic motivations are important in attracting workers towards a specific organisation, making them "happier" about organisational behaviour, but are not sufficient to make them more loyal if other, more extrinsic elements, such as pay levels, are not satisfactory.

In addition, perceived fairness of organisational processes exerts a strong positive effect on worker job satisfaction. Procedural fairness, in terms of transparency and equity of decisions taken by the management and in terms of the quality of information given to workers, is the most significant variable influencing worker satisfaction. In addition, distributive fairness, that is the equity of worker remuneration in absolute and relative terms, is important in explaining workers' welfare on the job, though to a lesser degree than procedural fairness. Fairness, both procedural and distributive, plays a central role in explaining loyalty: workers perceiving higher degrees of fairness tend to be more loyal. Hence, the key explanation of loyalty appears to be satisfaction and fairness, while motivations do not play a relevant role. These results highlight that many elements beyond mere self-interested behaviour are at play in explaining workers' welfare on the job and their loyalty. Once again, the exclusive focus on self-seeking behaviour by traditional economic theories appears not to be sustained empirically.

The first normative conclusion emerging from these results is that organisations focusing exclusively on self-interested and extrinsic motivations, with no regard to involvement, relational and intrinsic motivations, are likely to fail to obtain valuable behavioural responses from the different stakeholders. When intrinsic motivations are crowded out by monetary incentives (Frey, 1997) the willingness of managers and workers to exert effort and fulfil the organisations' objectives is likely to decrease, not to increase. The second normative conclusion is that the conception of the firm as a problem solving device that works out suitable mixes of incentives, both monetary and non-monetary, and is able to motivate its stakeholder starting from their motivations is confirmed by empirical research and represents a richer depiction of its nature and operation than more traditional approaches.

Social economy organisations exist because they seem able to mix goals and incentives, giving rise to a variety of organisational and governance forms. Thus, when the activity involves allocative rules favouring disadvantaged clients and users, a re-distributive component is implied and the incentive structure is designed to enhance the loyalty of donors and volunteers. In contrast, when the productive stance prevails, a more mutualistic solution is expected and controlling rights tend to be allocated to the group of stakeholders mostly affected by contractual failures (workers, managers, volunteers).

However, most social economy organisations often combine a redistributive aim with the necessity of coping with market and organisational failures. They expect to operate efficiently if they implement incentive structures capable of both reducing contractual costs and guaranteeing essential resources from a mix of different sources: public subsidies or contracts, donations, voluntary work, but also "labour donations" from workers and managers. Accordingly, control rights in these organisations are often allocated not to a single group of stakeholders, but to a plurality of them, as workers and volunteers, workers and consumers, workers and donors.

The overall picture that emerges from recent experimental and empirical tests is one of a theory of the firm in need of profound restructuring, aimed at rendering it both more general and more realistic. Research concerning social economy organisations has paved the way for this restructuring and constitutes a privileged field of inquiry, providing evident observations of the departure from traditional schemes. Hence, it is a research field worth pursuing to obtain valid policy recommendations, for example, in the field of institutional design.

Social economy organisations and economic development

The evolutionary perspective leads to a conception of the firm as a problem solving device, which adapts itself to its surrounding environment and uses localised knowledge in order to pursue specific production objectives. Added to this picture, is the idea that firms devise specific incentive mixes that motivate the actors involved (stakeholders) to pursue organisational objectives. Firm competitive potential and survival possibilities will increase together with the ability of incentive mixes to strengthen the relationship between the organisation and its stakeholders. Incentive mixes emerge as the key link between stakeholders and an organisation, and represent the main adaptive modality used by the firm to pursue its objectives.

Economic theory can now include the role of social economy organisations in economic development, both at a general level and also locally. Generally speaking, following the interpretation defended in this chapter, the existence of social economy organisations and their dissemination should secure a reduction in transaction costs. There will be a maximisation of exchanges with a reduction of economic production costs, thus supporting economic development. First of all, social economy organisations contribute to lower transaction costs in the presence of market failures, which are particularly pronounced when markets are still under-developed and not competitive, and when they are very high due to product specificities, often in the presence of asymmetric information. The multi-stakeholder governance of production can reduce transaction costs by reducing asymmetric information and reducing confrontation between contrasting objectives. Social economy organisations, by renouncing the profit motive, are in a better position to reconcile the interests of stakeholders which are different from investors. They can also help to reduce monetary costs of production by acting on motivations different from purely economic and monetary ones. By giving a place back to intrinsic motivations in production (Frey, 1997) they consent to lower prices. Furthermore, they allow exchanges without equivalents (in the presence of redistribution of resources) and favour production and exchanges taking place in situations where for-profit firms would not be able to operate (social services, collective goods, etc.). Finally, they favour the creation of trust relations and the accumulation of social capital. Horizontal co-ordination and participation inside the organisation are also likely to have positive spill-over at the social level.

The role of local interaction between the firm and its surrounding environment cannot be downplayed any more as a mere casual and unnecessary contingency. The study of the interaction between the firm and the territory is a necessary extension of a new theory of the firm. Motivations and demands for development coming from the locality will influence the behaviour of stakeholders in the realm of the operation of the firm. Hence, there will be a need for the firm to take into serious consideration localised knowledge and the motivations of the actors approaching the firm if it is to be able to adapt its incentive mix suitably, and therefore reinforce relationships with its stakeholders.

The most suitable concept of local development usable in this context is one in which development is not merely the growth of aggregate variables, such as production and employment, but is the composite result of demands and needs coming from social actors (to which the firm needs to find an answer). A bottom-up approach to local development, where development is the endogenous result of objectives expressed at the local level, has been recently put forward by some authors (Sugden and Wilson, 2002; Sacchetti and Sugden, 2002). Its integration in the conception of the firm and in the role of social economy organisations is now required.

Social economy organisations seem able to interpret this new perspective, since they are likely to put a stronger stress on motivations and demands (both self-interested and other-regarding) coming from actors present in the locality. This kind of sensitivity seems to be rarer in organisations strongly based on hierarchical control, where motivations and demands coming from local actors remain widely unexpressed.

Conclusion

The chapter has been devoted to highlighting the historical and theoretical elements that support the idea that social economy organisations are not just a marginal phenomenon observed in the presence of state and market failures, but are instead innovative governance solutions that add social content to the traditional forms of social interaction. It has been demonstrated that the inability of economic theory to explain the emergence of these organisations is to be attributed to the limitations of the theory itself. More recent theoretical and experimental results are contributing to overcoming these limitations. Among them, the most notable and relevant to explaining the observed plurality of ownership and organisational forms are to be found in the evolutionary theory of the firm, and in a different way of stylising individual behaviour. The limitation of the profit motive is, in this sense, instrumental to the introduction of new and wider objectives which favour the flourishing of individual and group behaviour based on intrinsic and pro-social motivations, effectively bypassing the narrow maximisation of the economic value of the organisation.

This new scheme is relevant both to advanced economies, where a lack of social involvement by production organisations has been stressed by diverse research approaches (just think of the literature on corporate social responsibility or the growing literature on local development and multi-stakeholder organisations), and in developing and transition economies, where market and state failures are particularly pronounced. In such economies information is all the more imperfect and social economy organisations can represent a vector of development insofar as they can overcome such failures, re-distribute resources in favour of disadvantaged social groups, and produce meritorious goods favouring the strengthening of social cohesion and the accumulation of social capital.

Annex 1. A brief resumé of the Hansmann model

In Hansmann's (1996) scheme, firm specific transactions are amenable to different categories of stakeholders or patrons, who can interact with the firm via contractual (market) relationships, or ownership (control) rights. Non-controlling stakeholders will incur contract (market) costs in their transactions with the firm, while controlling stakeholders will incur ownership (control) costs. Contractual costs originate from ex-ante market power (monopoly and monopsony), ex-post market power (lock-in) and asymmetric information. Ownership costs are linked to monitoring activities, collective decision-making mechanisms and entrepreneurial risk taking. Given these hypotheses, Hansmann states that the efficient allocation of property rights is the result of a process of cost minimisation, where total costs are the sum of contract and ownership costs. Given N and the different classes of stakeholders, the efficient solution happens when ownership is enjoyed by the category of stakeholder minimising:

$$OC_j + \sum_{i=1}^{j-1} CC_i$$

Where OC_j are ownership costs for the j stakeholder class, and CC_i are contract costs for all the other stakeholder classes.

The existence of different organisational forms depends on some organisations minimising costs when capital suppliers enjoy control rights, while in other organisations costs are minimised when other categories of patrons (such as workers, clients, savers or producers) enjoy control rights. In the latter case we observe the development of co-operative organisational forms. When the organisation undergoes severe information asymmetries on the product or labour market and contracts are highly incomplete, it can be convenient not to assign control rights to any category of stakeholder. This is the case of non-profit organisations.

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Notes

1. One of the most typical examples is represented by the Italian *società di mutuo soccorso,* which used to deliver traditional welfare services to disadvantaged social groups and were quite widespread before the Second World War when the national welfare system had not yet been created.

2. This is embodied in the John Hopkins University studies of the non-profit sector's synthetic dimension.

3. Concerning the second definition, the combination of the two terms *social* and *economy* witnesses the attempt, made by a minor component of non-traditional economics, to re-embed the economy into society, following its separation by mainstream economics from the 18th century onwards. Historically, this term first appeared in France in the 19th century both as a concept and as an ensemble of practices and institutions. It was understood either as the enhancement of political economy by liberals like Charles Dunoyer (1830), as the substitute for political economy (by socialists and Christians), or as comprising political economy (Proudhon's social science) or, finally, as a complement to pure economics, identifying with the overall rise of public economics (Walras, 1896; Gide 1905; Demoustier and Rousselière, 2005). Thus, in Europe the modern social economy was actually forged, not by any single 19th century current of thought but, rather, by the interplay of its leading ideologies (Defourny, Develtere and Foneneau, 1999). The concept almost disappeared in the 20th century because of the implementation of the welfare state, which reached its peak during the period 1945-1975. The term re-appeared in the 1970s, interacting with the other two definitions of Third Sector and non-profit sector (Demoustier and Rousselière, 2005). This re-emergence occurred, by co-incidence, with the decline in the rates of economic growth and the rise of unemployment, which were the origin of the difficulties in European welfare systems (Borzaga and Defourny, 2001).

4. Higher costs can be compatible with a higher surplus if revenues grow more than costs. Conversely, net surplus (profits) are a bad indicator of the survival potential of an organisation, since different organisations may have to meet very different constraints in terms of investments, while the total surplus (net surplus plus labour and capital remuneration) is a much better proxy of the health of an organisation and of its ability to satisfy the stakeholders' needs, and therefore to survive and prosper.

5. In the ultimatum game two players decide about the division of a certain amount of money. The first mover (the proposer) can choose the share they prefer. The second mover (the responder) can only decide to accept

the division proposed or refuse. In the latter case both players get nothing. Orthodox economic assumptions require the responder to accept any offer higher than nothing, even when it is very low. Many experimental observations show that too unequal divisions are often refused by responders, contradicting orthodox assumptions concerning self-regarding preferences. Experimental evidence has been explained mainly by admitting that economic agents do not care only about the absolute amount of the pay-off received, but also about the fairness of distribution. Proposers may fear retaliation if the responders feel humiliated, but they may also consider a fair distribution desirable in itself. Hence, players take into consideration also the procedures followed and the choice made by the other players.

6. In the basic version of the investment game there are two players who interact sequentially. The first mover owns a certain amount of money; they can decide to keep it for themselves or to give all or part of it to the second mover. The part donated to the second mover (the investment) increases its value making it Pareto-optimal to invest the whole amount of money. However, the second mover does not need to pay back the sum they receive. Standard assumptions on self-seeking individuals would predict zero investment, because the first mover anticipates the choice of the second mover, who would retain the whole amount donated. Experimental evidence is again in stark contrast with this prediction since players usually invest a significant amount of money, and get back sums that, on average, are equal or higher than the sums invested. Fairness and reciprocity are likely to play a key role in this case too.

7. For a good review of the literature the reader can consult, for example, Hargreaves-Heap and Varoufakis (2004).

8. While in a static setting experimental results are harshly at odds with economic theory, dynamic and evolutionary models provide a more flexible tool, though the formal and conceptual complexity of the analysis has not yet allowed definite results to emerge. For a very recent contribution in the field of evolutionary game theory showing that co-operation in sequential prisoners' dilemma or trust games is the only stable equilibrium the reader can consult Andreozzi (2007).

9. Gift exchange games are usually interpreted to describe a contractual exchange between an employer and an employee. The employer has to fix the employee's salary within a predefined range. After the wage has been fixed, the employee decides autonomously what level of effort to deliver. They could deliver the minimum level of effort and the wage would not be reduced, since it is fixed in advance of the choice. Experimental evidence shows a strong positive relation between the wage offered by the employer and the level of effort delivered by the employee. Orthodox

economic models would predict that employees always deliver the minimum level of effort, since they do not undergo any risk of wage reduction. Predicting this reaction, the employer would fix the minimum wage.

Chapter 2.

The Social Economy in the New Political Economic Context

by
Peter Lloyd

The importance of the social economy is evidenced by its position on local, regional, national and even international agendas at a time when old political and economic certainties have given way to "New Times" – with uncertainties and instabilities rooted in the economic changes taking place and the political events which have marked the twenty-first century. The changes that have taken, and are taking place must also be put into the wider context of not only the European Union, but also the international context of a world post 11 September 2001, the polarisation which accompanied it, and the dominance of neo-liberal economic discourse. It is the task of this brief chapter to review the social economy under these circumstances and to explore the potential roles which the social economy may play, and the pitfalls which accompany such roles. Recognising the importance of culture on the development of the social economy, this chapter briefly considers the different paths which the social economy may pursue within the current political and economic contexts.

Introduction: The "new political economic context"

In the words of the ancient Chinese curse we may be said to be "living in interesting times". This is not least because we continue to witness the same *fin de siècle*-type events that led earlier writers to describe similar periods in history as characterised by the old certainties breaking down whilst a process of intensive change was also being ushered in. Joseph Schumpeter (1939), for example, characterised such an historical stage as a "wave of creative destruction"; and long wave, long-cycle theorists have rolled forward Kondratieff's (1926) model to see present times as the end of a more than fifty year phase of relative stability turning into a phase of experimentation and structural readjustment. More recently, political economists and philosophers have been debating as a time when one long established regime (Fordism) is being transformed into another (Post Fordism or Flexible Specialisation) or when Simple Modernism is giving way to Post-Modernism or Other Modernisms (Aitken, n.d.; Beck, 1992; Beck, Giddens and Lash, 1994). We are then in a new political economic context, or, "New Times", whichever way you look at it. Add into the macro-mix of grand theories, the cataclysmic effects of 11 September 2001, the re-emergence of politics that polarise secularists and fundamentalists, and a private economy that seems unable to detach itself from the future consequences of growing debt, and the sheer instability of our "interesting times" is starkly revealed.

It is the task of this brief chapter to review the social economy under these circumstances – a challenge indeed when one considers the fervency of the debates and the polarity of critical positions that all this involves. Yet it is right to say that one of the features of the contemporary scene is that the social economy (and its co-referents – the third sector, civil society, the welfare state and so on) are very much part of the agenda whether at the international, national, regional or local level. Far from there being a decline in interest in those key questions that fundamentally shaped 18th and19th Century debates about politics, economy and society, the same discussions have burrowed their way into the most unlikely corners of current public and academic life in one guise or another.

In dealing with the potential span of the material for this chapter it is necessary to make some brutal choices at the outset. First, there will be no attempt to enter the minefield of broad definitions of the social economy. Others in the volume have a brief to do this and needed additions will be tackled as they emerge. Second, this will be very much a European perspective – but one strongly influenced by emerging debates in the author's home country (the U.K.). Third, it will be an eclectic view – not wittingly leaning toward a particular notion of better or best. This last point is vital, since there is no one story, no one clear cut exemplar for what is happening to the social economy. *Context*, in the sense of history, geography and socio-political and economic culture, is seen here not just as something that "gets in the way" of clear understanding but as something that is intrinsic and critical to how things have evolved and how they can be expected to develop in the future. Although helpful in terms of a general approach to the social economy, such an understanding clearly makes it difficult, in a short piece like this to bridge the yawning gap between abstract theory (of which there is a great deal in the literature) and on-the-ground experience (of which there is also a great deal). On this subject the author is clear about one thing – whilst what follows is shaped by an awareness of the relevant theoretical debates – what is being brought to the table in this particular chapter is more from the experience of practice.

Some markers for conditions in contemporary Europe

While it is impossible to be in any sense comprehensive, there is a need to set some starting conditions for where we are in Europe – particularly those features that might have special relevance for the social economy. A few points will suffice:

Slow growth and geographical inequality

From a European Union (EU) perspective the economy is continuing to under-perform in relation both to the ambitions the EU has set for itself and against those major world economic blocs that set the global standard for competitive performance. Unemployment, for example, remains stubbornly high. Across the EU15 it increased from 7.8% to 8.1% between 2002-03 and, although there was a slight downward trend for the prospective new member states over the same period (from 14.9% to 14.5%) it was inevitable that accession would increase overall unemployment for an enlarged EU25 (Mlady, 2004). In March 2007 the EU27 unemployment rate was 7.2%, down from levels of 8% and 8.9% in the same month in 2006 and 2005 (Eurostat, 2005; 2007). Of course there are wide variations within the average – state to state, region to region, urban to rural and so on (Eurostat, 2006) – but set against the ambitions of the European Employment Strategy and the Lisbon Council Accords for a drive to full employment – it is clear that there remains a long way to go (CEC, 2004a).

Closely associated with slow progress on reducing unemployment, levels of inequality also remain high and intractable. The Cohesion Countries of the South within the EU15 have made huge strides to catch up

(CEC, 2004b) but a gap still remains, and the accession of new member states whose average GDP per capita is much lower across the board is a further threat to overall cohesion at EU level (CEC, 2005). At the level of regions, the scale of achievement under the influence of the Structural Funds has, once again, been considerable but there is still much unemployment and much social and economic exclusion in many old industrial centres, some city regions and rural settings. The future of the Structural Funds after 2007 is a particularly hot political topic currently as the implications of resource flows inevitably shifting to the new arrivals from Central East and South Eastern Europe become better understood. In the urban and rural life worlds of contemporary Europe the prospect of rising inequalities in life chances has been an ever-present issue. In New Times, however, rural-urban differences seem likely to be more rather than less significant as the era of subsidies to farmers gives way to one focused around less tangible policies for rural development.

And, finally of course, there is the heroic act of EU enlargement with its enormous consequences – in terms both of opportunities and threats – for the new members and the old EU15 (Kok, 2003). While on the one hand, new members means new markets and hence growth potential for all of the EU economies, on the other hand there will be serious pressures in terms of absorbing and addressing increased inequality. In other words, many of the same "headline issues" that have always been problematic will be brought into the fold in a significantly more extreme form because, as already noted, the new member states bring in high levels of unemployment and low GDP per capita. At the very least this is already having knock-on effects on the old EU15 in terms of the post-2006 allocation of those Structural Funds that have done so much to address their own issues of unemployment and social exclusion for the last 30 years. As we shall go on to show, this can be expected to have a profound effect on those third sector and social economy organisations that have blossomed under sponsorship from the Community Initiatives and experimental programmes.

Demographic ageing

Were these pressures for the expanded EU not enough, there is the spectre of what might be characterised as "the elephant in the room" – the huge and potentially serious effects of demographic ageing (CEC, 2002; Walker and Maltby, 1997). This will have its impact across the board – but for the South within the EU15 group it will be a particular problem. The question of ageing is being assiduously taken up at the moment – but mostly as an issue of pensions and the public expenditure costs of caring for people living into extreme old age. The current agonising over Harz4 in Germany and "35 Hours" in France are, in part, driven by the way dependency ratios (numbers of people working and drawing a wage in relation to those outside the active workforce) are falling and the costs of state supported pensions are projected to rise dramatically. The pressure is being felt by employers through rising non-wage costs of labour, by citizens in high taxes and by member states though the fiscal burdens they are increasingly being forced to bear (Blackman, *et al.*, 2001; Osterle, 2001).

More widely, Europe's ageing population will have significant ramifications for competitiveness (Culhane, 2001). The potential for a real shortfall of available young workers as the average age rises is one such issue that has provoked a flood of recent policy documents with the phrase "active ageing" in the title or main contents. Translated in some cases as perhaps "the activation of the ageing population" (CEC, 2004a), the narrow focus is on encouraging older people to work longer by raising the retirement age and removing the incentives to earlier retirement (one of which is, of course, a guaranteed state pension at a reasonable level). More positively, however, active ageing is also promoted as a way of removing the barriers that prevent a largely healthier and more active older population from continuing to make an appropriate contribution to the economy and civic society.

Migration within the EU

While demographic ageing (as opposed to unemployment and poverty) is less of an issue in the new member states themselves, the prospect of substantial migration to the EU15 also offers both opportunities and threats (see Salt, 2005) On the one hand, new young incomers can help to ameliorate the labour market effects of ageing domestic populations. On the other hand, without careful handling, the sorts of stresses that can arise – particularly in the major cities – can exacerbate those problems of social exclusion that have been a key policy issue in the last two decades. For the supplier countries the effects of out-migration that selects the young, qualified and mobile can also have a significant impact on the economic health of particular regions and localities.

All of these challenges – unemployment, inequality, the effects of ageing and the knock-on effects of enlargement – are of particular significance to the way we look at the contribution of the social economy and local development to modern Europe. Before doing this, however, we need briefly to go back to the political economy of a Europe in transition.

Neo-Liberalism and growing pressures on the European social model

While claims that we are experiencing the "end of history" are overdrawn, it is clear that liberal capitalism has achieved its "victory" over socialism as a world transforming ideology. Most agree that the doom-laden rhetoric associated with globalisation has been exaggerated, nevertheless global market forces penetrate virtually every corner of the earth – setting a challenge for competitiveness that all must respond to (Tickell and Peck, 2003). In this increasingly *neo-liberal* world order the social policy prescriptions of the European Social Democratic compromise have come under intense pressure. The classic welfare state model is being set aside in many member states in favour of a hidden welfare state of tax expenditures, incentives and regulations. This has, in turn, changed the role of the state and its agencies in those countries from welfare state guarantor to regulator, grant-giver and public service market maker. This, as we shall go on to see, can have a profound effect on how the contribution of the social economy is understood. We need to be reminded, however, that not all countries are proceeding down this track at the same speed and in the same way. There are profound variations across each of the welfare state regimes – Scandinavian, Anglo-Saxon, Continental and Southern – identified in the literature (Esping-Anderson, 1996).

In the face of these trends towards the hegemony of market forces, it might have been anticipated that holding onto those values that privilege common purpose, co-operation and solidarity (*i.e.* those that characterise social economy approaches) over individualism, meritocracy and competitive rivalry would be more difficult. But an equally powerful argument can also be employed in reverse – that these are precisely the circumstances under which social and moral values are most likely to be re-evaluated and re-asserted. It is one of the helpful insights from abstract theory that a key feature of periods of "regime change" (such as our current New Times, as described in the introduction to this chapter) is the amount of what Peck and Tickell (1995) call "institutional searching" that takes place. In other words, there is inevitably a great deal of activity and interest focussed on finding a new mode of social regulation that can help society at large cope with the collateral or "reflexive" (Beck, Giddens and Lash, 1994) effects of the new economic regime as inequalities show a tendency to rise and pressures on the stability of civil society increase.

What we seem to be witnessing then is a situation in which debates about the social economy (along with discourses about the "third system", "third sector" or "third way") have a significant role to play in this contemporary process of institutional search and experimentation. What is particularly interesting here is that aspects of the social economy (though all of the protagonists may not be willing to recognise this label) are being debated at all levels from the international (OECD) and the European (European Commission), through significantly different national perspectives, to regions and localities. While the "challenge to Social Europe" is a popular slogan for EU level debates, other critical debates about economy and society have a French, Nordic or Anglo-Saxon cultural flavour for example, or are set at national or regional level depending on different relevant priorities. Above all, the last decade has seen intensely *local* debates about how wider non-market and common purpose issues like social justice, the quality of life and the environment are to be dealt with in the context of New Times. These debates are usually about devices for mediating the malign effects of the open marketplace while still capturing the benefits of free trade. They are often also about the dominance of exchange over use values when many critical needs do not so readily translate themselves into bankable market opportunities for orthodox business.

Where stands the social economy?

A radical alternative or non-challenging adjustment mechanism?

Despite the above claim that debates bringing the social economy into policy discourse have by no means gone away, it is hard to answer categorically the question of "Where stands the social economy?" posed in the heading to this section. The only reasonable answer – as the chapter goes on to show – is that "it depends on what you are talking about and where you are". In some European countries the phrase "social economy" is probably rarely heard in the corridors of power. By contrast, in others (*e.g.* France, Spain, Belgium, Italy, Ireland) it is part of the *lingua franca* of everyday discourse. This is not to say that the topics for debate are necessarily so variable from country to country – more that the "social economy" as a label is differentially regarded – often as a result of past experiences and the baggage that comes from history (Borzaga and Defourny, 2001; Borzaga and Spear, 2004).

One general feature that can be observed, however, is that debates about the nature and role of the social economy in contemporary society tend to revolve around whether it represents a *real alternative* to the hegemonic (often described as "American") project of neo-liberalisation or is simply a part of the "institutional searching" (Peck and Tickell, 1995) that is going on *within* that project. Put another way: "Is the social economy predominantly seen as the basis for a radical grand narrative or a more limited "toolkit" to fix the social problems that arise out of the return to increasingly unfettered market forces?"

Without wanting to address such a grand question in full in this chapter, it is perhaps one of the least controversial stances to take as an observer of practice that, while the radical alternative proposition is by no means dead and has its strong supporters, the version of the social economy that offers little in the way of challenge to the dominant liberal capitalist ideology is, by far, the easiest to recognise. A review of the "grey" (ephemeral and usually policy-related) literature by any method will, for example, show that the term "social economy" is widely (and often loosely) used across a huge variety of contexts and subjects – so much so that popular definition in the practitioner world tends to be derived more from a "sense of what it is about" – taken from regular exposure to the use of the term in descriptions of projects and policy initiatives.

This is not to say that there are not volumes of copy available offering a formal (if rarely unchallenged) statement of what the term social economy might actually represent. It is simply that empirical observation most often reveals the social economy in policy terms as an *instrumental* device for addressing objectives that are usually distinctly pragmatic. Indeed, given the *local* focus for some of the debates, we are not just dealing with "grand narratives" but a host of more on-the-ground issues that reflect the pressures of ordinary people's lives. The focus of the social economy as an instrument of policy is more often than not on places where there is market failure of one kind or another (for example, in relation to the environment, personal and social services, and business and personal finance) and on segments of the population (such as ethnic minorities, women, migrants, the long-term unemployed, disabled people and so on) that are disadvantaged in access to paid jobs (Spear, *et al.,* 2001). Sitting behind these popularly received definitions in policy practice are, more often than not, experimental grant-funded European or national programmes where the objective has been to engineer some form of innovative action whilst sharing experiences from place to place. Institutional searching at the micro-scale has significantly raised the profile of "partnership" forms in some sort of loosely defined "social economy approach".

The roles and the players – filing gaps and tackling welfare issues but offering a different sort of economy

As to defining the sorts of organisations that constitute this social economy defined in policy practice, these are closely connected with those that inhabit the third sector in general. The label "third sector" covers a wider entity that, in European terms at least, includes a multiplicity of stakeholders from associations, through charities, foundations, trusts, mutuals, and not-for-profit companies to (and this is the source of some debate – see CIRIEC, 1999; Evers and Laville, 2004a) member and producer co-operatives. Within this, bodies that have an ambition to create a different sort of economy – one that has a different approach to the organisation of work and production and the distribution of surplus – constitute the formally defined social economy. Looked at in legal terms we might identify associations, co-operatives, mutual aid societies and foundations as those that most readily adopt these more economic roles. Under contemporary circumstances, it is these sorts of organisations that figure most in getting excluded people into jobs, filling local gaps in personal and social services, lowering business transaction costs, dealing with waste disposal and recycling, tackling environmental sustainability and so on. Theory would demand more rigour and qualification but in the world of practice these sorts of organisations doing these sorts of tasks would be more likely than not the recognised players in the social economy.

A conduit for voice, participation and democratic engagement

Since, for the most part, the funders for the actions described above are governments and the tasks required are those that any good government would aspire to taking on in the most effective possible manner, it might be argued that there is no *a priori* whiff of radicalism here – just an alternative (social economy) way of marshalling new social forms to find solutions to pressing problems. Where, however, there is more evidence of room for radical or alternative intent is that the social economy approach brings into play issues about voice, participation, democratic engagement, partnership, empowerment, etc.. This may be inside the organisation itself (worker rights, gender inclusion and family friendly policies for example), in the relations between the organisation and its customer, client or beneficiary base (the service ethos) and in the wider context of the "proper" role of the state in relation to private business and the third sector (welfare mix and welfare pluralism). Such aspects call up the "real stuff" of traditional debates on the social economy *per se* as an alternative ideology that privileges solidaristic working, social and distributive justice and quality of life and the environment over the demands of the free market. It is at least in a world of dominant neo-liberal ideology a place where such debates can continue to take place.

Much of this social economy discourse is, of course, caught up with other kinds of discussions – about the decentralisation of power, about "bottom up" and local forms of representative and participative democracy, about giving voice to minority groups, about allowing gender and race issues an appropriate platform, about creating appropriate sites for debates about quality of life and the environment. In some places these are wrapped up under the social economy heading but this is relatively unusual. It is nevertheless clear that, whenever the root values for the social economy or its constituent organisations are set out, matters of solidarity, trust and inclusiveness lie at the heart of it. Despite the narrow instrumental objectives that often define their executive and, in particular, grant-funded actions, the trustee organisations of the social economy are drawn in by definition to uphold values that privilege the democratic and inclusive approach and social values over individualism and market forces.

During a decade of European funding for bottom up local partnership approaches to employment and development, large numbers of projects dealing with market failures, lacunae in public service provision, inequalities of well being and economic inclusion have been engineered into place as a deliberate act of policy. It can be argued that through the creation of these sorts of convivial spaces, both action and debate has contributed to the "bubbling away" of conversations (especially at local level) about wider issues of economy, society and distributional justice. In this sense, then, the instrumental agenda of creating jobs, fostering inclusion and tackling local market failures has had the positive collateral effect of contributing to, and widening, social and political discourse. In some cases there has even been a deliberate, policy driven, attempt to use voice and empowerment strategies to install a measurable quantum of social or civil capital (Blunkett, 2003; LRDP Ltd, 2002) in particular places.

Complexity, hybridisation and the indeterminacy of long run outcomes

The practical answer to the question in the section heading as to whether the social economy is a radical alternative or non-threatening adjustment mechanism is of course "both" and "simultaneously". This is an answer, unfortunately, likely to convince proponents of grand narrative theories only of the shallowness of mere practitioners. What we seem most able to see, however, is a process in motion with a great deal of indeterminacy in the outcome. It is sheer complexity that renders it difficult to know with any degree of confidence "how the social economy stands" in the contemporary political context. From this perspective, we are looking at the social economy as *a mixed and pluralistic model* that involves a variety of stakeholders and which is being played out across a huge variety of contexts and continues to take shape. It is, for example, increasingly replete with hybrid forms linking private, state and third sector players in different ways (Evers and Laville, 2004b). This makes the social economy not so much a definable sector in its own right, but more a set of "intermediating processes" (Laville and Nyssens, 2001) that work through arrangements of association, partnership, stake holding, joint venturing, co-contracting, mutual support and so on. It does play a critical role in ameliorating the collateral damage that emerges as a new economic regime is bedded in – especially if that regime is strongly focused on liberal and individualistic values, free markets, unconstrained capital flows and global reach – but it would be hard to promote this as a crucible of radical thinking. Equally it is perhaps too simplistic to see the social economy as the polar opposite – that is, just as a *naïve* collaborator in Jessop's (2002) "flanking strategy" whereby support for neo-liberalism is sustained by addressing the dysfunctional elements of neo-liberalism with non-market based solutions, effectively helping to take the sharpest edges off the malign effects of a regressive market driven process.

In the same vein, Peck and Tickell (2002, cited in Graefe, 2004) might be drawn to see the social economy in the contemporary world as a Trojan horse facilitating "the marketisation of the social realm" – that is the penetration of what was traditionally the sphere of publicly delivered public services and the third sector by market based forms of contracting and exchange.[1] One of the often expressed fears here is of "isomorphism" – of the variety being drawn out of the process of creative, radical and wide-ranging discourses and actions in favour of narrow and increasingly orthodox prescriptions for the evolution of social economy forms (Laville, *et al.*, 1999). There seems little doubt that substantial pressures do exist for the organisations of the social economy to be both "better businesses" where they can aspire to that label and "more businesslike" if they cannot. Whether this is a strong enough impulse widely to deserve the isomorphism label is a moot point, especially given the earlier consideration that even the most prosaic and instrumental actions can still provide convivial spaces for local debate. As we go on to show, however, these issues are more sharply defined in the UK social enterprise model and there is perhaps rather more concern about the dangers of isomorphism.

Moreover, even the strongest supporters of the social economy can have little defence against arguments that they should make better use of resources, organise themselves more efficiently, treat their workers and volunteers well and serve their clients at quality. The real threat implied in the isomorphism debate is whether doing any or all of these things has a significant effect on organisations' *social and moral ethos* and/or impacts on the issue of *in whose interests* they act when the hardest choices have to be made. Grand narratives of strategies within the neo-liberal project should make us wary of false prospectuses by governments and private businesses but they are not by themselves sufficient to deny the value added that, as the next section shows, has been created in concrete contexts by the introduction of social economy organisations.

The social economy: an identifiable source of value-added for new times

While we will return to more fundamental questions about the status of the social economy in the conclusion, the next section makes an attempt, again from an empirical rather than theoretical viewpoint, to visualise which parts of the contemporary economy have been most effectively colonised by social economy organisations. It looks at where the social economy has already bedded itself in successfully and then speculates on where those EU-level trends outlined at the start of the chapter are likely to take it in the future. In a previous work (see Lloyd, 2004) the activity spaces most effectively colonised were identified as: bottom up and local approaches to social exclusion; providing platforms for insertion jobs; and filling service-gaps and prospecting for new jobs sources. The present section will now use those same activity headings: a) to take a brief look back at niches already occupied by the social economy; and, b) to look forward to speculate on where this capacity and experience might be developed in the future.

"Bottom-up" and local approaches to social exclusion

A resource bank of local social economy initiatives

During the 1990s the organisations of the social economy, as we have described them above, found themselves straying onto a surprisingly large area of fertile ground. They appeared, in particular, to have a special ability to satisfy growing local demands for bottom-up approaches that offered appropriate ways to get people into social enterprises, co-operatives, trusts and local partnership bodies in general (Lloyd and Ramsden, 2000). In particular, the organisations of the social economy revealed their special value as a device for fostering *multi-stakeholder collaboration* and for mobilising it to address the needs of the more deprived local communities. This way, the public and private sectors could engage more constructively with social partners and community organisations in a concerted attempt to solve *locally,* those problems that either the state alone or market forces had failed adequately to address. The capacity to take a more co-ordinated and organic approach to socio-economic and urban/rural development by bringing together such hybrid coalitions of partners seemed to offer genuine value added both by getting better substantive results and, in parallel, by building local social capital and enhanced relations of trust between people (Lloyd, *et al.,* 1996).

Although there is great variation across the EU, governments have become more convinced of the value of the role played by local partnerships, associations, mutuals, co-operatives, social enterprises and the like, to tackle aspects of deprivation. Indeed, it is a feature of the European system of multi-level governance that the local has been given a degree of privileged attention in EU guidance and in many EU member states there has been a flowering of these sorts of organisations. In some areas there can even be said to be a "crowded platform" of local and social economy organisations jostling each other for the attention of the funding authorities. Many of them are identifiable as complex organisations – those "hybrids" that Evers and Laville (2004b) describe as representing the new dynamic of the social economy. A significant resource bank of local and social economy initiatives has been put in place and despite the existence of those continually grinding issues that naturally arise from the juxtaposition of different values and mindsets, Europe confronts New Times having in place a wealth of learned local experience.

A buffer against future social and spatial exclusion and demographic ageing

Under current and likely future circumstances none of the pressures that find local people (particularly the poorest people in the poorest areas) confronting multiple problems have become less significant.[2] In some countries, like the UK for instance, social inequality has become more prominent and social mobility reduced. It is one of the fears associated with the turn to neo-liberalism that this may be destined to increase more widely. Europe's major cities may be expected to face special difficulties as they experience new waves of in-migration while still coping with their long-standing problems of social exclusion. The new EU member states will, of course, present issues of multiple deprivations on a scale not previously known in the history of the EU. The expansion of social economy solutions is, then, a channel with real potential significantly to repay the effort invested in it thus far.

What a *futures* perspective needs also to emphasise, of course, is the general impact of European demography itself on the shape and form of social and spatial inequality. We have already pointed, for example, to the issue of demographic ageing. While this is a more pressing issue for the established EU members than the newer ones, nothing in the Union, especially where it impinges on welfare and the resources assigned to it, is outside the bounds of its effects. For the needed resources to find their way to the EU 10+2, the EU15 must address the demographic ageing issue as it confronts them. There is, therefore, a pressing need for them to find ways to be more sensitive to what must be done and to be more creative in deciding ("institutional searching again") how to go about it. Critical though this is, the issue of demographic ageing is not reducible to one of "pensions and care" nor is it solely about finding ways to keep older people in paid work longer. Significantly, it presents opportunities as well as threats. Viewed from a social economy perspective, older people have a long tradition of supplying volunteer labour (both in the family and in society at large). If one of the demands for the future is to find ways for this valued input to be willingly given and appropriately rewarded then some prime solutions are likely to be both *local and within a social economy context*. The sorts of organisations best used will need to be flexible and sensitive enough to mobilise and manage this important, but discerning, human resource. While the established third sector organisations that lobby on behalf of older people will have a critical role to play, the door needs to be thrown wide open within the wider social economy and at local level to recognise this considerable opportunity for what it is.

A source of sensitivity to the complexities of micro-scale social forms

The free movement of labour is enshrined in the basic principles of the EU and while it has been politically convenient in some quarters to exaggerate the amounts of cross-border migration that are likely to arise once the new member states are fully integrated, substantial movement between and within countries will take place. Migration is, then, another feature of demography that needs to be taken on board in a futures view of the role of the social economy. While, according to Wanner (2004, cited in Salt, 2005), the impact of migration on the labour force and the wider economy will be "somewhere between broadly neutral and mildly positive at the aggregate level", this masks those sorts of impacts at *local level* that might well be far from "broadly neutral and mildly positive". Salt (2005) makes it clear that, as he quaintly puts it, "recorded foreigners are urban creatures" and that many of the less skilled among them will arrive and find themselves living out their lives in the inner areas of Europe's major cities. This will place more stress on precisely those geographical areas where multiple deprivation is already a feature and where, as noted earlier, social economy organisations have colonised the empty spaces where state support has been inadequately sensitive to meet those pressures and sources of conflict that arise. It has been one of the successes of the social economy that it has been able to play an acknowledged role in multi-faith, multi-ethnic and multi-cultural communities where the orthodox institutions of the central or local state have been neither flexible enough nor "worldly-wise" enough to be able to cope with fast and complex change. There is no hint here of a diminution of the demand for local social economy organisations that can help build civic and social capital for the future in these zones of urban transition.

A reality check - the dominance of macro-scale issues and questions of sustainability

If there is a downside to this somewhat rosy-hued view both of the capacity and opportunity of local social economy organisations to play an enhanced role in the future, it is that national and supranational interest in the local appears to have waned in the face of concerns such as: security post 11 September 2001; the national heart searching over the European Constitution; the dash for growth in the knowledge intensive industries in the Lisbon process; the threats to the European model coming from globalisation; the pensions crisis; and the competitive effects of the non-wage costs of labour. Local and more grounded concerns about people and their lives seem to have given way to more macro-scale debates and to inter-governmental bargaining. The advent of the open method of co-ordination as the transmission mechanism for European policy and practice has had both positive and negative effects on local and social economy bodies. In a positive sense it has served to feed the transfer of innovation and creativity from government to government and local organisation to local organisation. In a negative sense it has once again enabled national administrations to "frame the boundaries of the possible" – limiting the power of the European institutions more directly to influence actions through those experimental funding programmes that boosted the social economy in the past (see Wallace 2001). A critical difficulty, as we shall go on to show later, is that these macro-political shifts in the EU have also made it far more difficult to find the sustainable means to finance the huge population of particularly locally based experimental initiatives, of which the social economy was a part of, seeded across Europe in the last decade.

The social economy as a provider of insertion jobs

An established player in work activation and job insertion programmes

A second fertile policy ground for the growth of the social economy and its organisations during the last decade was a product of the persistence of unemployment across the EU. The inability of the formal economy to provide jobs in sufficiently large numbers opened the door to those socially motivated organisations dedicated to the creation of "insertion jobs", usually short-term state sponsored employment dedicated to overcoming the barriers that keep people out of the labour market. While many of the social economy organisations drawn in to meet this need are locally based (and were described in the previous section) others operated nationally, regionally and by industrial or occupational sector. Particularly at this larger scale, social economy organisations became associated with national work activation programmes. Unemployed and socially excluded groups were drawn into time-bound programmes of training, occupational integration and work-placement and it was a particular property of social economy bodies that they were "closer" to the so-called target groups. Many, both new and older, established, players in the third sector and social economy captured a key role here (Borzaga and Defourny, 2001). This was not simply by virtue of their social motivation and history but also by virtue of their real capacity to deliver these sorts of schemes to governments at scale. In the terms of our earlier discussion about "marketising the social realm", many of these organisations had to become more flexible and businesslike in their ambitions to be in a position contractually to fill a public service requirement.

Taking a futures perspective, work activation is destined to become an established part of mainstream state policy. Unemployment continues to persist and even at the peak of the cycle there are particular groups and localities where unemployment is likely to remain an endemic part of everyday life. The ability of organisations with a social mission but a businesslike orientation to carry the work activation role in the communities where it is needed is clearly established. Indeed, there is a "bankable" opportunity for the social economy and its organisations to continue to colonise this terrain – though in some countries the private sector has also become a major competitor. In many European member states this element of the public service has already been positioned as part of a *mixed economy of public service delivery* configured as a market. It forms a critical platform on which those *hybrids* of the emerging social economy are working out their future strategies and dealing with the paradoxes implied in being "market led but values driven".

While in a sense the issue of work activation is a continuing policy process where the social economy has developed a powerful position, the issue of active ageing is one that will begin to pick up momentum in the years ahead. Insertion jobs here have an entirely different character and one that should lead the organisations of the social economy to pay particular attention. Policy support for getting older people who want jobs into work might be expected to be different in many ways from the orthodox. The sensitivity needed and the tendency toward time and space limitations in older persons' job seeking should, of course, play to the strengths of social economy organisations and offer a clear inducement for them to take a leading role.

The social economy as service gap-filler and a device to "prospect for new jobs"

An instrument for local action to fill unmet service needs

A third feature of the potential social economy portfolio that has captured competitive weight as a tool in providing policy solutions came from attempts to address three long-standing but always changing problems: i) a rising demand for social, personal and community services; ii) a need to find ways to meet these demands while constraining levels of direct state expenditure and rates of taxation; and, iii) the persistence of spatially localised pockets of deprivation where these service gaps are extreme regardless of the economic cycle (Borzaga, 1999). The European Commission's *Local Development and Employment Initiative* (LDEI) was the fountainhead for new ideas about the use of local enterprises (both private and social) to create sustainable employment (CEC, 1995; 1996). What LDEI introduced was the idea that local action could be taken to search out new job slots to fill unmet service needs chiefly in the caring, environment and leisure and cultural sectors – what Laville (1999) calls the "sheltered economy".

A key player for the future in a mixed economy of service delivery

During the last two decades social economy organisations have increasingly been drawn in to occupy the spaces deserted by or overlooked by a hard-pressed public sector. In the process many have taken on a role as entrepreneurial producers of collective services at one remove (or more) from the public sector. In particular, they have found themselves able to diversify the supply of services and mould it to increasingly complex demands, adding to the overall availability of resources for such services and creating jobs into the bargain. These activities tend to fall into three broad service groups (Campbell, 1999):

- Those produced as a result of rights recognised by law and which are therefore financed by the state (or for which the state provides public insurance), regardless of whether the provider is public, private or third sector. Examples of these are health services, education, services for the disabled, basic employment services and so on.

- Those for individual consumption but which also produce some collective benefits ("collective" or "merit" services), and which may therefore be financed at least partly out of public or charitable funds.

Examples of these are child-care centres, home care services for the elderly and disabled, job search support.

- Those that are dedicated to the person or the family with a high "relational" content - that is they depend for their usefulness on the quality of the relationship between producer and consumer. Examples of these would again be home and elder care services.

Cutting across these categories, the organisations of the social economy have found themselves particularly well able to respond to gaps in what are called *proximity services* – those with a very localised content in the sense that they are based on regularly needed things – postal collection, home meals delivery for the old and the disabled, ephemeral shopping, local transport and so on.

In its hybrid forms the social economy can play a role in any or all of these three broad service types, as an alternative to, or in partnership with public or private organisations. From the demand side it can foster the emergence of unexpressed needs, both personal and social. From the supply side it can organise and produce some services more efficiently than public or private providers thanks to the specific advantages it enjoys. In practice, however, the reliance of social economy organisations on public financing has often limited their scope to that of prime contractors for the public sector, delivering services to the most disadvantaged. But the more innovative among them have moved to expand the use of their specialised pools of competency into the wider marketplace for public and even private services.

A continuing source of some new jobs and local income multipliers

The "base molecules" of the social economy that provide these sorts of services are its *social enterprises*. These are defined in their widest sense by Laville and Nyssens (2001) as: "enterprises initiated by groups of citizens who seek to provide an expanded range of services and more openness to the community – they place a high value on independence and economic risk taking". While filling gaps they also *create jobs*. The services involved are often highly labour-intensive. They tend to be filled by local people who then spend much of their wages locally, so they can offer a form of development that reduces "leakages" from the local economy. Many of the jobs are located among disadvantaged communities. It was this sort of picture that led the authors of the LDEI project to talk about "tailor made" jobs – those cut out to meet expressed local needs, that are at the same time are well-suited to offering employment and income to local people. In this sense then the social economy proves itself to be multiply-useful in particular contexts.

However, once again such a rosy-hued perspective needs to be set in context. As Amin, Cameron and Hudson (2002) point out there is no panacea here. The social economy is able to meet some of the demands placed on it as a source of jobs but over-enthusiastic claims that it can provide an instrument to allow socially excluded communities to "trade their way out of welfare dependency" can be dangerous. De facto, most of the successes in claiming those job generation outputs that have given the social economy such a buoyant press have been predicated on the continued injection of public funds. Only a limited proportion of social enterprises have broken through to become sustainable revenue driven organisations performing this kind of service. This is a subject we will return to in the final section of the chapter.

Simultaneously filling service gaps and creating civic capital

But whatever jobs can be created by the social economy, there is always that other, less tangible, contribution that adds value. Evers (2001) helps to identify this wider contribution through the idea of *civic capital.* This introduces the idea that, however ordinary the service provided, there is always an opportunity within the social economy for it to offer special added value by contributing to "trust and democratisation" in the local communities concerned and the social enterprises themselves. Through this the social economy has the potential to empower and integrate people, use trust to reduce transaction costs, create the conditions to mobilise goodwill and free volunteer labour. This is far more than being just a service "gap-filler", it brings on board the special ability of the social economy to mobilise social capital "through reciprocal relationships that integrate a dimension of service to the community" (Laville and Nyssens, 2001). If at the same time some social enterprises can supply quality local services in the face of market failure then the free value added from these collateral actions must make it very attractive.

Looking to the future, it seems obvious to state that the sorts of gaps that the social economy is able to fill are unlikely to diminish and are by any standard likely to expand. Perhaps the most vital message from this section of the chapter is, however, to reflect on the learned experience we have to temper some of the more extravagant claims made for the social economy as an economic engine or as an obvious source of new jobs. This is a critical lesson for the new member states who may be receiving beguiling stories about past successes. It is true that the portfolio of the social economy is, as the literature shows (Borzaga and Defourny, 2001), rich with "gap-filling" organisations that use their social values and trust-based relationships to find entry to those factor and product markets that a more bottom-line accounting motivation would discount. The most prominent – as we saw earlier – is in relation to the labour market where "unused" workers are confronted with a gap in the opportunities available to them to capture paid employment – even in some cases where job and skill shortages exist. Those other less tangible gaps that emerge in a society that sees the free play of market forces are those in the fabric of local civic society and we have partially addressed this issue (though only from a local perspective) in an earlier discussion. The social economy is active here in relation to the needs of young people, of women of minorities of people suffering disability and so on – a tradition that takes it back to its solidaristic and philanthropic roots.

Conclusion: seeking a sustainable future for the social economy

Different sustainabilities

It is entirely consistent with the sorts of pressures coming to bear on the European welfare model that, while the gaps and inequalities will certainly not diminish, the historic flow of funding that has underpinned the ability of the social economy to play a significant role in addressing them is destined itself to come under extreme pressure. What we have called the phase of "colonisation" that has seen the social economy and its organisations rise up the policy agenda has been to a large extent *publicly financed*. In particular, it has been the community initiatives and the other experimental programmes of the European Commission, which have simultaneously raised the profile of the local and of the social economy. It is already known that these programmes will not be going forward in the 2007-2013 programming period and that core European Regional Development Fund and European Structural Fund spending will be more dependent on decisions by the beneficiary member states. Experimentation has given way to "mainstreaming" and the responsibility for programming the Structural Funds has been devolved to member states. In both the short and long run future the burning question for the social economy is then: "What are the available routes to financial sustainability and what impact will choosing a particular route have on it?" It is here that the ongoing debates about the US-UK, (Anglo-Saxon) versus the Continental European approaches to defining social enterprise leave the realms of theory and have to be understood as vital practical questions for the social economy in New Times.

Arrayed across the space between those two very different philosophical standpoints we have been examining – the social economy as a project within neo-liberalism or the social economy as a platform for a kind of economy based on alternative values – a number of obvious practical routes offer themselves to underpin the future. These include: continued public support from the mainstream for the social economy as a quasi-public entity; enhanced recourse to philanthropic giving (including corporate social responsibility finance); the generation of sustainable revenue finance from the trading of goods and services; and, loan and equity based finance from private sources and joint venture/partnership arrangements with private companies. Indeed, the overall portfolio for sustaining the social economy might well include elements of many of these sources in combination. In the case of each one, however, the pathways chosen by the individual social enterprises carry with them their own bundles of opportunities and constraints. The sum of the choices that are made across the population (that we have already recognised increasingly as *hybrids* of one kind or another) will have a potentially profound effect on what the social economy is and what it will turn out to be in the new political economic context.

We are not in a position to explore this in depth here but, consistent with the argument just set out, it may be helpful to illustrate how the choice of, and emphasis on, alternative routes to sustainability – whether by an individual social enterprise itself or by a country-specific regime for supporting the social economy more generally – can have potentially dramatic effects on what role the social economy might realistically play in New Times. To make things simple, we can perhaps say that continued financing from the public mainstream might make for the least radical change – provided (and this is the real issue) the choice to rely on this route can be assumed still to exist and can be readily sustained. If, however, European and member states' funds in general are destined to come under increasing pressure, (and this takes us right to the heart of the current debate over the choice between the Anglo-Saxon and Continental models for the future of the EU) what impact will other choices from the portfolio to sustain the social economy produce?

Since we do have a current European experiment in place that pursues another route, we are at least in a position to speculate about what the, more market driven, traded revenues and loans model might look like. This is, of course, the case of the government-sponsored drive for social enterprise in the United Kingdom (or more precisely England).

An example of the "market" approach: state supported social enterprise in the UK

The social enterprise agenda has moved at breathtaking speed in the United Kingdom. From being part of the domain of enthusiasts for the social economy, social enterprise became widely discussed, increasingly widely written about and, most importantly of all, adopted in government policy. In 2001 the Social Enterprise Unit was established in a lead Department of State – the Department of Trade and Industry. The publication of *Social Enterprise: A Strategy for Success* (DTI, 2003) gave an unprecedented level of support to an area of economic activity that had up to this point been on the margins of the policy world. What was particularly remarkable about the new initiative was that a department not traditionally known for supporting a "soft" policy area sponsored it. The Government's three year strategy was set out as follows: "working with other stakeholders, we will promote and support social enterprise activity to achieve: *dynamic and sustainable social enterprise, strengthening an inclusive and growing economy"* (DTI, 2003). The elements of the strategy were threefold: create an enabling environment; make social enterprises better businesses; and establish the value of social enterprise. In parallel with this came legislative changes for company law that recognised the existence of Community Interest Companies (CICs).

What was envisaged was to create "new enterprise vehicles" (Patricia Hewitt, Secretary of State for Trade and Industry) to sit within a context of the revival of all forms of enterprise in the nation's most deprived areas. These would, of course, sustain themselves largely in the manner of all businesses – gaining and sustaining a market position, generating revenue from trading activity, capturing surpluses for investment and growth and using their credit status and asset base to attract loan finance or outside equity. What was being described was, of course, an overt strategy of the Blair government for public service reform – seeing the key players of the social economy encouraged to adopt a business format (while of course retaining their social values) and, more significantly, making it clear that this approach was likely to be regarded as the prime (if not perhaps the only) source of available government support for the future (HM Treasury, 2002 and 2003). The UK approach has, of course, a much closer affiliation with the US not-for-profits model than its Continental counterpart. In this, the added social and economic value results from the *substantive outputs* of the actions of social enterprises using their special properties as organisations.

In 2006, the Social Enterprise Unit was moved into the newly formed Office of the Third Sector. The role of Office is to both to design and deliver policies supporting the third sector, as well as to act as an advocate for it across government. Following the establishment of the Office, *Social Enterprise Action Plan: Scaling New Heights* (2006) was launched, which re-emphasised the government's belief in the role of social enterprises within society, and the contribution they could make to the government's agenda including "overcoming injustice and social exclusion". Central to the government's approach to social enterprises are the ideas that: a) social enterprise becomes a component of the mainstream economy using its special properties (sensitivity to the needs of socially excluded people and trust-based relationships) to deliver enhanced services to disadvantaged areas; and b) that they become an accepted player in the mixed economy of public service delivery. The enterprises involved are invited to pursue their social value systems and carry on their traditional mission as part of a triumvirate with the public and private sectors. The view of those within the social enterprise community who support the model is that it represents a great victory for the mainstream recognition of their "market led but values driven" form of enterprise. To those who oppose it, there are worries that seeing social enterprise through this narrow lens and promoting it so powerfully will put at risk all of those elements of the social economy that are not subject to measurement in business (even social business) terms.

It is perhaps easier to see more clearly from the UK example why it is that Peck and Tickell (2002, cited in Graefe, 2004) and Jessop (2002) should be concerned about non-challenging strategies to the neo-liberal agenda in those "rolling out" and "flanking" strategies discussed earlier. Similarly, the concerns already described about isomorphism – driving complex forms along a narrowing pathway – might also be legitimately raised by such a clearly prescriptive approach. At the very least Laville's (1999) description of social enterprise as "placing a high value on independence and economic risk taking" is likely to be significantly challenged by social enterprises being drawn so strongly into orthodox business roles and becoming prime public service contractors to government.

A return to wider debates

With this set of concerns, however, we return at the end of the chapter to macro-scale debates about the future of the European model of social welfare. Where the social economy stands now and will go in the future will very much depend on how these questions are resolved. The current European standing of the social economy owes much to the principle of seeking "competitiveness with cohesion" that has seen state support for the embedding of a myriad of social economy organisations into the fabric of economy and society. The overriding – and politically challenging – question is: "Can such a process be sustained against the pressures of global neo-liberalism?" On the one hand it is clear that unless it is sustained, perhaps in some partial way, those *convivial spaces* for debate and the *positive collateral effects of building civic and social capital* that form so much of the value added of the social economy described in this chapter may be increasingly lost. On the other, running a business, social or otherwise, demands both appropriate scale and clear focus. Evidence from some successful UK social enterprises suggests that in practice these can become real pressures for managers looking to sustain their competitive advantage. Local community voices demand that they stay local and building social capital means the allocation of attention and resources to "non-core activities". Moreover, perhaps an even bigger danger from the market driven model of social enterprise is that only a small proportion of the current population of social economy organisations can reasonably be expected to participate in it and succeed. Vast numbers of those "colonisers" described earlier cannot either aspire to it or would be fundamentally changed by attempting to engage with it.

There is, then, a genuine – and highly significant – issue here of potentially "throwing the baby out with the bathwater" if EU member states do opt for an entirely market-led model for the development of the social economy. In other words, the stock of learned good practice, competency and sheer goodwill that we pointed to earlier is an asset that could very well be lost or at the very least seriously damaged if governments do not submit their policies to Putnam's (1993) test that every state action should be valued in terms of its ability either to enhance or deplete the available stock of social capital. This is not to say that purist notions of some idealised "real social economy" should be used to resist attempts, by those social economy organisations that can succeed, to become key players in a mixed economy of public service delivery. It is after all simply part of the hybridisation process that Laville constantly refers to that the players in the social economy should be allowed to be judiciously promiscuous in some of their associations with the state and the private sectors. Equally, and this is where our engagement with theory and grand narrative is at its most helpful, we should always be aware of the false prospectus and remind ourselves constantly of the track record of liberal forms of capitalism with respect to social and spatial inequalities.

The overall point to take from this chapter is that a Europe of New Times can be expected increasingly to present the sorts of problems that the social economy has the historic track record and evolved capacity to address. We have highlighted its contribution to tackling social and spatial inequality, in filling service gaps particularly for disadvantaged people and places, in being able to contribute positively to an active ageing agenda, in being sensitive enough to read and respond to complex micro-social situations in urban areas and above all in providing a source of creative energy and a convivial space for debate. However, from another perspective New Times is producing changes that have the capacity directly to threaten even the established position of its organisations if the wrong or at least ill thought-through decisions are made at the supranational and national level. The game is still on, however, since as we described at the outset of the chapter the social economy is an entity/process in motion. It is a domain of complexity and the fact that we cannot see "obvious" pathways or ways to "button it down" is less important than the need continually to maintain its openness and variety. It is into this intellectual turmoil that the new member states of the European Union are being welcomed. They too will have a view on the merits and disadvantages of the extension of liberal market economics and the ways that human and social values are to be successfully preserved and they will undoubtedly evolve a different take on the social economy that reflects their own culture and history.

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Notes

1. Peck and Tickell (2002, cited in Graefe, 2004) identify this as what they call a "roll out" strategy – bringing markets and managerialism into the social and political sphere.

2. See Birkholzer's (1996) notion of the "shadow economy".

Chapter 3.

The Role of the Social Economy in Local Development

by
Xavier Greffe

By traditionally presenting itself as an alternative to the market and to public production, the social economy has always claimed to play a pioneering role in the allocation of resources. However, a more recent issue has been to understand the contribution of the social economy to local development. From an empirical perspective, various links appear between local development and the social economy. Due to their very nature, social economy organisations can flexibly adapt to local development needs. Not committed to maximising financial profit, social economy organisations can take into consideration the values and expectations of actors in the field of local development, and the long-term effects of decisions, as well as define actual development strategies. This chapter explores the three main processes through which social economy organisations contribute to local development, namely that: firstly, they are able to consider the external costs resulting from a split between the economic and social dimensions and act as a lever for integration; secondly, they offset information asymmetries and stimulate new productive behaviour; and, thirdly, that social economy organisations reduce moral hazards and create trust and social capital, which may in turn encourage the implementation of interdependent projects.

Introduction

Local development is a subject whose relevance is now clearly recognised by the majority of local, national and international actors. Many of its core themes such as partnerships, the bottom-up approach, community development and social capital are so widespread that they seem to cover all concepts and yet have no operational dimension. Moreover, they often occupy a marginal place in the national policy agenda leaving pride of place to macroeconomic policies, multinational transfers of industries and social collective agreements. Local development deserves more attention than this, as it now serves as a mirror for understanding the economic and social history of the last twenty-five years and grasping the issues at stake today.

In Europe and North America, the macroeconomic crisis of the 1970s has rapidly generated a territorial crisis. Many areas have suffered from a slowdown of national growth through the collapse of their basic economic sectors. Moreover, highly mobile capital has moved, and is moving, between jurisdictions. As soon as unemployment and exclusion appeared to be imminent, some local actors reacted immediately and took on the responsibility of securing the future of their territories by creating projects and compacts in order to define new stakes and new ways forward. The origin of local employment development can therefore be traced back to the inefficiencies of centrally organised policy approaches. Unable to solve the unemployment problem, these centralised policies reshaped solidarity into the abstract form of monetary transfers, and were managed by institutions that many citizens felt were remote and too intrusive.

However, this new movement of local initiatives was not really favoured for two main reasons. Firstly, to many observers, minor alterations will never offset the effects of macroeconomic policies at the national level, and this only serves to create discrimination in favour of the main economic policies and against these minor changes. The creation of a few thousand jobs appears pointless when loss of productivity and competitiveness destroys hundreds of thousands of jobs. Secondly, many of these local initiatives were intended to protect rather than to adapt. In many European countries, local development was outlined as a strategy to preserve the local milieu from international competition. The objective was to create a "parochial economy" where local needs would be satisfied through local activities, and where the required new assets were looked for in the past. This attitude was faulty and actually served to generate an under appreciation of the changes that were taking place.

In fact the expression "local development" was not used at that time. Many people used the phrases such as "local initiatives for employment development". This expression was meaningful for two reasons: firstly, it was more coherent with the type of local actions which were being implemented but not always co-ordinated; and, secondly, it expressed the immediate objective which was to create new jobs, either in the private sector or linked with social utilities. The OECD, and in another context, the European Union, adopted this expression instead of the more controversial one of "local development". At that time those involved in this analysis were mainly looking at new experiences, identifying good practices and contributing to their dissemination.

Table 3.1. The evolution of local development

Focus	Tools
To early 1980s	
Mobile manufacturing investment attraction from outside local area Attraction of foreign direct investment Making hard infrastructure investment	Massive grants, tax breaks, subsidised loans for manufacturing investors Subsidised hard infrastructure investment Lowered production costs through techniques like recruitment of cheap labour *Public and centralised tools*
1980s to mid 1990s	
Community development Re-integration of long term unemployed Retention and growth of existing local businesses Continued emphasis on inward investment attraction but usually more targeted towards specific sectors	Training for unemployed individuals Use of the social economy to alleviate social costs Direct payment to individual businesses Business incubators / workspace Advance and training for SMEs Business start -up support *Public sector driven with increasing participation of local private and public actors*
2000 onwards	
New services and new jobs Soft infrastructure investments Human resource development Leveraging private sector investment for public goods Improving quality of life Improving the cultural image of the territories	Holistic strategy to link economic and social dimensions Partnership Use of the social economy to support quality of life improvements and to take charge of 'non-contractable qualities' Cross community networking and collaboration Support for clusters, industrial and cultural districts *Local governance, with horizontal and vertical co-ordination*

Common and connected characteristics increasingly appeared, adding value to the development process, these included: the ability of the partnership to create synergy between the objectives of the actors; the capacity of the bottom-up approach to mobilise new sources of information; and, the capacity of pacts and agreements to offset the absence of the market process of co-ordination. Progressively, it appeared that these initiatives for local employment were not only the result of voluntary or proactive actions but also the expression of new levers of growth. Local initiatives for employment were giving more effectiveness and efficiency to national policies, by delivering the relevant information that was impossible to find at the national level, thereby increasing their effectiveness – and by mobilising new local assets, which increased their efficiency. Such employment initiatives define new relevant projects for creating new jobs, and therefore reinforce the employment content of the macroeconomic growth. With the progressive recognition of these two pillars, we started to speak in terms of local development. This led to states and international organisations giving more and more importance to the role of this “local development perspective” (Greffe, 2003a).

Let us look at the OECD experience. Back at the beginning of the 1980s, the theme of local employment initiatives was introduced at the request of France, and later Italy and the United States. The reason for this was to consider the role of initiatives for solving the problems met by three types of territories: cities confronting an industrial crisis, rural areas without a future, and suburbs facing important exclusion problems. But the need to stimulate employment was the common denominator. At the same time, some countries were reluctant to engage with the debate since they feared that such a theme might be used as a weapon against the market economy and had the potential to stimulate contradictory views. However, the theme of employment was very rapidly linked to entrepreneurship. By the end of the 1980s, the expression “local development” came to the fore. The underlying idea was that these initiatives could re-enforce each other and develop a coherent view at the territorial level.

In 1982 the OECD Local Economic and Employment Development Programme (LEED) was created. Apart from the distillation of good practices, it also developed an important evaluative role of the various instruments contributing to local development. Other themes were then taken on board, such as the third sector, social innovation, etc., and different tools have since been added to the aforementioned, such as forums and capacity buildings programmes. Moreover, the LEED Programme developed its analysis both at the local and regional levels. The essence of regional development is not so different from that of local development. However, in regional development there will be different government actors and, potentially, economic differences within the region. It is this multiplicity of actors and potentially competing demands which can create problems of co-ordination and redistribution. Hence, it should be understood that local development is a multidimensional strategy (OECD, 2003).

The social economy

By traditionally presenting itself as an alternative to the market and to public production, the social economy has always claimed to play a pioneering role as compared to these other two means of allocating resources. Contemporary forms of social economy emerged in the course of the 19th century. Their aims were threefold: ensuring the right to work; allowing workers access to consumer goods; and, implementing the principles of solidarity, notably between producers and consumers, in order to correct the functioning of an unseeing market. Nowadays, other roles and specific characters are attributed to social economy organisations, including a positive contribution to the problems encountered by the welfare state and a special role due to its ability to act over the long-term.

However, a more recent issue has been to understand the contribution of social economy to local development. From an empirical perspective, various links appear between local development and the social economy. It is generally agreed that local development needs:

- A synergy between the various actors in a given territory.
- A positive association of economic, social and environmental dimensions.
- An agreement on long-term development prospects.
- Social capital to consolidate the partnerships.

That is why terms such as local development, good governance, partnership and sustainable development are intertwined and mutually dependant (Greffe, 2003a).

Due to their very nature, social economy organisations are subject to three constraints:

- A “one-dimensional” constraint: since they are not committed to maximising financial profit, social economy organisations can take into consideration various dimensions, types of values and expectations related to actors in the field of local development.
- A “short term” constraint: since they are not committed to an immediate or annual financial constraint, they can take into

consideration the long term effects of decisions and define actual development strategies.

- A non-opportunism or confidence constraint: by their nature social economy organisations are normally not expected to create a moral hazard. Their partners can thus have confidence in the functioning of these institutions and trust them (Balazs, 2003; Glaeser and Shleifer, 2001; Greffe, 1998 and 2003b; Shleifer, 1998).

These characteristics, dependent on the specific utility function of social economy organisations, enable us to understand why these institutions are at the core of local development values and strategies. This is because such characteristics enable them to take into account simultaneously a range of issues, such as the expectations of various stakeholders; the environmental and economic dimensions; and they are also able to simultaneously look at both short and long term prospects in order to define sustainable development strategies. This is because social economy organisations are not bound to establish a strict hierarchy between objectives as private organisations do for profit motives, nor do they overlook some of these objectives due to short-term budget constraints as in the case of public bodies. The specific link between the social economy and local development has its origin in the very nature of the utility function of social economy organisations. By taking into consideration objectives that have a wider impact than mere profit, and which have a long-term rather than a short-term effect, social economy organisations can distil and disseminate values and processes that are intrinsic to local development.

This general perspective must be explained in more detail. Identifying the opportunities offered by social economy organisations is a starting point. We have to understand the channels through which they can produce their positive expected effects. There are three main processes through which social economy organisations can contribute to local development. They can:

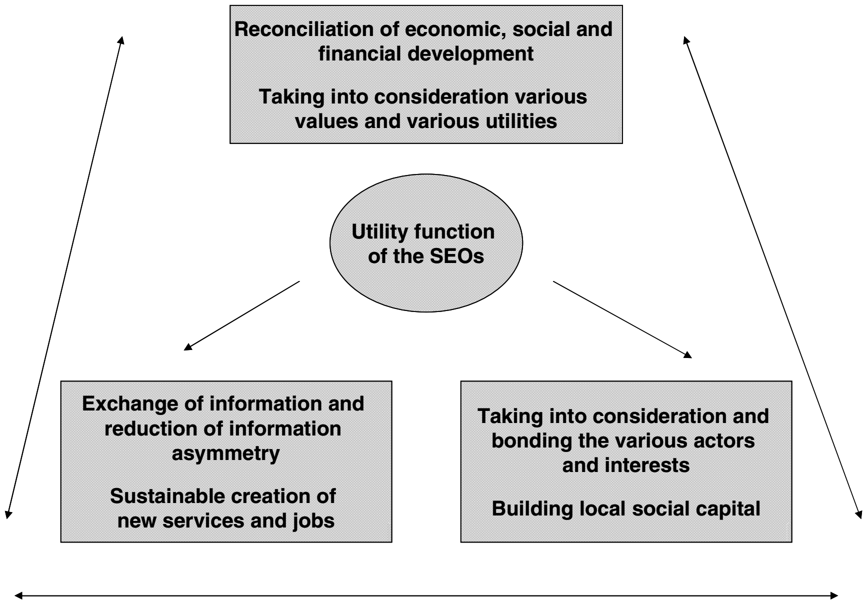
- Consider the external costs resulting from a split between the economic and social dimensions and act as a lever for integration.

- Offset information asymmetries and stimulate new productive behaviour.

- Reduce moral hazards and create trust and social capital, which may in turn encourage the implementation of interdependent projects.

These three points, and their interconnections, can be seen in Figure 3.1.

Figure 3.1. Utility of social economy organisations



Internalising external effects

Bonding economic, social and financial dimensions

In a market economy, each actor tries to maximise their usefulness by making the most of their resources and limiting the impact of their constraints. The actors' interests may be contradictory and it is up to the invisible hand – actually the mechanism of pure and perfect competition – to transform the pursuit of these private interests into general interest whose outcome will be beneficial to all.

This idyllic view will not take on a definite form spontaneously. What is worse is that in some areas, the pursuit of private interests may only worsen a situation that is already difficult: some local actors will be content to protect their own income to the detriment of other actors and very few will realise the advantage of devising strategies that associate preferences and resources in a positive manner. In such a case, the minimum would be to take into account the effects of decisions taken by others around them, a problem which is known as the internalisation of external effects. This can be seen in the following two examples:

- If specialised labour is imported from outside at a high cost to develop a particular activity instead of training unemployed persons living in the area, the possibility of training local human resources at a reasonable cost is precluded.
- If an urban environment is destroyed to attract tourists while driving out the local population and its activities, this will give rise after some time to a process of speculation and gentrification that may harm the area's development prospects.

Thus, short-term economic benefits may go against social and environmental interests. The maximisation of certain economic benefits at the cost of social or environmental factors can be described as an external diseconomy because their cost is borne by actors other than those who were responsible for this decision without giving rise to any compensation in the market. It is therefore necessary to internalise, as far as possible, the likely consequences of projects and define strategies that will strengthen both. For this purpose, the differing aspirations, as well as the differing resources, of various actors should be taken into consideration promptly. The distinctive character of the social economy lies precisely in deviating from this perspective by building bridges between the various possible dimensions of the strategies employed. This can be seen in the conjunction between economic and social dimensions, and the conjunction between financial and economic dimensions, both of which are explored below.

The conjunction between economic and social dimensions

Developing an economic activity that creates jobs is not an extraordinary objective in and of itself. However, organising an economic activity to create jobs for people who confront difficulties in finding work is quite different, as it associates both social and managerial objectives. Complex project objectives demand complex financing schemes, such as support from the private sector for the economic activity and from the public sector (or sponsorship) for the social action. Many social economy organisations are engaged in this activity, enabling them to develop experience and provide a focus that is lacking in other organisations which are encouraged by the financial incentives to take on this role, even as they remain committed to their core business and the profitability criterion, driven by their shareholders (Borzaga, *et al.*, 2000).

An example of a social economy organisation linking the social and economic dimensions is *Vitamine W*. Based in Antwerp, *Vitamine W* manages a project which seeks to get people back into employment who face exclusion from the labour market and to ensure that individuals receive the highest possible unemployment and compensatory allocations they are entitled to. One of the most delicate questions is that of the succession of status: certain persons fall under a particular protective measure (single mothers, etc.); others fall under the usual rules of unemployment benefit; and others still, under a policy that tries to reconcile access to part-time employment with maintaining a certain income level. *Vitamine W* has been able to successively assemble two services. The first is the dissemination of pertinent information to the target groups concerned. The second consists of interpreting, bending and adapting the relevant legal rules in such a way that social policies become effective based on their knowledge and understanding of the administrative complexities and how to adapt them to concrete situations. They have only been able to do so because they have been able to gain the confidence of the public authorities; the aim is not to cheat but to contribute to social justice.

Intermediary organisations, such as the *entreprises d'insertion* in France or *community-based co-operatives* in Italy, focus on socially underprivileged sectors: people with drug related problems, people on parole, people with psychiatric problems, families and single parents in situations of acute poverty and with scarce economic resources, marginalised ethnic minorities, immigrants, etc.. These organisations are granted a specific legal status that makes them eligible for tax and social benefits to offset their costs. These social economy organisations are not interested in entering fields that require high investment in terms of capital or sophisticated technologies. They are geared toward highly labour-intensive processes that generate little profit for the private sector. Accusations of unfair competition are therefore more difficult to level in such cases.

Social exclusion is essentially a loss of connection that people suffer from their social environment. This involves the loss of a sense of integration into the community. Not having a job plays an important role in this process. Another approach favours a vision of social cohesion as an integral, and integrating, policy by which society assumes an active commitment to admit, integrate and encourage each of its citizens. In relation to this concept of exclusion, the intermediary organisations of the social economy do not share the sole efficiency criteria of integration programmes based exclusively on the number of jobs obtained in private companies. Integration neither begins, nor ends in the obtainment of a job in a private company. Rather, integration into both society and the world of work is a process that begins with a recovery of lost connections. The location of suitable venues for self-training and work in social economy organisations, in which they are accepted and recognised as workers and citizens, can play an important role in the recovery of those connections.

Improving the employability of workers who are socially excluded and/or confronting structural unemployment, as well as the placement of these workers in private sector companies are undoubtedly very positive aspects to be valued and recognised. It is a conceptual mistake, however, to limit integration into the world of work to these factors and therefore, a mistake to measure progress in integration exclusively by parameters related to them. The common right that must be recognised for all citizens is not the access to a given type of contract or to work in a given type of company, but to provide them with a space in which they have access to employment that is useful for society, which provides them with economic sustenance and social benefits, in which their vocational education and training is encouraged and their personal development is promoted.

However, two issues can be highlighted. Firstly, it is sometimes argued that many of the jobs created by social economy organisations are sustainable because they are financed out of public funds. The same jobs could have been created as government jobs if the local authorities had chosen to open new public services or by for-profit enterprises if the local authorities had not given preference to social economy organisations in their contracting-out policies. This argument is not entirely supportable when social economy organisations provide collective services and services with a high relational content: that is, that they play a specific role in the provision of services where either the scarcity of resources makes the public sector unwilling to intervene, or the lack of profitability means that the private sector is also reluctant to become involved.

Secondly, the jobs created by social economy organisations may be badly paid and/or of poor quality. It is therefore possible to argue that individuals motivated to work in organisations with social goals, or those that encourage participation, may accept wages lower than what they would expect from work in other enterprises. Consequently, lower wages may be associated with the same or even higher job satisfaction due to the trade-off between the monetary and non-monetary conditions of the job. If worker effort depends not just on pay but on many other considerations as well, a higher wage-level may crowd out intrinsic motivations without any improvement in the quantity and quality of the services provided.

Conjunction between financial and economic dimensions

Many local initiatives fail due to a lack of financial resources. New projects may come up but those who design such projects do not have access to financial resources at the onset, or at a later stage, when additional financial resources are required (Borzaga, *et al.*, 2000). Actually, it is evident that many traditional banks are abandoning entire sections of potential clients as they prefer to finance large companies, make high profits in market activities or take ill-controlled risks in new activities like real estate. There are many reasons for such attitudes:

- Financing is requested by segments of the population that do not meet the "required" profile of an entrepreneur, such as women, migrants, etc.
- Applicants lack training or experience in managing traditional SMEs.
- Banks do not understand the logic of micro-projects where, in effect, there is a deliberate intent to sacrifice a portion of the profitability.
- Projects are in service niches that are very innovative and thus often incomprehensible to outsiders.
- Projects lack guarantees or are located in what banks consider to be risk areas.

Furthermore, the banking business is changing radically. Financing is not always profitable because newcomers (such as insurance companies) create ferocious competition for the costs of the services offered by the banks. Consequently, bank concentrations are multiplying in order to benefit from economies of scale and reduce their operating costs. As a result, it can be argued, banks are more interested in large scale rather than small scale operations, which ultimately harms their retail banking activities.

Three general characteristics can be identified in order to highlight the difference between a pure financial logic and a local development one.

- Firstly, the complex objectives of local development projects require financial involvement from both the private and public sectors. In structural terms, the economic activities of social economy organisations are not very profitable with reference to the traditional criteria of private companies; indeed, they often experience great difficulties in obtaining the financial services they need.
- Secondly, the low profitability of the project is often explained by the fact that the companies created are merely for the support of social projects. For example, integration companies are, in the economic dimension, SMEs, but they employ people who are usually excluded from returning directly to mainstream employment as a result of personal factors, low skills, etc.. This in turn contributes to the explanation of their low economic profitability and the subsequent need for subsidies for jobs to offset extra costs.

- Finally, the complexity of the projects entails lengthy negotiations; the lack of profitability requires investing significant amounts of time to find resources; the lack of funds limits the capacity to take risks; and, partnerships require constant maintenance if they are to be sustained. This would explain why projects often develop slowly.

There exist two types of financial responses to these issues. The first response is to change the environment of the traditional financing actors in order to make them more sensitive to the needs of local development actors. The second response is to create genuine instruments, such as micro-funding. There is thus a temptation to create new tools. But this may take a very long time and it is not certain that mainstream banks will agree and mobilise such tools. Therefore, it would appear more appropriate to make them take into consideration new actors, entrepreneurs or fields of activity screened by social economy organisations. This partnership is interesting because a much bigger amount of funding can be mobilised for new areas of activities. It is important to establish the fact that the financiers of the third system are ready for the task of assuming responsibilities that the banks are abandoning. They can provide innovative expertise in this field, which consists of managing, as in other areas, the complexity of relations between providers of capital and providers of subsidies.

The intervention of social economy organisations to change the environment of the traditional financing actors

The French National Association for Entitlement to Credit (ANDC) has introduced a financial tool that could provide credit to micro-entrepreneurs. The projects go through an initial filter of the local member associations of ANDC, who can verify the seriousness of the projects as well as of the people from their local networks. The ANDC team then examines applications for loans; and loans are allocated and made available by the bank. The agreement between the ANDC and the bank is such that the bank abandons a portion of its decision-making power (as part of a global package). The conventional security mechanisms do not come into play because, at the request of the ANDC, the bank is prohibited from taking collateral. Conversely, the bank is not prohibited from going after any borrower who is in default on repayment of the loan, but undertakes to notify the Association before taking such action. The Association must deposit the return on the income from savings disseminated among the groups affiliated with the association to the bank. This deposit must, by definition, constitute five percent of the committed funds, and serves to reimburse losses.

Social economy micro-credit

Among the financial tools available to the social economy, that of extra-bank micro-credit is undoubtedly the most significant achievement today. More specifically, this refers to associations, co-operatives, mutual insurance organisations and other non-profit associations linked to churches or unions, depending on the country, who have decided to act as banks in the place of traditional banks to help finance micro-initiatives. Micro-credit does not signify credit in a small amount. Members of the European Commission have informally observed that most banks are no longer interested in professional loans of less than EUR 100 000. Thus, micro-credit would be for less than this amount.

Micro-credit covers at least three realities to which different types of social economy system initiatives correspond. Firstly, micro-credit is a way to offset an insufficient supply of funds due to lack of expertise. Most banks do not want to devote the time and effort needed to acquire the means and resources necessary to be able to make an offer on the market. Secondly, micro-credit is a way of fighting such social and vocational exclusion. Personal loans to long-term unemployed people who want to go into business for themselves are not included in regular banking practices. Therefore, this practice requires specific tools and resources. For example, experts estimate that the essential quality of interventions by the French *Association pour le Développement de l'Initiative Economique* (ADIE) (Association for the Development of Economic Initiatives) is to restore the autonomy of individuals who confront social exclusion. The main challenge is to take charge of projects submitted by people who have no experience, and to organise appropriate advice and support. Loans are meant to help to restore their ability to gain control over their projects. In addition, ADIE has gradually shown that the development of self-employment, promoted by this type of micro-credit, is a non-negligible factor of economic development. Finally, micro-credit can act as a club. This is a variant that purportedly resembles what co-operative banks or savings and loans associations did initially, a task that is now performed by 'Tontines', and clubs like 'Cigales' in France or credit unions in Ireland and in Austria.[1] What makes these tools efficient is the trust among members and a volunteer spirit, which means that transaction charges are virtually absent.

Such tools are not always profitable. They cannot secure their development on the basis of their internal yield; they do not compensate the capital placed at their disposal. In order to demonstrate their socio-economic efficiency and their global performance, it is necessary to reveal the relatively low cost of the net jobs created within this framework (including jobs for those who are excluded) and the macroeconomic consequences of these operations aimed at social "re-integration". It appears then that the amount required to create a job is approximately EUR 10 000 as compared to the cost of an unemployed person (approximately EUR 15 000) or the cost of subsiding a job created with foreign investment (from EUR 30 000 to 60 000) (*Assemblée Nationale*, 2003).

Eliminating asymmetrical information

The ex-ante co-ordination of employment decisions

The information asymmetries between provider and consumer can often make transactions seem opaque in many areas of activity, but mainly in those fields characterised by relational services. Consumers find it difficult to assess quality. Producers, if they are profit oriented, can choose to deceive consumers and thereby maximise earnings at the expense of quality. In so far as the market does not transmit correct information, it must be superseded or placed within a framework to provide the information necessary to satisfy needs adequately. This interpretation of the social economy is relevant: as far as relational services are concerned, information about the quality of these services is difficult to obtain, which may result in effectively discouraging consumption. When the need is potential, no funding system exists from which to start both the production and delivery of such services. Thus effective demand is prevented from developing (Smith and Lipsky, 1993; Weisbroad, 1998).

However, social economy organisations are able to compensate for the lack of information and build links between provider and consumer, because of their social purpose and because they are restricted in their profit distribution. Moreover, in most cases the customers, or their representatives, may be part of the social economy organisation or its management, which encourages them to be sensitive and responsive to their customers' needs. In fact, many of the goods and services can be classified as merit goods that would be under-provided or completely neglected by the private sector under market conditions. In relation to the public sector, they are often closer to actual and potential customers by virtue of their organisational status and role, and can rely on additional volunteer effort, as well as, in many cases, a greater effort and/or commitment from staff. The issue of job creation in new services areas demonstrates the relevance of the social economy for local development.

From a very general viewpoint, the relevance of the social economy for the creation of jobs is well recognised in the area of local development. The principal ways in which social economy initiatives contribute are usually identified as follows:

- Direct job creation within social economy organisations.
- Indirect job creation thanks to social economy initiatives.
- Job creation due to the spill-over from social economy initiatives in all possible sectors of the economy.
- The implementation of programmes for job placement and skill enhancement, which generally take on of two forms:
  - Temporary hiring of people from disadvantaged groups, often using public financing, contingent upon the obligation of entering the job market after a set amount of time.
  - Organisation of training programmes for interns who in most cases must find a job at the conclusion of the programme or, much more infrequently, return to their previous activity with a higher skill level. This classification is not that useful, since other types of institutions, either private for-profit or public, may share such roles.

In order to demonstrate the contribution of social economy organisations, it is then possible to identify their comparative advantages relative to other organisations. These include their ability to: utilise free (economic and, more importantly, human) resources not available to public and for-profit organisations; reduce production costs by means of organisational innovations, different industrial relations, flexibility in the use of resources and a better ability to meet 'niche' demand; and, aggregate paying private demand by creating trust, thus overcoming information asymmetry problems between organisations and consumers.

These aforementioned characteristics emphasise the specificity of social economy organisations. However, it is not simply their comparative advantages which make social economy organisations so important for local development. It is the wide range of aspirations which they embody which further embeds this. As mentioned previously, social economy organisations are not subject to pressure to make short-term profits. They are also able to identify where the response of the market economy or public welfare to existing needs is inadequate. By doing so, social economy organisations can then seek to design responses which will address those needs adequately and appropriately, and put in place funding networks that will ensure those needs are met.

New jobs in environmental activities

Among the 19 sources of employment identified by the European Commission in its 1995 study *Local Development and Employment Initiatives*, eight have a clear environmental component: tourism, public transport, pollution control, water management, waste management, urban renewal, energy efficiency and conservation and the conservation of natural areas. This is a profound economic trend that helps elucidate the growing association that European citizens make between a healthy environment and the quality of life. This is also the context in which important, non-satisfied social demands in European metropolises can be identified. Preliminary estimates place the number of jobs in the environmental industries connected to waste and water management, the reclamation of derelict environmental areas, emission and noise control to one and a half million people, equivalent to one percent of all jobs in the European employment (Borzaga, *et al.*, 2000).

Social economy organisations are present in a range of different sectors, including the environmental one. By analysing the demand for environmental goods and services, the environmental economy has paid particular attention to the specific relation between economic growth and the quality of the environment. This relationship has been analysed empirically by means of econometric studies, most of which have corroborated what is known in the literature as the Environmental Kuznet Curve Hypothesis (Panayotou, 1993; Shafik, 1994; Selden and Song, 1994). According to this hypothesis, the relation between economic development and environmental quality generally follows a reverse-U curve, which indicates that in the initial stages of economic development measured in GDP per capita, a deterioration of the environmental quality occurs, measured through such indicators as emission levels, pollution, deforestation, etc.. Once a certain threshold of economic development has been exceeded, the direction of the curve is reversed. The demand for environmental quality on the part of the citizens begins to grow progressively with the increases in income levels, as environmental goods and services are incorporated into the economic category of luxury goods, demand for which grows more than proportionately with the increase of income levels.

Today, social economy organisations intervene in the following environmental activities:

The creation and maintenance of green and natural areas

Green areas in urban settings, in addition to their recreation and relaxation role, have a number of benefits including: contributing to improving the urban micro-climate; contributing to the recycling of organic matter; conduciveness for physical exercise; providing a setting for nature conservation, environmental education and research; and, increasing the aesthetic experience of the urban landscape. To meet such social demands, social economy organisations have been particularly active, especially those working with underprivileged segments of society. Studies into social integration co-operatives in Italy (Defourny, et al., 1997), which provide employment for more than 11 000 people, have identified the maintenance of public green spaces as the most widespread service provided by such organisations.

Rehabilitation of housing and facilities in the suburbs

Housing in neighbourhoods traditionally inhabited by socially underprivileged groups are characterised by their low quality: poor building design and overcrowding, scarce green areas, poor quality of construction materials, etc. are all features of this. Social economy organisations have been active in trying to meet the social demands of the urban renewal and renovation sector.

Excessive energy consumption and the resulting pollutant emissions are substantial

Social economy organisations are active in the field of minimising the end consumption of energy in homes. This minimisation is carried out through policies geared to information, the general installation of efficient heat insulation systems and large scale installation of energy conservation devices.

Then there is the issue of urban solid waste

The European Community produces an estimated 200 million tons of municipal waste per year and since 1985 the annual growth rate has been about three percent. Social economy organisations have contributed to meeting this challenge. For example, a project entitled “Implementation, Development and Structure of a European Partnership”, launched by *Terre a.s.b.l.*, is geared precisely to extending and consolidating its experience in valorising waste, and accompanies this by working with underprivileged groups. They collected 6 000 tons of textiles and 20 000 tons of paper in the French-speaking part of Belgium in 1998 – creating 275 jobs in the process, 75% of which were for people from underprivileged parts of society. All these activities and installations are generally labour intensive. Jobs in this industry combine manual, mostly unskilled labour, which can be used to generate processes for integration into society and the world of work, with highly qualified jobs for managerial, planning, supervision and monitoring tasks.

This response of the social economy to environmental demands combines three complementary vectors: the environmental, the local and the social dimensions. Social economy organisations can play an important role in environmental awareness and education campaigns among citizens. They are very well situated to assume an active role, at the local level, in energy efficiency and conservation campaigns, rational water consumption campaigns, waste recycling and re-use campaigns, initiatives for the voluntary cleaning of natural settings, support campaigns in favour of organic agriculture, campaigns for composting in the home, as well as more general environmental education work. *Terre a.s.b.l.,* mentioned above, not only plays an important role in encouraging social inclusion, but also provides the opportunity for young people to visit its installations every year, where they receive important information on the importance of appropriate waste management

At the local level, social economy organisations can make an important contribution to the environment and local development, accompanied by a social dimension. Active participation in local development assumes different forms such as the creation of new, community-based companies. Providing support to local private companies which are already established comes in the form of assistance to carry out new environmental activities by availing them of feasibility studies, knowledge of the sector, contacts with companies working in the area, etc.; of free advice on how to improve their own internal environmental action: eco-audits, environmental management programmes, etc. Such assistance enables those environmental organisations that operate within the social economy to continue their fight against social exclusion, such as *Terre a.s.b.l.* For these organisations, work in environmental sectors is therefore conceived as the appropriate tool for promoting active dynamics to fight against social exclusion.

Why are social economy organisations so relevant to addressing environmental needs?

- They have a high level of self-financing in comparison to other sectors. This self-financing is essentially achieved by offering products and services on the market.

- They receive very substantial local social support as non-profit associations with an important social dimension. This support enables them to attract a segment of the community to work as volunteers.

- They are active in interweaving networks of relations with local institutions that see them as flexible and dynamic instruments for local development.
- They are flexible and enterprising structures with a great readiness to enter new areas of work in re-use, recycling, environmental education, cleaning and maintenance of natural areas, cleaning and recovery of contaminated industrial estates, etc.
- They are predisposed to creating networks of co-operation with other organisations of the community-based economy, which consolidate social capital.

New jobs in neighbourhood and social services

Since the end of the 1980s, the gap between needs and the supply of neighbourhood and social services and between the demand (needs translated into demand) for services and their supply has widened. This is due to the ageing population, increased female participation in the labour-market and a shift in demand towards more skilled labour. The supply of these services, mainly publicly financed, has been hampered by the growing difficulties of public finance (Borzaga, *et al.*, 2000; 1998).

Social economy organisations have played an important role in providing social and neighbourhood services. The non-profit distribution constraint has contributed to the dissemination of relevant information about new needs, the creation of a relationship of trust with consumers and workers, the absence of opportunistic behaviour in the delivery of the services, the flexible use of factors and the low cost of the resources. As Borzaga *et al.* (2000) point out there are also structural features which make social economy organisations relevant for addressing social and neighbourhood service needs. These features include: a participatory structure that ensures both trust relations and stakeholder commitment to the organisation's mission; a multi-stakeholder nature, which guarantees either direct participation in management by several groups of stakeholders or other organisational devices designed to take account of stakeholders' interests; the presence of voluntary workers who, in addition to providing free labour resources, also exercise control in matching the activity carried out with the organisation's mission; and, a close link with the local community which enables social economy organisations to identify and highlight local demand.

Such characteristics enable social economy organisations to:

- Produce neighbourhood and social services, even at zero profit.

- Foster the transformation of needs by increasing the number of consumers, thereby generating a net increase in transactions.
- Recover a part of the demand that draws on underground supply by differentiating supply and reducing costs.
- Transform a part of the self-production of services by families into a formal supply in order to face new issues such as an ageing population or increasing female labour market activity.

However, the innovative role of social economy organisations has been disputed by some, due to the competition of the private enterprise, the internal inefficiencies of social economy organisations and, also, the low quality of the jobs created. Indeed, some private companies deny the innovative role of social economy organisations by arguing that their role in generating new jobs has a compensatory effect either because they prevent the creation of new jobs in for-profit, private companies or that they actually destroy these very jobs. This argument can be exaggerated, particularly, for example, when we consider the field of culture and crafts. The handicraft sector and SMEs, which are being economically displaced as a result of the economic globalisation processes, are projecting their malaise to social economy organisations, by lumping them with direct public aid. Discussions and reflection must take place to bring social economy organisations, and SMEs and handicraft organisations, closer together so as to continue to generate a strategic confluence between the two sectors geared to the dynamics of local development.

Nor are such concerns the only ones regarding the role of social economy organisations. Another series of arguments is related to the internal workings of social economy organisations. Notably, their inadequate economic capitalisation can impose serious limitations. For example, it hinders access to traditional sources of financing in the market; it can restrict them from attracting and consolidating jobs for qualified professionals; it can prevent them from undertaking major entrepreneurial initiatives; and it can contribute to a greater dependence on access to public resources. Furthermore, by focusing their work on underprivileged groups, social economy organisations can inadvertently project an image of low quality management. The economic difficulty in attracting qualified professionals and consolidating employment in environmental areas contributes to the perpetuation of such deficiencies. At the same time, employees in social economy organisations may view volunteers as a source of constant downward pressure on their wages.

Social economy organisations may also confront the fact that the services they offer may be undervalued. The quality of their services grows out of the conjunction of three elements: a relevant analysis of needs, the satisfactory professionalisation of jobs, and proper mediation of relationships between users, workers and partners of social economy organisations. The first element, the relevant analysis of needs, must be based on the clearest possible understanding of existing needs and of the agents or institutions likely to fund some of them. The main risk here would be that these needs are defined solely by professionals who want to create or maintain activities that provide a means of livelihood or by elected officials looking for publicity or seeking short-term economic benefits. Also, in the initial stages, social economy organisations are often faced with a dilemma: it may be difficult to find people with the necessary qualifications either because they are too expensive to hire or they are not sufficiently motivated to adjust to this specific context. Therefore, motivation and the level of qualification must be assured from the very beginning, even if significant intangible investments are needed. Finally, the third element in the quality of services provided has been described as “qualifying mediation”. The goal is to ensure the continuance of the partnership that exists between workers’ activities, users’ needs and the various institutions involved at the time an initiative is launched.

Preventing moral hazard: social capital as an endogenous resource

In an economy that is constantly changing, the so-called intangible factors, such as knowledge and trust play a crucial role, together with the more traditional factors such as land, financial capital and labour. Trust now plays an increasingly important role and many international organisations value this quality as social capital. In our present-day economy, calamities come fast and without warning and some actors are likely to worry that others may not fulfil their commitments or even that opportunistic behaviour may replace these commitments, a problem described as a moral hazard. In areas going through such crises, trust is crucial because there will be no development if the projects clash with one another or, even worse, try to take advantage of the situation at the cost of others.

To avoid this moral hazard, it is advisable to look positively at interdependent relationships, which means promoting consistent local development together with mutual trust among actors. According to some analysts, this is exactly what community development means: Rosalyn Moss Kantor has described the role of the community in local development as the production of social glue holding it all together. Community building as a response to the challenge of urban regeneration deals with this kind of resource (Greffe, 1998).

Local social capacity building – that is building trust – has become an important component of local employment initiatives. Sometimes this aspect is considered less explicitly: government reports on neighbourhood renewal may seek to develop new approaches founded on the concept of local neighbourhoods being able to develop their own solutions to some of the problems facing them. But this trust is not only necessary to develop specific social solutions: it has an effect on economic projects such as the compacts linking financial investment and training.

Social economy organisations are a key factor in the distillation and dissemination of such trust:

- They take into consideration various utilities and expectations.
- They are well placed to reach the disadvantaged groups and neighbourhoods being targeted.
- They understand new market needs – not just in the sense of developing neighbourhood services or cultural activities, but also in terms of the importance of raising the local population's aspirations.
- They are living examples of how people's lives can change as they gain confidence to take advantage of the opportunities around them. People are more likely to believe that they can move towards higher skilled employment if they can identify with people who have already done so.
- They create a forum for employment solutions growing out of the interests and activities of the targeted groups.

There are many mechanisms through which social economy organisations may create and disseminate trust. In some cases, social economy organisations may use information and communication technology (ICT) to support local social capital building. This approach is being explored by the Finnish MOPO (More Professionalism for Social Co-operatives) project. Here, multicultural co-operatives are being used to meet some of the unmet needs of Russian immigrants living in Finland. Finnish professionals with co-operative or private business backgrounds have been recruited to work with the existing social networks of Russian immigrants to help them develop pathways into the labour market. Internet usage is high in Finland, and the immigrants' co-operatives use the internet to the extent that their financial resources allow them to. MOPO has used the co-operative framework to structure its ICT and business training for this immigrant community. Russians who have already set up their own co-operatives receive training on data processing, internet usage, and webpage design and authorship.[2]

In other situations, social economy organisations may use cultural activities in order to support local social capital building. Cultural activities may create references and ties that not only strengthen the cohesiveness of the social fabric, but also enable those involved to integrate themselves into this fabric more fully. Through the production of cultural services the Marcel Hicter Foundation in Brussels intends to create a forum for socialisation in territories that have experienced the three-fold handicap of long-term unemployment, environmental damage and haphazard migratory movements. Reconstituting areas for social exchange, which had suffered from the disappearance of all kinds of micro-instruments such as shopkeepers, public markets and local cinemas, creates a favourable environment in which new projects can be developed and undertaken. Culture can satisfy a number of individual or collective aspirations at the local level if it can take the form of cafes where music is played, cyber cafés, local theatres, street performing arts, libraries, etc.

In rural areas, the approach to culture must be viewed as the foundation for activities and the creation of new values in the economic as well as the social field, rather than a source of leisure or entertainment for those segments of the population deprived of them. La Rioja is an autonomous Spanish community of about 250 000 people, characterised by old rural traditions and the contemporary economic importance of its agricultural activities, in particular wine growing, market gardening and fruit production. This autonomous community decided to tie its economic development to cultural development, aimed at asserting the originality of its traditions and its craft industries, while putting these cultural resources to work towards economic development. With the co-ordination of a social economy organisation, the Rioja Foundation, five municipalities undertook actions specifically to do this. They have been supported by transversal actions from social economy organisations, of which the basic principle is the mobilisation and modernisation of craft industry resources as a basis for development, but also as an asset for enterprise development in terms of references, skills, qualifications, new products, and the exchange of information, etc.. Local government actions focus mainly on rehabilitating craft industries, providing training in new craft skills and encouraging the creation of small craft co-operatives.

Social economy organisations must ensure that the partnership that exists at the start of a project between workers' activities, users' needs and the various institutions involved is continued or even reorganised. It is in the nature of social economy institutions to take on a multitude of objectives without absorbing them into a single indicator, such as profit, which then changes the rules of the game. This underlines the role of their "entrepreneurial culture" and their "internal democracy". Many new social economy organisations do not have a "social economy culture", nor a clear idea of their role: they often do not know if they are providing innovative services or creating new jobs, or improving the employability of low-skilled workers, or even creating new social bonds. Moreover, they often have no idea about their possible evolution, and are therefore managed with a short-term perspective. Furthermore, managers are often unaware of the organisational characteristics that generate their specific advantages, and of the costs that arise from combining and fulfilling multi-stakeholder interests. In addition, there is no well-developed system of second-level social economy organisations that could play an important role in giving organisational, technical and financial support to the first-level social economy organisations.

The balance among the various partners must be continually pursued and must not be tipped in favour of any one of the parties involved: being in favour of professionals leads to the bureaucratisation of institutions; leaning in favour of users leads to the introduction of a market logic and the elimination of certain social values; while being in favour of institutions threatens to benefit political interests in particular. Some issues may be screened here: rigid and obsolete boards of directors; segmentation between old and new members, or at the local level between traditional and new social economy organisations; and, conflicts between workers and volunteers – these last ones being a permanent lever to raise the very issues of the culture of social economy organisations. In fact, we must not exclude a life cycle of social economy organisations. After growing, they may enter into a process of bureaucratisation that makes them less and less sensitive to their expected role and less and less efficient in their response to the local development needs.

Conclusion: scaling up the social economy for local development

The social economy offers an approach to local development, which provides potential for a new vision and additional elements compared to traditional approaches. It does this by widening the structure of a local economy and labour market by addressing unmet needs and producing new/different goods and services, and by widening the focus of the local development process by taking into consideration the variety of its dimension and in building the required trust. In summary, the social economy introduces, into the functioning of the sectors in question, added value linked to:

- Its neutrality in relation to the interests in place and therefore its capacity to introduce elements of sustainable transformation.

- Its capacity to pursue several objectives simultaneously and thus to assume an essential multidimensional development strategy.
- Its ability to correct biases in certain sectors.

It should be acknowledged that the drive to engage local partnerships, associations and social enterprises in tackling unemployment (while at the same time being drawn also into filling gaps in local service provision) has spawned a new generation of low capacity, dependent organisations where support structures are as yet only slowly coming into place. All need support to grow and become sustainable, and there are a number of means through which support can be developed:

- The improvement of networks, information exchange and sharing of best practice.
- The franchising and exchange of models to diffuse approaches.
- The 'Strawberry fields' model, whereby growth is encouraged by linking local ventures, whilst ensuring that local characteristics are retained.
- The 'Umbrella' approach with intermediary support structures created specifically to be the carrier agencies for growth and for support the growth process at the local level.
- 'Trailblazing' to infect the mainstream with innovative approaches (Lloyd, *et al.*, 1999).

In order to implement innovations and/or to design effective policies, a clear understanding of the main barriers to development is important. There are numerous barriers, including: the idea that for-profit organisations and/or an active state can efficiently satisfy overall demand for neighbourhood and social services; the slowing down of the public social budget traditionally mobilised for the development of the social economy organisations; the incoherence between most contracting-out rules and the characteristics of social economy organisations[3]; the lack of a legal definition/framework for social economy organisations; the unfair competition by the informal economy; the lack of managerial and professional skills, and the lack of systems of quality control on the services.

These barriers may lie outside or within social economy organisations themselves. While the former can be overcome only through joint action by different subjects (institutions, politicians, local authorities, competitors, stakeholders, etc.), the most important pre-requisite for eliminating internal barriers (at the unit or at the sector level) is the full understanding of their contribution to local development by social economy organisations themselves.

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Notes

1. "Tontine" is an African system where people informally have a small fund of money that can be used alternatively by those of these people who need it. "Cigale" is a more French system inspired by tontines but more formally structured.

2. The Multimedia Employment Project for Young Finnish Unemployed has helped the MOPO project provide this training. In addition the MOPO project has provided a six months' basic training course on developing business skills and setting up co-operatives.

3. When competition is introduced for the delivery of new services, it tends to favour the larger organisations, which compete mainly through low prices and discriminate against social economy organisations which produce positive externalities in terms of social capital.

Chapter 4.

Social Enterprises, Institutional Capacity and Social Inclusion

by
Vanna Gonzales

Over the course of the last decade social enterprises have come to play a key role in the management and delivery of social and labour market services in Europe. While much research has been devoted to documenting the rise of these institutions, their implications for contemporary debates about social inclusion remain elusive. In the first half of the chapter a framework which connects the unique institutional capacity of social enterprises as hybrid organisations to a growing concern for the welfare and well-being of marginalised service recipients is developed. More specifically, the model links two key dimensions of performance – social production and social mobilisation – to two forms of empowerment critical to the fight against social exclusion: consumer empowerment and civic empowerment. In the second half of the chapter this model is applied to an empirical analysis of Italian social co-operatives in two regions in northern Italy, Lombardia and Emilia Romagna. Based on the empirical findings, the key factors influencing social co-operatives' ability to empower users is considered and, in light of relatively poor performance overall, potential means of improving their empowerment capacity in the future are suggested.

Introduction

Throughout Europe large-scale socio-economic changes associated with globalisation, urbanisation and de-industrialisation have led to significant structural shifts in the character of both labour markets and family life. These changes have generated a host of risk factors for already disadvantaged segments of society (including immigrants, homeless people, juvenile delinquents and disabled people). Lacking institutional opportunities for inclusion, a growing number of people have become isolated from their local communities and increasingly stigmatised as "undesirables" (Bourdieu, 1995; Beck, 1998; Halvorsen, 1999). Under conditions of low economic growth and a weak public service infrastructure, mounting fear about the creation of a permanent underclass has yielded an array of policy proposals calling for "active citizenship," (European Foundation, 1997) in the context of a broader "recalibration" of the European welfare state (Ferrera and Hemerijck, 2003).

Within this context social enterprises have emerged as innovative third sector organisations embodying a new entrepreneurial spirit in the pursuit of a variety of social and economic aims (Borzaga and Defourney, 2001; Evers, 2004). Though primarily responsible for the production and delivery of human services, such as care giving and job training, social enterprises' unique managerial capacity, democratic internal structure, and emerging role as key interlocuters between diverse community members has drawn attention to their hybrid character (Evers, 2004; Gonzales, 2006). Although scholars frequently underscore their value-added as social institutions, for the most part, research of these organisations has focused on their economic and managerial properties in an attempt to gauge their comparative productive and economic advantages. While in recent years, more attention has been paid to the way in which social enterprises influence the formation and accumulation of social capital (Evers, 2001; Svendson and Svendson, 2005; Gonzales, 2006), much less is known about their impact on marginalised service users.

In this chapter the focus is upon social enterprises as potential agents of empowerment for marginalised populations. Given the current effort to explore social enterprises' potential as building blocks for social and economic development in South Eastern Europe, focusing on their contribution to social inclusion is particularly timely. In the first part of the chapter, an analytical framework which connects two key functions of social enterprises, social production and social mobilisation, to two forms of empowerment critical to the fight against social exclusion, *consumer* empowerment and *civic* empowerment, is developed. In the second part of the chapter, this model is utilised to analyse Italian social co-operatives, a key subset of social enterprises in Southern Europe, which has attracted considerable attention in recent years (Borzaga and. Santuari, 2001; Thomas, 2004; Gonzales, 2006). Based on empirical analysis of 140 social co-operatives in the two northern Italian regions of *Emilia Romagna* and *Lombardia*, key factors influencing social co-operatives' capacity to empower marginalised service users are discussed, and, in light of relatively poor performance, potential means of improving their capacity in the future is suggested.

There are a number of reasons for focusing the empirical portion of the chapter on Italian social co-operatives. First, the contemporary challenges facing Italy are in many ways emblematic of those of other Southern and Eastern European countries. Like many of these countries, Italy's welfare state has traditionally been characterised by charity-based social assistance for the poor and indigent combined with relatively generous pensions and employee benefits tied to a bread-winner model of social insurance (Ferrera, 1996). In addition, a heavy reliance on family and church to provide social care has reinforced a piecemeal development of public services and a relatively weak third sector (Saraceno, 1999). These factors have tended to reinforce a dynamic whereby privileged "insiders" benefit economically and socially from relatively good wages and generous social benefits while a growing number of "outsiders" are locked out of benefits and thus face much greater risk of poverty and social exclusion.

A second reason for focusing on Italy is that in attempting to "recalibrate" its welfare state to address its significant internal imbalances and inequalities, it has relied on strengthening the social and economic foundation of the Italian third sector. This is important because although many countries have taken similar steps, Italy was among the first European countries to establish a juridical basis for social enterprises distinct from other types of third sector organisations operating in the social sector. In 1991, the Italian legislature passed national framework legislation (n.381/1991) which deemed social co-operatives responsible for providing social assistance to the most disadvantaged segments of the population within the context of an explicitly public mandate specified in Article 1 as, "pursuing the community's general interest for human promotion and for the social integration of citizens". Thus, in tandem with a massive reorganisation of the social assistance system in 2000 (324/2000), local authorities have increasingly turned to social co-operatives to produce, manage, and deliver an extended array of public services.

These developments relate to a third reason why social co-operatives constitute a particularly interesting research subject – their incredible growth and dynamism over the last decade. Where fewer than 1 500 Italian social co-operatives existed in 1993, by 2000 their number had reached 7 000 (Istat, 2001). While still a relatively small portion of the Italian third sector overall, their growth rate, which was estimated to be 381% between 1992 and 2000 (Vita, 2001), has significantly outpaced that of more traditional voluntary organisations. Due to the increasing salience of social co-operatives in the fight against social exclusion, examining their capacity to empower users will yield important information for Italian policy makers, practitioners and users. On a more general level, it will also provide valuable insights into the capacity of social enterprises to function as an enabling force within newly emerging welfare networks throughout Southern and Eastern Europe.

Social enterprises, welfare networks, and social inclusion:

A framework for analysing social co-operatives as potential vehicles of empowerment

Social enterprises have developed in the context of a dual transition from modern, industrial societies to post-modern, post-industrial societies. As the productive infrastructure of national economies has changed, and the character of social need has shifted to accommodate new values and identities, the state's role as the dominant organising infrastructure of social welfare systems has been substantially eroded (Jessop, 1994; Giddens, 1998; Gilbert, 2004). The ensuing blurring of boundaries between state, society and economy, and increasing specialised and fluid social relations, has created an environment conducive to increasingly complex social welfare networks comprised of a mix of public, private, and third sector actors (Evers, 1995).

Within these emerging social networks, social enterprises play an increasingly important role. Developed outside of traditional welfare systems and frequently in opposition to the perceived rigidities of state based social assistance schemes, social enterprises offer the potential for enhancing the efficiency and flexibility of service delivery. At the same time, their emphasis on solidarity and their embeddedness in local communities suggests a critical role in extending and reconfiguring welfare networks. While both of these potentialities are important for understanding the extent to which emerging welfare networks can ameliorate the adverse affects of eroding social protection, they do not fully capture the potential value of social enterprises as a collective response to social exclusion, understood here as the alienation from mainstream economic, political and cultural institutions.

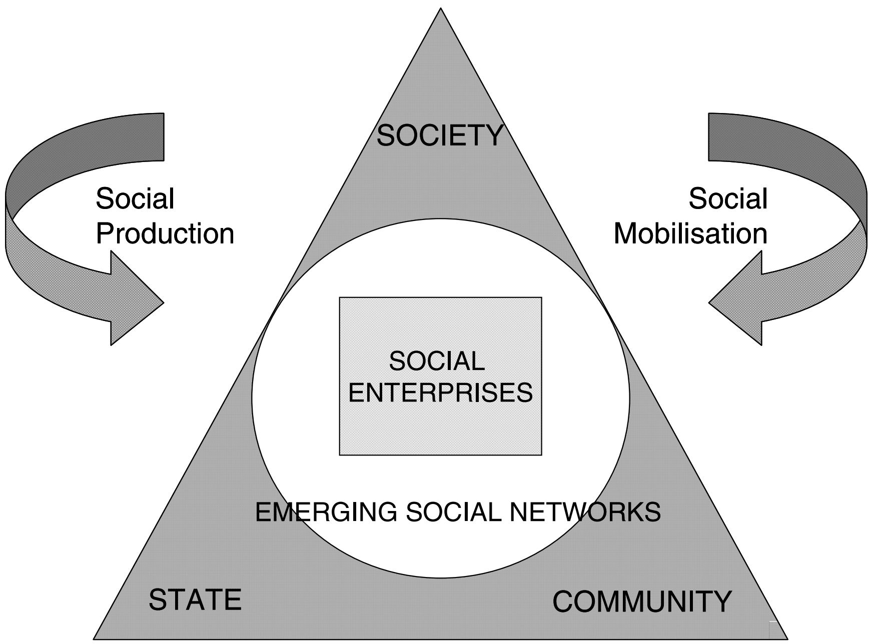
Conceptually, social marginalisation has typically been linked to changes in labour market policy and social transfer policies such as minimum income and social security. However, understanding social marginalisation as a form of alienation, involving not just the extension of entitlements but rather a broader inability to assert a claim to membership (Wong, 1998), draws attention away from state policy toward the every day lives of marginalised segments of society. This, combined with an increased recognition of the limitations in the state's capacity to address the complexity of demand, and thus the multiple and diversified needs of relatively small groups of people within each community, underscores the salience of social enterprises as vehicles of social inclusion.

Although frequently viewed as a community-level phenomenon aimed at generating greater social cohesion among citizens, thus decreasing atomisation and alienation among citizens by fostering social bonds, this conceptualisation of social inclusion is problematic because it minimises the reality of significant structural inequalities and status differentials that exist between marginalised service users and other citizens. In the Southern European context, because most social service beneficiaries have traditionally been excluded from mainstream social, economic and cultural institutions, they occupy a particularly disadvantaged position within society at large, a phenomenon which, without empowerment, social cohesion is likely to perpetuate. Thus, for marginalised service beneficiaries empowerment is arguably a more salient aspect of social inclusion than social cohesion.

Empowerment connotes enabling individuals or groups of individuals to develop competencies or capabilities. As service-based institutions social enterprises offer two basic mechanisms for empowering users. The first relates to their *social production* function, and signifies the ability to foster service users' personal autonomy and individual competency by reducing key informational (such as a lack of knowledge about services and opportunities) and institutional (for example support structures) barriers to social inclusion. In so doing it generates *consumer empowerment*. Within the context of developing social markets, understood as local public administrators purchasing services from other entities which organise, manage and deliver them, empowering users as active consumers is critical to overcoming the kind of paternalism that often accompanies the provision of social assistance, thereby leading service provision to be more reflective of the priorities and goals of providers rather than a mechanism for service users to advance their own goals and objectives.

The second mechanism for empowering users relates to social enterprises' *social mobilisation* function. Based on an understanding of service users as a collective group of disadvantaged citizens, this dimension signifies the ability of social enterprises to overcome key cultural and psychological barriers to social inclusion (such as stigmatisation, alienation and a lack of self esteem). As such it relates to *civic empowerment*, which constitutes users' ability to challenge underlying norms and rules of engagement that typically lead inequities and injustices to have a taken for granted quality. Together, these two dimensions of empowerment form the conceptual basis for thinking about social enterprises' capacity to effectively combat social exclusion and thus function as a force of progressive change within newly emerging welfare networks.

Figure 4.1. Conceptual diagram of social enterprises' capacity to foster social inclusion



Having located social enterprises within the conceptual property space defined by their contribution to social inclusion, I turn now to a discussion of the analytic and empirical linkages between: 1) social production and consumer empowerment; and, 2) social mobilisation and civic empowerment.

Social production and consumer empowerment

Relatively generous cash-based benefits linked to male breadwinners, combined with a weak public service infrastructure, and heavy reliance on family and informal networks of social care, have left significant segments of the population in Southern Europe without a social safety net. As part of a broader attempt to correct some of the imbalances of the Southern European welfare model, social markets have been created, dividing responsibility for service provision between private and non-profit organisations on the one hand and public entities on the other.[1] Whereas the former organises, manages, and delivers social welfare services, the latter purchases and finances these services within an institutional and regulatory framework maintained by the state. Although often linked to greater efficiency and flexibility through the mechanism of "friendly" competition, (Le Grand and Bartlett, 1993; Wistow, *et al.*, 1996), the impact of social markets on the provision of services is subject to considerable debate. Whereas some commentators underscore the potential role of social markets to promote a more user friendly system by promoting a wider variety of services to cater to a more and increasingly diverse service needs (Savas, 1987; Le Grand, 1990), other commentators see them as impeding the ability of government to guarantee the overall social mission of services *vis-à-vis* the population, thus exacerbating the gaps in an already threadbare social safety net (Graefe, 2005; Bode, 2006).

The extent to which social markets will generate greater consumer benefits depend to a considerable degree on the way in which they are implemented and consolidated, a development which in many countries is increasingly dependent upon the performance of social enterprises. For marginalised welfare constituencies who represent the vast majority of service users, the potential innovation of these organisations within the context of social market formation lies principally in their ability to enhance social production in a way that facilitates greater responsiveness to individual service users. In other words, they can move beyond fulfilling basic minimum needs to enhance the personal autonomy of service users and the development of their competence as active consumers versus passive service recipients.

To evaluate social enterprises' capacity to generate consumer empowerment in a systematic way, two primary constructs related to the character of service delivery, more specifically its breadth and scope, can be identified. A major factor of success in the provision of social services is the capacity to accommodate a wide range of needs by mixing services in ways that foster greater competence among service users in utilising institutional resources, thus easing service users' integration into society and minimising their risk of exclusion over the long term (Ranci, Lembi and Costa, 2000). This aspect of social production is particularly relevant to many Southern European welfare systems which tend to generate a narrow range of highly particularistic services for relatively small numbers of people on the basis of a highly restricted definition of need (Ferrera, 1996). Because social enterprises are often the primary intermediaries between marginalised welfare claimants and the social service system, the more diversified the services of social enterprises actually are, the better they are able to accommodate the multi-dimensionality of user needs and demands. Moreover, highly diversified services enhance individual consumers' ability to draw on a variety of different tools and resources to successfully participate and integrate into new social and institutional contexts after their direct interaction with the social enterprise has ended.

Customisation is a more complex indicator which refers to the programmatic aspects of non-standardised services and the extent to which they "wrap around" the individual service beneficiary. In empirical studies of social services, non-residential services are often used as a proxy for customisation because they tend to offer more individualised programming. However, assuming intrinsic differences between services poses validity problems because service type and programme activity do not often match up. For example, residential facilities for the self-sufficient elderly often provide much more personalised care than domestic care services even though the former are residential and the latter non-residential. Because the capacity of service organisations to fulfil user needs depends on the character of those needs, it makes little sense to consider service types without first considering the user base and the programmatic basis of services. In order to capture differences in degree as well as in kind, I evaluate customisation of co-operative services based on the range of activities/programmes offered which are designed to improve the quality of life of individual service users.[2]

Social mobilisation and civic empowerment

Civic empowerment connects social enterprises to social inclusion *vis-à-vis* the mobilisation of populations frequently excluded and/or isolated within stigmatised welfare environments. Whereas the social production dimension highlights the supply side of service provision and the capacity to empower users as consumers, social mobilisation taps the ability to restructure demand within welfare networks by empowering marginalised service users as a collective group of activated citizens. Recognising that many of the mechanisms that drive social exclusion, such as social stratification and the personalisation of social problems (Rubin and Rubin, 2001) have civic structural and cultural roots, civic empowerment captures the ability of social enterprises to serve as institutional catalysts for harnessing collective dissatisfaction and/or facilitating the civic and political engagement of particularly vulnerable risk groups. As vehicles for social mobilisation, social enterprises challenge a pervasive culture of estrangement between marginalised welfare claimants and the broader community by providing an institutional channel to provide voice and stimulating them to assert themselves within a broader public arena. By creating a sense of vested interest and shared responsibility among welfare claimants, civic empowerment helps to overcome the kind of frustration and hopelessness that often leads people to withdraw from formal socio-political systems, thus perpetuating their exclusion from the public arena.

Another key component of civic empowerment relates to activism around social issues. Beyond protecting what Ranci (2001) characterises as the inalienable "moral rights" of service users (*i.e.* freedom of religion, personal liberty and freedom of thought), civic empowerment involves creating a space where users are able to defend and promote their interests – a factor which becomes especially important during periods of retrenchment because it is during these periods that marginalised populations are particularly vulnerable to attack by more powerful interests. Whereas the role of the labour movement in fostering social activism in Southern Europe is well known, less appreciated are the more locally based social movements that have developed around issues pertinent to social marginalisation. In northern Italy, for example, local movements developed in the 1970s and 1980s around the deinstitutionalisation of mental health, early child education and disability rights. To the extent that social enterprises reflect this legacy and/or play a role in raising awareness about the disadvantages facing marginalised populations, they promote greater social inclusion.

To evaluate social enterprises capacity to generate civic empowerment, two principle indicators are used: user participation and advocacy. Social enterprises that foster user participation enable marginalised groups to exercise a say in decision making. Allowing users to promote their views and protect their interests reduces the potential for exploitation. Examining participation as a form of social efficacy focuses on the institutional mechanisms that facilitate civic empowerment, particularly those that structure and/or influence stakeholder involvement. To the extent that social enterprises extend multi-stake holding to user groups, they provide users with the opportunity to exercise their sense of self efficiency and autonomy (Pestoff, 1998; Evers, 2001). This is particularly important in social service organisations due to the tendency of professionals to monopolise the decision-making process with the frequent effect of thwarting empowerment goals (Rubin and Rubin, 2001). Thus, empowering users as true participants extends beyond merely allowing them to have input into the content and form of service provision. It involves generating a true voice for users to assert their preferences and prerogatives through formal inclusion in membership, decision-making and planning. Although it could be argued that focusing on the formal aspects of governance represents an overly restrictive view of participation (Gamson, 1997), it provides an important baseline for analysing social efficacy as a mechanism for enabling people to assert a collective will.

Advocacy, the second key indicator of social mobilisation, involves representing service beneficiaries' collective interests outside of social enterprises, thereby contributing to civic empowerment by facilitating a greater capacity to acquire benefits and compete more effectively for resources. The ability to promote issues and concerns affecting disadvantaged people is an important component of social mobilisation because social enterprises are often the primary institutional interface between welfare claimants and citizen groups on the one hand, and public administrators on the other. Thus, whereas it is possible to view social enterprises' service function as that of privatising user needs and interests (de Leonardis, 1998), the advocacy function increases otherwise marginalised service users' visibility and salience by transporting them into the public arena. In the process, it makes their interests and/or preferences identifiable to strategic political actors.

Advocacy is a particularly important component of civic empowerment because it makes public and explicit the issues and concerns of disadvantaged citizens. It raises awareness of common problems and concerns that would otherwise go unnoticed, such as inequalities or injustice, and generates the social basis of what are otherwise seen as individual problems. Consequently, in evaluating advocacy, it is important to look at the particular types of activity undertaken as well as whether social enterprises are sensitive to and/or supportive of an advocacy role in general. The former is evaluated by looking at the forms of collective action that they undertake (such as petition drives, rallies and participation in community forums). The latter involves investigating the goals and objectives of social enterprises as they relate to promoting more collective, less mechanical ways of thinking of service users, such as demonstrating a commitment to protecting and promoting welfare claimants rights' to self determination and/or diminishing their differential status vis-à-vis other citizens.

Social enterprises and empowerment: an analytic model for analysing institutional capacity

An analytic framework for evaluating social enterprises capacity to empower marginalised users along two principle axes (see Figure 4.2) has been developed. The X axis represents the social production dimension of institutional capacity, and thus the ability of social enterprises to foster *consumer empowerment* while the Y axis represents the social mobilisation dimension of institutional capacity, and thus their capacity for generating *civic empowerment*. The former runs from *preservation*, signifying a perpetuation of the status quo with regards to the traditional model of service provision in Southern Europe (*i.e.* low visibility of users and generalised services for an undifferentiated client base), to *transformation*, which represents a high level of diversification and customisation of services, and thus greater capacity to foster social inclusion. The latter runs from *accommodation*, and thus continuity with the status quo which entails social enterprises mirroring broader structural and institutional inequities within society, to *mobilisation*, which involves social inclusion vis-à-vis high levels of user participation and advocacy. Together these two axes of social inclusion represent a range of capacities for fostering social inclusion, each of which map onto four distinctive institutional models:[3]

1. *Traditional institutions* (Quadrant I) score low on both social production and social mobilisation. Signifying a lack of capacity to empower users, social enterprises that fall within this Preservation-Accommodation nexus tend to replicate the traditional charity-based model of social provision typical of many voluntary organisations within Southern Europe.

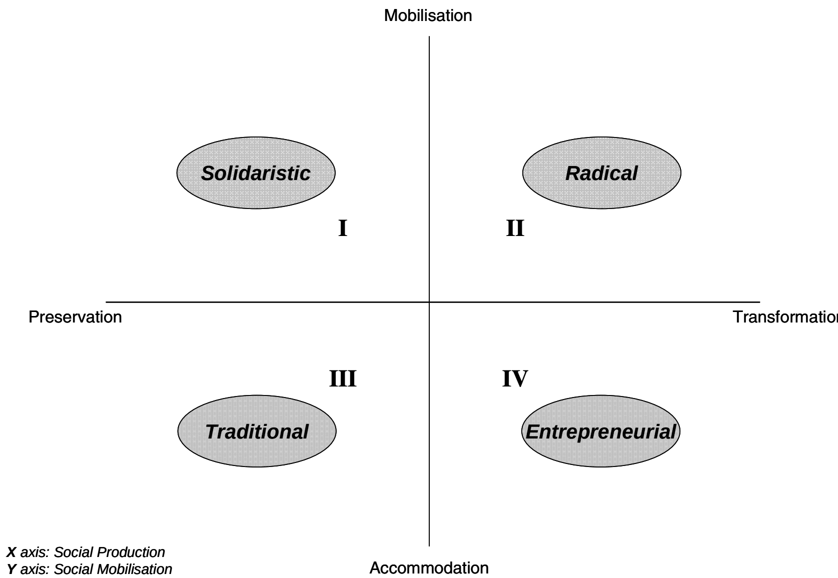
2. *Solidaristic institutions* (Quadrant II) represent a strong capacity for civic empowerment yet a weak capacity for consumer empowerment. By supporting users and their families and fostering civic empowerment, these social enterprises represent the capacity for creating greater mutual recognition and solidarity between stakeholders but not necessarily enhancing marginalised people's autonomy and competency in service provision.

3. *Radical institutions* (Quadrant III) represent vehicles for developing a broader social movement around social inclusion by combining a strong capacity for fostering consumer empowerment with a strong capacity for fostering civic empowerment. In so doing they help to expand the scope of marginalised citizens' autonomy while diminishing the relevance of the market in determining their quality of life. Thus, with respect to the traditional role of social service provision within Southern Europe, they represent a Radical alternative to the status quo.

4. *Entrepreneurial institutions* (Quadrant IV), by contrast, exhibit a strong capacity to mobilise users as consumers, but a weak capacity to foster civic empowerment. This mixed performance indicates the ability of social co-operatives to play a significant role in the consolidation of more user-friendly service arrangements within emerging social markets – not unlike third sector organisations in liberal welfare states – but less

effectiveness in improving the status of marginalised service users as social citizens.

Figure 4.2. Typology of institution capacity to fostering social inclusion



Analysing institutional capacity as a combination of these two dimensions is useful in assessing social enterprises' role in reconfiguring the dominant "service-market paradigm" (Osborne, 1998), which underlies social markets, toward one that signals the creation of more inclusive welfare networks. Having laid out the conceptual and analytical framework for evaluating empowerment as a multidimensional indicator of capacity to facilitate social inclusion, I now turn to my empirical analysis of Italian social co-operatives.

Evaluating empowerment among Italian social co-operatives in Lombardia and Emilia Romagna

My analysis of Italian social co-operatives draws from both qualitative and quantitative data collected from social co-operatives in the northern Italian regions of Lombardia and Emilia Romagna.[4] Utilising regional registries a stratified random sample of 140 social co-operatives from four provinces in Lombardia (Milan, Brescia, Lecco and Cremona) and four provinces in Emilia Romagna (Bologna, Reggio Emilia, Parma and Ferrara) was identified.[5]

Given well known cultural and socio-economic differences between southern and northern Italy, the performance of social co-operatives in Lombardia and Emilia Romagna is by no means representative of social co-operatives in Italy as a whole. These regions are important however, in that they provide a particularly fertile environment for social co-operatives to thrive. Excluding some of Italy's five autonomous regions, (Sicily and Sardinia certainly cannot be considered to be amongst the most economically developed) Lombardia and Emilia Romagna are among the most economically developed, have some of the highest levels of social capital in Italy, and have among the strongest legacies of co-operativism in Italy. These factors make it reasonable to expect social co-operatives in Lombardia and Emilia Romagna to represent best practices in Italian social co-operatives and thus most likely to foster user empowerment.

Performance of Italian social co-operatives

The evidence that emerges from the analysis of Italian social co-operatives suggests caution in portraying social enterprises as vehicles of empowerment. As illustrated in Table 4.1, approximately half of social co-operatives appear to reproduce traditional models of service provision, demonstrating low to moderate capacity for empowerment on both the social production and social mobilisation dimensions. While social co-operatives seem somewhat more adept at generating consumer empowerment regardless of performance on the social production dimension, only a fraction of social co-operatives appear capable of stimulating consumer empowerment. As a whole, it would appear that Italian social co-operatives play an extremely modest role in facilitating social inclusion.

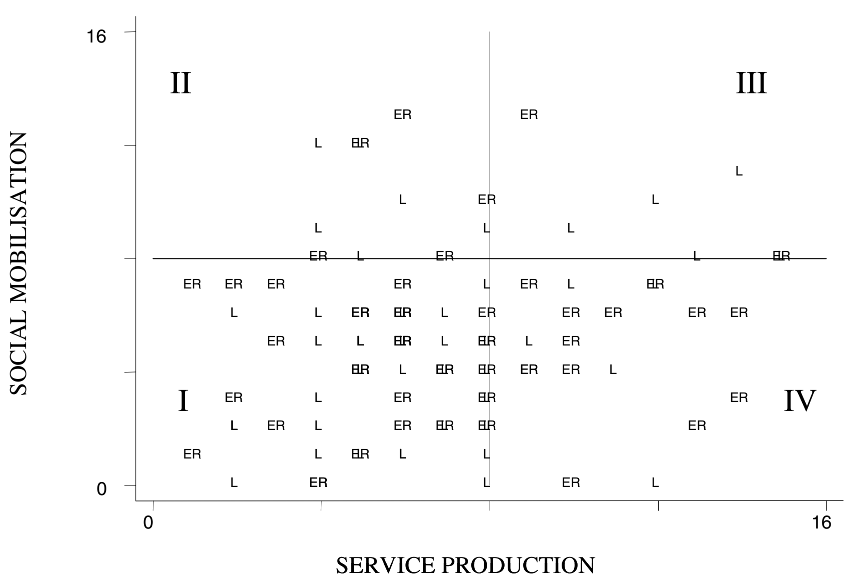
Table 4.1. Typology of social co-operatives based on level of social efficacy
(as % of total)

Solidaristic:	9%	Radical:	9%
Traditional:	52%	Entrepreneurial:	30%

Despite these somewhat negative findings overall, it is important to underscore variation. Mapping social co-operative performance onto the two dimensional property space illustrated by Figure 4.3, it becomes apparent that a sizeable minority of social co-operatives is able to generate relatively high levels of consumer empowerment. This, combined with some relative variation on the social mobilisation dimension, suggests it would be a mistake to dismiss social co-operatives as simply perpetuating traditional forms of social exclusion and therefore irrelevant to user empowerment.

Focusing on region-based distinctions, what is particularly striking is the fact that the capacity of social co-operatives to foster user empowerment appears so similar across regions. Although Lombardia and Emilia Romagna are among those regions most likely to foster empowerment, 55% of social co-operatives in Lombardia and 45% of social co-operatives in Emilia Romagna appear to replicate traditional models of social service provision. Lombardia has a strong Catholic subculture, and has embarked on a rapid privatisation of the social service system with relatively little done to support initiatives that directly support marginalised citizens (Fiorentini, 2000; Fargion, 1998). The social co-operatives' low average scores for both consumer empowerment (6.8) and civic empowerment (4.9) is perhaps therefore unsurprising. Yet, the fact that social co-operatives in Emilia Romagna, a region which has cultivated a partnership model of governance and has placed particularly strong emphasis, both materially and rhetorically, on social provision, scores only slightly higher on each dimension, 7.7 for consumer empowerment and 5.4 for civic empowerment, raises questions about the relevance of broader trends such as competitive contracting and chronic under funding in exerting downward pressure on co-operative capacity.

Figure 4.3. Property space defined by social efficiency: distribution of social co-operatives by region



Note: ER=Emilia Romagna; L=Lombardia.

In the sections that follow, I discuss my findings with specific reference to the two key dimensions of institutional capacity presented above. I turn first to a brief overview of social co-operatives' impact on civic empowerment, followed by a closer look at variation in social co-operatives' capacity to foster consumer empowerment.

Social co-operatives' capacity to generate civic empowerment

Because marginalised groups are often embedded within a larger system of relations that is designed and managed by others, facilitating civic empowerment involves challenging existing practices to reclaim a sense of control over one's environment (Keiffer, 1984). A key way of generating this is by promoting advocacy. Yet, this activity appears to be extremely rare among social co-operatives. Of the 14% of co-operatives that indicated that they undertook three or more of the types of advocacy activities listed in Table 4.2, most were not activities undertaken systematically. Even for those activities that appeared to be most prevalent, filing complaints/requesting action and formal participation in public assemblies, less than 10% of social co-operatives reported that they engaged in either of these activities on a regular basis. This evidence seems to indicate that where social co-operatives do engage in advocacy, it is mostly focused on what Shaw (1999) refers to as "negative" advocacy, defensive tactics stemming from particular grievances related to the organisation, thus involving little to no pro-active effort at mobilising key constituencies. This is further exemplified by the fact that of the 68% of social co-operatives that had indicated that they engaged in activities to raise awareness of social issues among non-members, the vast majority of them focused their efforts not on marginalised populations more broadly but rather on the problems, issues and concerns facing the co-operative as a whole or specific members.

Table 4.2. Frequency of formal advocacy activity among social co-operatives

	Systematically	Occasionally	Never
Public Demonstrations	2%	15%	86%
Public Petitions	1%	4%	95%
Open Letters	1%	12%	86%
Filing formal complaints/requests for action with public administrators and/or politicians	6%	20%	26%
Participating in public assemblies	10%	19%	71%

To some extent, the lack of a strong advocacy component among social co-operatives can be linked to the lack of user participation in formal decision making. Over 70% of social co-operatives fail to include users among their formal membership and of those social co-operatives who do, a relatively small proportion of users are included in co-operative governance. Among the vast majority of co-operatives users do not participate at all in co-operative governance and overall, they tend to be less involved in decision making, the more abstract the level of decision-making. As indicated in Table 4.3, in 75% of social co-operatives users never take part in the definition and/or articulation of service/programmatic objectives, whilst in 84% of social co-operatives they never participate in the definition and/or articulation of the goals and objectives of the co-operative.

Table 4.3. Involvement of service users in distinctive levels of decision-making

	Frequently	Occasionally	Never
Definition and/or articulation of the goals and objectives of the co-operative	2%	14%	84%
Definition and/or articulation of the service and/or programmatic objectives of the co-operative	5%	20%	75%
Realisation of specific interventions	25%	31%	45%

Among the vast majority of users who are not formal members of social co-operatives, few can be considered as functioning as stakeholders in the sense that they are involved either formally or informally in decision making. For the most part, users neither participate in defining the goals of the organisation nor the distribution of resources and priorities, elements which are critical for creating a sense of collective efficacy. Thus, their opportunity for gaining what Keiffer (1984) describes as “participatory competence,” the type of learning by doing which increases understanding and raises consciousness, is significantly suppressed.

Users’ lack of participation in the formal governance of co-operatives, combined with the fact that co-operatives do little direct advocacy on behalf of users, suggests that the ability of socio co-operatives to create a deeper commitment to collective outcomes is weak. Accordingly, they are largely incapable of minimising the type of culturally imposed status rankings that serve to limit the choices and opportunities of society’s most disadvantaged groups (Piven and Cloward, 1979; Rubin and Rubin, 2001). Although there is no need to assume equivalent status between service users and other key constituents (*i.e.* professional service workers and volunteer workers) as a prerequisite for empowerment (Evers, 2001), absence from key decision-making positions precludes marginalised members of the community from exercising a direct role in determining how problems and solutions are defined or framed, how resources are allocated and who benefits from them. This in turn limits their input to those aspects of social co-operatives which accentuate their identity as individual service beneficiaries rather than as part of a collective group of social citizens. Thus, while the proliferation of social co-operatives raises the prospect for an important new weapon in Italy's fight against social exclusion, analysis of their performance in Emilia Romagna and Lombardia, suggests that Italian social co-operatives are not currently operating as major vehicles for civic empowerment, understood here as the collective self-assertion of a disadvantaged population.

Explaining weak capacity to foster civic empowerment

One potential explanation for the weak performance of social co-operatives in facilitating civic empowerment is a lack of awareness and/or sensitivity to the concerns and needs of marginalised service users on the part of other co-operative stakeholders. While this factor is far from negligible, particularly among co-operatives located in smaller, less urbanised areas, in general co-operative stakeholders appear to be attuned, if not sympathetic to the issues facing socially marginalised service users. Moreover, they express favourable attitudes toward promoting user empowerment and combating cultural and institutional exclusion. Asked to rate the importance of various objectives in their co-operatives' founding, nearly half of co-operative presidents indicated, "changing or influencing society" to be either an "extremely important" or "important" motivation in the founding of their co-operative, while 46% indicated that "defending the rights of disadvantaged people" was "extremely important," compared to only 7% who indicated that it was either "unimportant" or "irrelevant" to the co-operatives' original goals. Moreover, over 61% of co-operative directors reported, "promoting an alternative conception of disadvantaged people than that found in the dominant culture" to be either "extremely important" or "important" in fulfilling their co-operatives' contemporary social goals.

The lack of capacity to foster civic empowerment is not so much about a lack of knowledge or sensitivity on the part of the co-operatives as about the external governance structures in which they are embedded. On average, public funding, drawn from multiple sources, accounts for 88% of co-operative revenue. Most funding comes from the purchase of service contracting, whereas only 10% comes in the form of donations or contributions which tend to provide social co-operatives with more autonomy. Because most of the funding received by social co-operatives comes from public authorities and close to 90% of co-operatives report contracting with the public sector for one or more of their services, they are particularly vulnerable to the policy and spending priorities of local public officials.

Public monopolisation of funding options allows public administrators to exert greater influence over contracting, which in the context of competitive bidding, is increasingly conditioned by management considerations. This is particularly relevant in Lombardia and Emilia Romagna which have moved swiftly to structure contracting arrangements in a way which limits administrative discretion over the procedural aspects of service delivery yet strengthens public administrators' control over outputs. Thus, a focus upon economy of scales, quality control measures such as certification procedures, and monitoring and verification of administrative capacity, places considerably more emphasis on organisational and economic efficiency rather than on less immediate or tangible benefits related to empowerment. Furthermore, the fact that paid workers constitute the dominant stakeholders among the vast majority of social co-operatives raises the risk of professional alliances between co-operative workers and public employees who share similar professional goals and objectives. While rarely the result of outright collusion, the professionalisation of norms and identity often leads social co-operatives to prioritise solving service delivery problems rather than promoting "participatory competence," among service users.

These dynamics are exacerbated in the context of relatively weak ties to other community organisations. Despite a demonstrated sensitivity to marginalised populations, only a small fraction of social co-operatives self-identify with a broader social and political agenda. Moreover, social co-operatives, aside from external linkages with public administrators, have strong linkages to the co-operative movement whose primary commitment and focus is to enhance the economic and organisational efficacy of co-operatives as places of employment as well as service delivery organisations.[6] Thus, relatively little emphasis is placed on marginalised citizens beyond their role as service consumers. Furthermore, while innovative management techniques such as the so-called strawberry patch model of development promoted by the national consortium of social solidarity, *Consorzio Gino Mattarelli (CGM)*[7], allows social co-operatives to maintain closer community connections by spinning off smaller co-operatives from bigger ones, and connecting these co-operatives to one another via a network of consortia (Carbognin, *et al.,* 1999), more often then not, these consortia represent yet another layer of management which further enhances the position of employee stakeholders and distances marginalised citizens from co-operative governance.

Given the dependency of social co-operatives on the public sector, it is no surprise that their inability to facilitate "civic" empowerment is linked in large part to trends in public governance, more specifically pressure on policy makers to utilise the "untapped" resources of civil society to balance budgets. While dependency can work to undermine civic empowerment, this outcome tends to be highly linked to a critical, yet often ignored factor: chronic under funding. Relative to its Northern European counter-parts, Italy invests a comparatively small percentage of its social budget in developing and promoting services. Of an already small portion of public funding designated for social assistance, excluding health expenditures, less than 24% is spent on services (OECD, 2007). This can be compared to the United Kingdom where, by the mid 1990s, the proportion of public expenditure on social services contracted to non-public providers alone reached 34% (Gilbert 2004). Moreover, seventy percent of social spending in Italy is sustained by municipalities with their own resources (*Ministero del Lavoro e delle Politiche Sociali, and Direzione Generale per La Gestione del Fondo Nazionale per le Politiche Sociali e Monitoraggio della Spesa Sociale*, 2005). Because regions are not increasing social transfers to municipalities, recent funding increases given by the state to the regions do not appear to be trickling down to the municipal level, as is reflected in the low overall levels of funding granted to social co-operatives. In Lombardia and Emilia Romagna, which are among the richest regions in Italy, the average amount of a social co-operative's budget derived from all combined sources of public funding is approximately EUR 553 500.

Low levels of public funding are particularly salient given a general lack of alternative sources of funding. Because Italy does not have a strong culture of private giving and the number of non-profit and private foundations is relatively small, private social expenditure in Italy has, historically, been extremely low.[8] While approximately 60% of co-operatives indicate receiving over 75% of their operating budget from public entities, only 5% of co-operatives report receiving funding from private sources alone. These trends help explain social co-operatives' emphasis on the tension they face in having to balance their social objectives with the reality of severely restricted budgets. Spending so much of their time trying to survive, they have little time for pursuing activity related to more long term goals such as consciousness raising and advocacy. Thus, the preoccupation with cost effectiveness sacrifices not only service quality, but meaningful progress in transforming ideals of social inclusion into practice.

Social co-operatives' capacity to facilitate consumer empowerment

Turning to the social production dimension, at first glance social co-operatives appear to represent somewhat of a departure from the *status quo.* With the exception of large, religious-based non-profit organisations like *Caritas*, the general pattern of service provision in Italy, as in Southern Europe more generally, has been non-residential services provided usually to a single category of service users with few if any alternative options for care. Less than 18% of the social co-operatives appear to reflect this pattern (Table 4.4). A sizeable number of social co-operatives are offering multiple services to a single category of user, suggesting greater attention to the specialised needs of particular types of users. Most social co-operatives are generating a variety of specialised and generalised services (ranging from emergency hotlines and street education to full time residential facilities) to a variety of service targets or are offering multiple services to single users as a kind of wrap-around service.

Table 4.4. Distribution of services and user types

	Single Service	Multiple Service
Single User Category	18%	17%
Multiple User Category	14%	52%

These service arrangements provide the foundation for enhancing consumer empowerment not only by reducing social risk but by increasing individual capacity. Whereas uni-dimensional service environments often exacerbate dependency and stigma by defining and dealing with users on the basis of a single problem issue, service diversity can enhance individual well being in a way that extends well beyond satisfying immediate needs. This is exemplified by many co-operatives that generate a range of specialised residential and day treatment facilities in addition to specialised programmes aimed at integrating people recovering from drug dependencies back into their communities. In addition to offering job training programmes, as well as transitional housing, which are run and operated by residents, a number of social co-operatives have developed "life skills" training that cater specifically to the social and economic difficulties of clients; for example, day care for single mothers as they attempt to find work or counselling for families dealing with under-age drug dependency.

Aside from enabling an expansion of services which facilitate personal autonomy, the majority of social co-operatives report soliciting involvement in service delivery. As indicated in Table 4.3, in over 55% of co-operatives, service users are either frequently or occasionally involved in the realisation of specific interventions. This means that to varying degrees they are participating as service consumers in shaping the quality of those co-operative services and programmes that impact upon them most directly. Many social co-operatives also exhibit a strong commitment to integration and engage in a range of support activities which reduce the "ghettoisation" of users into service enclaves. Over 77% of co-operative directors consider "integrating users into the social life of their communities," as either an "extremely important" or "important" component of their co-operative's social mission. This rhetorical commitment to social integration is supported, in many cases, by projects designed to bridge users' physical and emotional separation from the communities in which they reside. The way in which social co-operatives can increase users visibility and foster their integration in the social life of their local communities, is particularly well captured by a co-operative member of *La Casa Grande* (The Big House), a co-operative in Sesto (Milan) in his description of the motivation for developing series of popular festivals organised for the marginalised youth living in group homes run by the co-operative. He says, "[it was]...to offer happy, even joyous imagery, of the presence of children with tremendous problems, yet still children open to life….to address to the world outside a message not of fear, anxieties and insecurities, but of closeness and solidarity," (Vegetti, 2000; my translation).

However, looking more in-depth at the social production dimension reveals a less rosy picture. The majority of social co-operatives view service users as people to be assisted rather than service consumers whose voices, views, and capacity for choice are both appreciated and fostered. With few exceptions, most social co-operatives have not developed a service culture which stresses the rights and responsibilities of consumers. This is evidenced by a pervasive lack of consumer safeguards. Few social co-operatives have a formal grievance process in place or engage users in an open, ongoing dialogue about their perspectives on service development. Where mechanisms to gauge consumer opinion, such as questionnaires, are present, they have been introduced largely in reaction to particular problems or issues and have thus served primarily as mechanisms to solicit specific, targeted information rather than as a proactive attempt to involve users in service design or implementation or broader reflections on their well being. Of the 41% of social co-operatives that indicate they have administered questionnaires to users in order to solicit input with regard to user satisfaction, the vast majority do so infrequently. While users are able to express themselves through more informal mechanisms, for the most part, their opportunity to exercise "voice" with regard to the quality of their care is confined to personal exchanges with individual staff members.

Most social co-operatives stress collective solidarity over personal autonomy and thus to the extent that the latter is important for fostering personal initiative, many social co-operatives inadvertently undermine consumer empowerment. For example, most social co-operatives fail to develop the type of stepping stones that reintegrate users into personal and community networks outside the co-operative. The failure to empower users as consumers is particularly well illustrated among social co-operatives that cater to disabled users. Many of these co-operatives specialise in managing social-education centres, lack long-term programming and provide little opportunity for the kind of educational and inter-personal development needed to foster empowerment.[9] Furthermore, in the absence of consumer safeguards, service linkages, and social programming, the tendency to foster a family like atmosphere ends up replicating family hierarchies, with users at the bottom of the hierarchy rather than being viewed and treated as autonomous service consumers. Thus, in seeking to maximise solidarity, many social co-operatives frequently end up perpetuating users' segregation from the rest of society. In the context of social co-operatives that cater to disabled users, this is exemplified by the widespread development of special summer programmes which provide an infrastructure and support system to encourage families of disabled children and adults to vacation together in distant, highly isolated locations.

Explaining variance in consumer empowerment

Social co-operatives' capacity to produce civic empowerment depends to a large degree on the quality of public governance, and the indirect effects of social market development. Administrative and social reform during the 1990's, and on-going, significantly streamlined Italy's traditional reliance on complicated, legalistic procedures and regulations, which tended to emphasise procedural obligations over efficacy of outputs. These were tied to national efforts to promote a variety of collaborative policy-making measures. In addition to bolstering the responsibility of local public administrators for managing public affairs, social reforms have generated a variety of tools for enhancing service quality, including the introduction of quality rating systems, certification and accreditation of services. In addition, these legal and administrative developments have been accompanied by cultural changes within public administration, for example greater autonomy of social service directors from social service councillors (politicians), and the latter's increasing experience with, and knowledge of, the social sector (Pavolini, 2003). Combined with the institutionalisation of contention and debate in most domains related to social policy, these developments have greatly increased local public officials interaction with third sector organisations.[10]

While in general, these developments have had a positive overall effect in creating an environment more conducive to promoting consumer empowerment, pervasive decentralisation, complex intra-governmental divisions of authority, significant territorial and sector based resource inequities, and significant disparities in human capital, create a highly differentiated environment for social co-operatives to pursue consumer empowerment. In areas with a strong legacy of public-private partnerships and public leadership which have prioritised social co-operatives and the creation of more integrated service networks, social co-operatives appear to be in a slightly better position to pursue consumer empowerment because they are able to draw on a variety of information and resources to develop synergies over time. However, without significant private and non-profit funding sources and local public officials who are particularly sensitive to the issue of social marginalisation, the push to develop social markets appears to weaken social co-operatives capacity to foster consumer empowerment in so far as it promotes a strategic emphasis on managerial and organisational efficiency.

Furthermore, public administrators' growing emphasis on combining services into global contracts, has the effect of favouring service providers who are able to demonstrate management capacity, professional development, and an entrepreneurial spirit grounded in the logic of expanding service networks.[11] By cutting down on the number of contracts and broadening the scope of each contract, public administrators argue that they are better able to generate greater responsiveness to the multi-dimensionality of user needs, at the same time, minimising the overhead involved in establishing, administrating, and overseeing multiple contracts for a wide variety of small, specialised providers. Despite the positive effect of global contracting on expanding the scope of services, it creates disincentives in pursuing consumer empowerment in two key ways. First, it puts pressure on social co-operatives to adopt more vertical management structures. Although many social co-operatives have adapted considerable checks and balances in exercising managerial tasks, the emphasis on broad based service delivery accentuates the role of managers and professionals over other co-operative stakeholders. This in turn emphasises economic efficiency over deliberation, thus undermining consumer empowerment. Second, in so much as this strategy favours the development of co-operative consortia for co-ordinating programmes and services and pooling staff and resources, it adds another layer of decision-making, thus further distancing users from governance.

Moreover, explicit emphasis on service quality has not proven particularly effective in enhancing social co-operatives' prospects for consumer empowerment. During the mid to late 1990's, both Lombardia and Emilia Romagna embraced a variety of quality control measures intended, at least in part, to improve user satisfaction. As a result, regional law expressly prohibited the awarding of contracts solely on the basis of cost considerations and provided incentives for accreditation, thus mandating that contracting agencies establish quality criteria.[12] While these developments ostensibly create stronger consumer safeguards, they focus on the managerial aspects of service quality and thus arguably do little to increase the accountability of service providers to service users. From the perspective of enhancing user empowerment, they are problematic in two key ways. First, quality controls such as assigning points in the granting of contracts favours measurable standards which are unable to deal effectively with the subjective and relational aspects of service production most conducive to enhancing consumer empowerment. For example, investment and development plans may be good for communicating information to evaluate economic efficiency, but they are much less effective in getting organisations to adapt practices that facilitate greater consumer empowerment (*i.e.* user consultation, democratic activities).[13] Second, because standardised certification procedures are adopted by service providers largely as a signalling device aimed at winning service contracts, their emphasis on internal accountability tends to be low. Moreover, although they provide a mechanism for public administrators to get social co-operatives to adhere to common, minimum regulations, because they are front loaded, they often function as a substitute for service monitoring and thus often do little in the way of acting as effective checks in support of service users.

Aside from issues related to public governance, the fact that social co-operatives external relations are heavily intermediated by the broader co-operative movement is a key factor in determining social co-operatives capacity to facilitate greater consumer empowerment. In a number of ways co-operative representatives have played a positive role. For example, they have actively lobbied against excessive recourse to cost-based contracting, thus helping to bring down the weight assigned to cost as opposed to quality indicators in the contracting rating system. In addition, representatives of *CGM* and *Federsolidarieta* have been vociferous advocates for community embeddedness, a strategy for service development which bolsters' consumer-based empowerment, not just among social co-operatives, but service providers more generally. In spite of these generally positive contributions, co-operative leaders have little incentive to lobby to transform marginalised service users from passive recipients to active consumers. The central mission of the Italian co-operative movement is to defend and promote the interests of co-operative members and workers. While technically, membership includes users, because only a fourth of social co-operatives include users and their total number *vis-à-vis* other stakeholders is extremely small, they are not an important constituency, particularly compared to paid workers. Many co-operative leaders view promoting the interests and needs of co-operative workers as tantamount to pursuing those of service users, however the interests of these two constituencies often diverge. For example, in so far as the co-operative leadership has lobbied to extend mechanisms of self-regulation to social co-operatives, it has tended to thwart the development of more effective consumer protections, thus exacerbating power differentials which already heavily favour paid workers over other stakeholders.

Conclusion: can empowerment be promoted?

In the first half of this chapter an analytical model of institutional performance linking the development of social enterprises to the fight against social exclusion *vis-à-vis* their capacity to generate consumer and civic empowerment was presented. Applying this model to an empirical analysis of social co-operative performance in Northern Italy, significant limitations in social co-operatives contribution to social inclusion has been revealed. While more work needs to be done to understand the degree to which these findings extend to other social enterprises as well as the specific factors that account for variation both among and between social enterprises in different countries, it is important to underscore the fruitfulness of this model in shedding light not only on the current capacity of social enterprises to empower marginalised citizens, but their future potentiality as well. With this in mind, the remainder of this chapter is devoted to generating recommendations for improving Italian social co-operative's capacity to promote user empowerment in the future.

Consumer empowerment

As an intermediary between public administrators and the communities they govern, social co-operatives are in a unique position to mediate tensions inherent in the process of forming and consolidating social markets. Yet, as previously underscored, whether they do so in ways that is enabling to marginalised service beneficiaries depends on a variety of factors related to the internal and external governance structures in which they operate. Keeping this in mind, social co-operatives' ability to promote greater consumer empowerment could be enhanced in the following three ways.

Developing public regulatory frameworks that increase user accountability

Local social service networks oriented toward service producers rather than users are pervasive in Lombardia and Emilia Romagna. In order to catalyse user empowerment, public regulatory structures need to enhance accountability to users, a process which involves recognising that users' interests cannot be adequately represented solely through social co-operatives. To the extent that the inclusion of "social partners" is seen as a substitute for direct representation, concertation, as an institutionalised form of social dialogue, does little to change the structural foundation of exclusion in which marginalised service users are embedded. Within the framework of social concertation, local officials need to take more proactive steps in providing an autonomous voice for users' to interact directly with public administrators, for example by guaranteeing an alternative grievance procedure which bypasses co-operative management.

Promoting user-friendly quality control measures

Although both Lombardia and Emilia Romagna have developed measures to try to enhance quality control, the formulation, management and verification of these measures continues to be dominated by a managerial ethos which is ill-suited to empowering consumers. Because purchase-of-service contracting has shifted much of the onus of service management to social co-operatives and other third sector organisations, their views and perspectives become increasingly relevant for consumer empowerment. Thus, both public administrators and social co-operatives will need to develop a broader definition of social merit which includes key consumer concerns. In much the same way that co-operative leaders pioneered social accounting, they have the potential to stimulate the development and dissemination of user-friendly quality controls.[14] For their part, public officials need to take a more active role in monitoring and enforcing contracts in a way that prioritises accountability to service consumers rather than administrative protocols. This could involve mandating a user bill of rights, as has been adopted within the public health administration. Alternatively, user empowerment could be made more central to the awarding of public contracts. Legislation in Lombardia and Emilia Romagna currently underscores providers' responsibility to develop instruments for activating and consolidating linkages within their local communities. Similar provisions could be extended to their ability to empower service users, for example, to gauge consumer satisfaction within individual contracts.

Increasing public and private funding streams

Improving social co-operatives capacity to make a meaningful contribution to consumer empowerment will require a substantial investment of human and material resources. To the extent that social co-operatives continue to be seen primarily as mechanisms for controlling costs rather than investing in people, they will not be able to shift much needed resources away from immediate needs to more long term goals. As social co-operatives key source of revenue, increases in public funding will be important to enhancing social co-operative capacity. Yet, given the fiscal constraints currently facing local governments, greater effort will be needed to increase private and non-profit funding streams. Thus, greater government effort will be needed to develop social co-operatives revenue base by, for example, helping social co-operatives identify new markets, increasing public awareness of social co-operatives as targets of investment, and promoting tax breaks to citizens to encourage them to increase donations. For its part, the co-operative movement could play a significant indirect role by actively cultivating a wider array of funding raising strategies, focusing particularly on those aimed at generating sustainable, community-based revenue.

Civic empowerment

Like most third sector organisations, social co-operatives are as much a product of deep seated cultural structures and processes, as they are alternatives to them. Small, both in terms of social and economic capital, and somewhat peripheral to societal consciousness, social co-operatives are highly vulnerable to external influences, whether public administrators or more powerful societal groups, such as co-operative associations. To a great extent, their weak capacity for civic empowerment reflects this reality. This said, the process of social market creation, in so far as it takes place within a broad and quickly changing reform context, magnifies the importance of leadership. The following are two key ways in which social co-operative leadership can move forward to enhance civic empowerment.

Cultivating an ideological commitment to promoting internal and external solidarity

The social co-operatives that have managed to generate modes of interaction which build social bonds among stakeholders are those that have actively sought to promote mutual awareness and understanding as part of their core identity. By pursuing what one co-operative director referred to as "reciprocal consciousness", social co-operatives can cultivate internal mechanisms for developing collective empowerment over time. By generating inter-personal relations which are simultaneously intensive enough to allow for mutual learning, yet loose enough to allow stakeholders from different backgrounds to integrate new values and attitudes with behaviours they express outside of the co-operative, co-operative leadership has the potential to create a climate more conducive to user involvement in governance. Furthermore, by helping to encourage social co-operatives to frame their social mission within the context of broader civic concerns, CGM and other social co-operative organisations can play a substantial role in promoting civic empowerment by facilitating greater awareness among different stakeholders of both the common challenges they face, as well as the powerful structural and cultural forces that it is necessary to confront.

Extending and strengthening ties to grass roots advocacy groups

Despite a strong commitment to territorial embeddedness, the scope and breath of the ties of social co-operatives to their communities are quite limited. Because most of the focus is on service networks, where ties to other organisations do exist, they tend to be concentrated around co-operative bodies (other co-operatives, consortia, co-operative associations, etc.). A key factor in improving social co-operatives' capacity to generate civic empowerment is linked to their ability to cultivate closer relations with more advocacy-based community groups. This is important not only for providing a support structure independent of the co-operative movement, but also for creating the kind of synergies necessary for sustaining a long term commitment to social inclusion. In addition to seeking out ties to existing community based groups, social co-operatives can extend advocacy based networks by spinning off grass roots groups among users and their friends and relatives. This not only facilitates greater mutual support to resolve common problems, it can also trigger greater community activism.

The development of social enterprises over the course of the last decade has made a significant contribution to improving the scope and depth of social service networks throughout Europe. Much of their success, in turn, has been attributed to their unique status as hybrid organisations which hold together complementary, yet often conflicting social and economic functions. Grounded in this notion of hybridity, the model of institutional capacity developed in this paper has sought to shed light on the ability of social enterprises to empower marginalised service users in two key ways. Focusing on Italian social co-operatives as an important subset of social enterprises, empirical analysis has revealed that neither their special juridical status nor their unique institutional structure appear to make social co-operatives particularly likely to foster either consumer or civic empowerment. While in many ways these results point to the significant influence that social markets have on the performance of social enterprises, they underscore the complex interdependencies that exist between social enterprises and the institutional and cultural environment in which they develop, and the often conflicting pressures these organisations face in promoting greater social inclusion. Thus, rather than a focus on social enterprises as existing resources to be exploited, I argue that greater emphasis should be placed on social enterprises as potential resources to be cultivated.

Annex 4. Summary of key measures for social efficacy

Table A.1. Summary of key measures for social efficacy

Dimension	Key Variable	Variable Type	Variable Descriptions
Social Production	Diversification	Continuous(0-8)	Composite index of different types of services offered
	Customisation	Continuous(0-8)	Composite index of customised programmes / activities offered to primary user group
Social Mobilisation	Participation	Continuous(0-6)	Composite index of user input and involvement in institutional governance
	Advocacy	Continuous(0-10)	Composite index of direct advocacy and consciousness raising activity

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Notes

1. Before the mid-1990's there had been virtually no market role within the Italian social service system. This changed in 1992, with the adoption of European Directive, CEE 92/50, which obliged Italian public administrators to adopt more efficient contracting regulations, leading to the widespread introduction of purchase-of-service contracting, and in the late 1990's the proliferation of competitively tendered contracting *(gare d'appalto)*.

2. I measure customisation as a composite index of eight types of programmes/activities offered to co-operatives' primary user group. These social programmes/activities were pre-selected on the basis of their contribution to enhancing the quality of life of service users. Incorporating a more holistic view of service users' social needs and concerns, these programmes and activities indicate a level of service quality that extends beyond "standardised services" aimed at fulfilling basic needs. To ensure that these activities/programmes reflect the particular needs and concerns of users, I generated a separate list of programmes/activities relevant to specific, marginalised populations covered in my study (the elderly, the disabled, immigrants, people recovering from drug dependency). The following is the list of social activities generated for disabled users: 1) psychological support/counselling; 2) accompaniment (*i.e.* errands, social outings); 3) physical therapy; 4) development of specialised skills; 5) job search/placement; 6) legal assistance; 7) eliminating architectonic barriers; and, 8) education projects/scholastic integration.

3. Each axis represents a composite score of social efficacy ranging from 0-16, 0 representing absolute 0 and 16 representing the highest score possible. The median score 8, is utilised as the cut off point, separating weak and strong capacity for user empowerment, and thus distinguishing different types of social co-operatives. See Appendix A for a summary of key measures.

4. Most of this data is taken from an in-person survey I developed and delivered to co-operative presidents and directors between January and December 2001. I utilised the survey as a means of soliciting information about social co-operatives, their history, organisation, philosophy and

activity, as well as attitudes and opinions regarding the analytically derived understandings of concepts elaborated in the first half of the chapter. My empirical analysis draws from a variety of other sources as well, ranging from primary documentation of co-operative histories and programmes to in-depth interviews with co-operative personnel, academics and co-operative association officials. With regard to the latter, I conducted 31 interviews with provincial, regional, and national level officials within each of Italy's two largest co-operative associations, *Lega* and *Confcooperativa.*

5. There are two main types of social co-operatives in Italy: Type A social co-operatives deal with welfare services explicitly, while type B social co-operatives are geared toward labour market insertion. Although the sample includes a number of mixed co-operatives that combine elements of both A and B co-operatives, it focuses on type A social co-operatives with the exclusion of co-operatives listing either minors as their primary category of users or homecare as their only service area.

6. Over 89% of social co-operatives in Emilia Romagna and Lombardia are members of either *Lega* or *Confcooperativa.* With the exception of other co-operatives, with whom 93% of social co-operatives indicate either occasional or frequent contact, social co-operatives appear to have modest interaction with community organisations.

7. In 2007 CGM changed its legal status to that of a co-operative group.

8. For example, in 1995 voluntary private social expenditure accounted for only 1.9% of GDP (Adema, 2000). This is far outweighed by the private share of social expenditure in most European countries, ranging for example from 4% to 17% in Sweden, the Netherlands and the United Kingdom.

9. In a number of cases low grade assemblage activity, which is used to generate income for the operation of the co-operative, is the central stimulus provided for service users, an activity which tends to be normalised by co-operative workers as necessary and appropriate in light of both the gravity of users' disabilities and the need to give users "something to do".

10. On the basis of a survey conducted 1999, Pavolini (2003) found that 68% of municipal social service councilors surveyed had sustained relations with the third sector, most of which involved at least monthly interaction.

11. Although already pervasive in Lombardia where there has been a concerted effort to facilitate global contracting through consortia (Regione Lombardia, 2000), this practice is likely to be much more pervasive in the aftermath of Directive 2004/18/EC. This directive, which now regulates the co-ordination of procedures for the award of public

service contracts, essentially takes away the prerogative of member states to discriminate against bidders from other member states above a minimum threshold.

12. In the late 1990's many social co-operatives began a process of adopting internationally recognized quality certification schemes. In collaboration with *Federsolidarieta*, CGM, began its first extensive quality control project in 1998, the first stage of which involved the certification of its 68 consortia and 1 000 individual co-operatives with UNI EN ISO 2001: 2000 (also known as Vision 2000).

13. As a consequence of these types of concerns, many social co-operatives view standardized protocols like UNI-EN-ISO as inadequate tools for evaluating the substantive aspects of service quality. As a result, co-operative representatives have pushed for sector-based norms within the ISO 9001 to be elaborated by national certification bodies. In addition, they have supported the development of an inter-regional accord which would enable a broader, more systematic set of standards for certification and eventually accreditation (Fanelli, 2001).

14. Long before corporate social responsibility was in vogue, the co-operative movement initiated the adoption of social budgets (*bilanci sociali*) as a means of promoting service quality. A form of social accounting, these *bilancio sociale* came to represent a key policy instrument for compelling co-operatives to address and be responsible for, the social impact of their activities (Viviani, 2000).

Chapter 5.

The Social Economy:

Diverse Approaches and Practices in Europe and Canada

by

Jean-Louis Laville, Benoit Levesque and Marguerite Mendell

Divided into three distinct sections, this chapter provides an overview of the different approaches to the social economy in the European Union and in Canada, which, with its strong European influences, has utilised and engaged with many European approaches to the social economy. Opening with a discussion of the development of the linkages between the economy and ideas of solidarity, the first section goes on to explore the contemporary development of the social economy within the European Union. The development of the social economy in Canada during the 1970s and 1980s, particularly in Quebec, is examined in the second section. Finally, the chapter concludes with a discussion of the way in which researchers have sought to portray the "new social economy" and the links between it and ideas of social entrepreneurship and social innovation.

Introduction

The social economy, with its origins in Europe, emerged in North America by the nineteenth century, particularly in Canada (notably Quebec), with its ties to the United Kingdom and France. Today, it is interesting to explore the renewal of the social economy in Europe and in Canada in the latter part of the twentieth century for a number of reasons. Firstly, although Canada is an integral part of the North American continent, evidenced in its participation in free trade agreements (including the North American Free Trade Agreement), it shares many characteristics with Europe, including economic policies that are more interventionist, a more comprehensive welfare state than in the United States, and social movements that are more organised and more widely recognised by government (Brunelle and Lévesque, 2004). Secondly, the renewal of the social economy, notably in Quebec, benefited from a rich dialogue with, among others, France, on theoretical approaches as well as from comparisons of experiences. An important example of comparative analysis was undertaken by the France-Quebec Social and Solidarity Economy Project that influenced the development of public policy to support the social and solidarity economy.[1] Lastly, new theoretical approaches to the social economy are increasingly the result of a fertile exchange between several scientific associations and international research networks such as CIRIEC, EMES and ISTR.[2]

This chapter, which is divided into three sections, provides an overview of the realities and approaches to the social economy in the European Union and in Canada. In the first section, we identify the major periods in European history in which there is a clear articulation between the economy and solidarity, including the recognition of the social economy and the emergence, in recent decades, of a new dynamic that we explore in the context of the ambiguities inherent in the position taken by the European Union. In the second section, we provide a rough outline of the social economy in Canada and in Quebec, focussing on what some have called the "new social economy", which emerged in the 1970s but above all in the 1980s. In the third section, we discuss the various definitions and theoretical approaches that researchers have used to portray this new reality. While stakeholders have been searching for a consensus definition, researchers have proposed a multiplicity of definitions resulting from their construction of the object of research, the contours of which vary according to the underlying theoretical approach (Bourdieu, *et al.,* 1968). The literature and the experiences that we draw upon for our overview in this chapter are the result of extensive research and engagement of the three researchers in close collaboration with the research teams to which they belong – ARUC-ÉS and CRISES in Canada and CRIDA and LISE in France.[3]

Economy and solidarity: a European history[4]

Within Europe, modern associations could only emerge once democracy had been established. Associationism was identified with citizenship and was recognized for its socio-political role (Evers, 1997). In nineteenth century Britain, the concept of charitable organisations was linked to the debate on citizenship; charity was a social principle, an essential component of a democratic society. Moreover, its altruism and moral commitment performed a regulatory role. The objective of government in Victorian England was "to provide a framework of rules and directives to enable society to manage itself to large measure". As a result, associations and their charitable activities were autonomous. While they were not funded by the government, they did co-operate with state authorities responsible for legislation on poverty. A large portion of social security benefits were financed and managed locally, with limited central government assistance, giving rise to a host of "institutions that acted as intermediaries" between the state and citizens while being at the same time "an integral part of the state" (Lewis, 1997).

In France, however, while part of the community of associations arose from a philanthropic desire for social harmony, the reality was also shaped by republican egalitarianism. In the mid-nineteenth century there emerged a conception of solidarity as a social democratic link. Thus did Leroux describe the notion of solidarity by stating that "Nature did not create a single being for itself… It created all beings for each other and gave them a relationship of reciprocal solidarity" (Leroux, 1851). To escape competitive individualism and authoritarian statism alike, Leroux looked to networks of solidarity involving workshops, as well as to associations and the press in order to sustain the public spirit essential to democracy. Along these lines, projects seeking to set up a "fraternal" or "solidarity-based" economy flourished in the 1830s and 1840s during a real surge in associationism.

These two cases evoke the two main sources of European civic associationism, and they both make reference to the broad and polysemic notion of solidarity. Joint actions initiated in the name of solidarity were inextricably social, economic and political. Their effects were disseminated throughout the nineteenth century. In particular, they provided the basis for forms of public action that underlay the construction of a social state. At the same time, legal structures were put in place. Still this institutionalisation led to a widening gap between dimensions that had previously been linked. Ties with trade unions loosened because of ideological tensions within the labour movement.

The social economy

In the late nineteenth century and throughout the twentieth century, divisions and fragmentation social economy organisations were exacerbated by legal compartmentalisation and integration into the dominant economic system. Three sub-groups stand out clearly: co-operatives, mutual societies and associations.

Co-operatives

Co-operatives were integrated into the market economy, occupying sectors in which capitalist activity remained weak. They enabled a variety of groups to mobilise resources necessary for their activities but avoided by investors. While some types of co-operatives, such as agricultural co-operatives, emerged almost everywhere, others were more country-specific, such as consumer co-operatives in England and housing co-operatives in Germany, Great Britain and Sweden. In countries where the pace of industrialisation was less rapid, such as France and Italy, workers' production co-operatives developed, promoted in Italy by the industrial districts of the Third Italy. While co-operatives were able to benefit from certain arrangements negotiated with the state, for the most part they were subject to competition. In general, the logical consequence was to concentrate the means of production, which prompted them to specialise in major activities linked to the identities of their members. Concern for the long-term survival of the enterprises caused broader political objectives to be scaled back, and the transformation continued – so much so that associations gradually became "genuine financial groups, resembling the co-operative institutions typical of developed capitalist economies" (Vienney, 1982).

Mutual societies

The creation of the welfare state profoundly altered the role played by mutual societies in Europe. Numerous initiatives had been taken in the early nineteenth century to respond to problems of work disability, illness and old age with solidarity, bringing together members of a profession, an industry or a geographical area. Seen as instruments of worker emancipation by socialists, as barriers against social unrest by liberals and conservatives, these mutual societies were tolerated and controlled by government, as in Belgium and France, from the middle of the century. The risk inherent in these benefits could in fact be managed better thanks to the participation of a large number of members throughout the country and the support provided by statistical techniques. The security of the system was assured by instituting compulsory insurance schemes (such as for illness and old age). The nature of the economic activities involved created a dependency on social security systems after the Second World War, and mutual societies became social protection organisations complementary to compulsory schemes. They became subject to state-prescribed standards to supplement social transfers, even if it meant altering the principle of voluntary membership to be able to provide contingent and complementary support. In Denmark, Spain, France and Italy, mutual societies pooled their health insurance activities with those of administering health care and social welfare institutions. However, heightened competition in insurance markets put them to a severe test, similar to that of mutual insurance companies covering property-related risks.

Associations

Associations have been closely linked to different welfare states, corresponding with the three models of welfare state regimes identified by Esping-Andersen (1990). In the first model, which corresponds with the universalist or social democratic systems of Scandinavian countries such as Sweden and Denmark, broad reliance on the state as the organiser of society considers social services as a “collectivisation of needs” (Leira, 1992), giving priority to social integration and gender equality. In this framework, the role of associations has been to exert social pressure by giving voice to demands, and they have mobilised networks to press for the delivery of benefits by the public service. In the second configuration, corresponding to liberal and dual systems, services are largely absent. Under the liberal welfare state system characteristic of the United Kingdom, government intervention is concentrated on the most disadvantaged sectors of the population. A scarcity of government-regulated non-market services is also characteristic of the dual systems specific to southern Europe and exemplified by Spain, Italy and Portugal. Focused on cash transfers, such systems eschew services and give protection to people well integrated into the labour market, at the expense of persons trapped in insecure jobs or in the informal economy; here, “access to rights is neither universal nor egalitarian, but operates on the basis of personal knowledge, privilege and patronage” (Ferrara, 1996).

In both these configurations, the role of associations as producers of goods or services is very limited, but for opposite reasons: in the universalist model, the creation of many new services, with tasks previously performed by the private sector being shifted to government; and in the liberal and dual models, weak externalisation of services, with tasks remaining largely performed by women and maintained in the private sector. For its part, the third configuration corresponds to a corporatist system. In contrast to the other two, this configuration gives associations a major role as service providers. Hierarchical regulation governs relations between associations and government, associative services being considered an integral part of social policies financed by taxes or social security contributions. The state establishes the rules for how services are delivered and for the wage-earning occupations that provide them. If the rules are complied with, funding is provided through redistribution. In Germany, Austria, France and Belgium, associations were pioneers in social services, identifying emerging social requirements which were subsequently kept in the associative sector, albeit under control of the state. State regulation has brought associations closer to the government and prompted them to form major nation-wide federations (affiliated with political parties, churches, the Red Cross and non-aligned organisations in Germany; lay and Catholic in France; socialist and Christian in Belgium).

In all, the full range of social economy organisations, favouring the accumulation of community assets over the remuneration of capital, took root throughout Europe. Over 30% of the population are members of one of these associations: co-operative banks, with their 36 million members and 91 million customers, hold 17% of the banking market, and co-operative and mutual insurers account for almost 30% of the insurance market. Lastly, such organisations provide 8.5 million full-time equivalent jobs, or 7.7% of salaried civilian employment (CIRIEC, 1999).

While the economic importance of the social economy was consolidated over the course of the twentieth century, the same cannot be said for its political influence. The selection of members on the basis of their contribution to the activity considerably diminished the sense of belonging in which the pioneering associationist dynamics had been rooted. Specialisation, assessment of the productive efficiency of co-operatives and mutual societies against that of other enterprises, and the integration of associations into national social policies caused the focus of social economy organisations to become more technical. Despite occasionally taking strong positions – on the future of health care systems, for example – these various entities had only a slight impact on public debate and in many cases abandoned their societal ambition in favour of management performance or compliance with public standards.

The loss of multi-dimensionality was reflected above all in an abandonment of political dimensions, but also in a separation between the various entities. While co-operatives and mutual societies stem from the same roots as associations, this common origin has been forgotten in countries like the United Kingdom. This explains the reference, not to the social economy, but to the "third sector", formed exclusively by non-profit organisations, to the exclusion of mutual societies and co-operatives alike, in line with the dominant approach in Anglo-Saxon countries. Thus the reference to the social economy is not a consensual one in Europe. It is mainly in continental Europe that various organisations identifying with the social economy began, in the 1980s, to attempt a *rapprochement* to reaffirm their identity. But as this regrouping was taking shape "at the top", a groundswell of grass-roots associative and co-operative sentiment was renewing its commitment to a solidarity-based economy.

A new dynamic

Innovations emanating from civil society networks emerged throughout Europe, for the most part as associations and co-operatives that adapted differently to changes in social action according to the form and nature of the welfare state in their respective countries.

In Scandinavian countries, new organisations responded in ways that were different from those of traditional associations. They abandoned the hegemonic political and cultural approach of the 1970s, and instead proposed "new organisational forms and solutions to local social problems" in the 1980s (Klausen and Selle, 1996). Among these were Denmark's "project developers", which included one or more highly engaged individuals, and Swedish day care co-operatives. In Sweden, in 1994, a total of 1 768 non-municipal child care centres were in operation, accommodating 12% of all children in day care facilities. Of these, 1 020 were parents' co-operatives and 117 were workers' co-operatives. In this context, co-operatives and associations contributed to both a redeployment of existing services and the creation of new ones. The "co-operatisation" of social services sought, above all, to expand the roles of users, such as parents, in arranging for the care of their children, and it was accepted despite the financial constraints on the public sector.

At the other end of the spectrum, in Mediterranean countries with dual regimes, the same juridical form was, nonetheless, used: there, co-operative status was used to propose services that the public sector was unable to deliver. In Italy, social co-operatives emerged in the 1970's in many regions because of their ability to perform functions previously unfulfilled, such as providing jobs for those excluded from the labour market and creating a range of services for individuals. These developed rapidly. By 2004, 7 100 co-operatives involving 267 000 individuals, including approximately 223 000 wage-earners and 31 000 volunteers were providing services for hundreds of thousands of people. Thus, even if the social economy in Italy remains less substantial than in other countries because of the dominant role of the state in sectors such as education and health care, the recent dynamic activity of co-operatives based on "social solidarity" is significant. It proves that confidence in co-operatives based on the non-redistribution constraint can be replaced by other characteristics specific to co-operatives, such as the participation of stakeholders or the behaviour of entrepreneurs and workers. In Portugal, the law on social solidarity co-operatives passed in 1998, brings together "salaried" members, the recipients of services, and "voluntary" members, the non-salaried providers of goods and services. Social co-operatives emerged in Spain at the same time. The general law of 1999 makes reference to social service co-operatives providing education, health care, and insertion into the labour market as well as fulfilling other social needs not covered by the market. At the regional level, there are mixed co-operatives for social integration in Catalonia, and co-operatives for social integration in the Basque country and the Valencia region, where certain workers' co-operatives

The expansion of co-operatives was due to legislation permitting co-operatives that had traditionally been homogeneous entities, to now involve a variety of stakeholders in the decision-making process (volunteers, workers, consumers, local communities, etc.). The 1991 legislation in Italy provided for precisely that kind of expansion. Furthermore, it is not surprising that social co-operatives developed in countries where welfare state systems had sought very little assistance from service-delivery associations and where associations were restricted in their economic activities. The situation is very different in countries with corporatist regimes, where government authorities have established close partnerships with associations.

In Germany and Austria, the initiatives were termed "self-help" in an effort to reflect a desire to empower the people involved. The initiatives can be divided into three sub-sectors: semi-informal groups, self-help groups (*i.e.* groups of individuals affected by the same problems) and groups defending the cause of certain populations outside the group. They are formed on a voluntary basis, and paid work is only complementary. There have been roughly 70 000 such initiatives in Germany, around half of which can be considered to be part of the third system, involving some 2.65 million people. These began to flourish in the 1980s, especially in health care and social action, with between five and ten thousand groups in health care alone. They are rooted in a critique of the bureaucratisation of services in the public sector and in large charitable organisations which also include older associations with which they cohabit.

In France and Belgium, the focus of efforts has been to devise new ways of providing associative services, acknowledging that the lack of a profit motive alone does not ensure user respect. As major, long-standing service providers, associations had virtual local monopolies. Because of a tradition of co-operation between government and associations, new groups adopted the same legal status, but on a renewed commitment to associational relations. According to their promoters, the ultimate legitimacy of service delivery by associations hinges on their ability to give users a "voice", to mobilise voluntary commitment from a variety of sources, and to find a new financial equilibrium in a context offering less protection.

Recognition by government

This new dynamic stems first from the tertiarisation of the economy. In a configuration in which services account for over 70% of aggregate employment, relational services are becoming ever more important. Moreover, in the countries belonging to the Organisation for Economic Co-operation and Development (OECD), trade, services to business, the hotel and restaurant industry, personal and household services, education, health care, social action and public administration account for most jobs, and their share is increasing steadily. The central role of these services in which activity is based on direct interaction between service provider and recipient more than explains the volume of job creation in service associations and co-operatives. Indeed, the amount of tangible assets is less important than the quality of communication between the parties or investment in intangibles (Laville, 2005).

Along with these economic changes have come shifts in how public commitments are undertaken. Militant activism, associated with a project for social change and entailing long-term action and extensive delegation of powers within federative structures, has waned, as illustrated by the weakening of trade union and ideological affiliations. On the other hand, the crisis in voluntarism among the most highly institutionalised associations has been accompanied by an associative effervescence in specific commitments for limited periods, focusing on particular problems and striving to deliver rapid responses (Barthélémy, 1994). The question raised is the interrelation between voluntary work and political and social participation. From the 1960s, there emerged new initiatives on the fringes of traditional social movements, combining social co-operation, mutual assistance and protest. The role of associations from this perspective is not simply to deliver services and jobs; it encompasses a search for forms of involvement other than occupational or political participation, and is related to the issue of social cohesion and citizen participation.

In this new context, both economically and politically, this dynamic calls for a revision of the status of associations and co-operatives, as well as the invention of new types of organisations reaching out to multiple stakeholders. This is what was initiated by the legal provisions governing social co-operatives in Italy in 1991, extended by the 2005 Act on social enterprises; "limited liability social co-operatives" in Portugal in 1999; the role in social services accorded to co-operatives in Spain's 1999 legislation on co-operatives, followed that same year by adoption of precise legal frameworks by Spanish regions; the introduction of social-purpose companies in Belgium in 1995; community interest co-operatives in France in 2003; and legislation on community interest companies in the United Kingdom in 2005.

It remains that at the European level, the articulation between recent manifestations of civil society and the older social economy have not been fully realised. From the perspective of the European Commission, the potential for job creation has been a more pressing concern. This recognition of the social viewpoint stemmed from a long process triggered by the White Paper on *Growth, Competitiveness and Employment: The Challenges and Ways Forward into the 21st Century* presented by Jacques Delors in 1993, pursuant to the mandate assigned by the European Heads of State (Jouen, 2000). Here the emphasis was on responding to new needs, providing a wellspring of new jobs.

From that initial assumption, the work carried out by the European Community's Forward Studies Unit provided elements of macroeconomic evaluation of the employment potential. Above all, however, the research conducted in the various European Union countries identified the socio-economic dynamics whereby this "wellspring of new jobs" had already begun to take shape. Converging observations pointed to the usefulness of an innovative approach – that of local development and employment initiatives (Jouen, 2000) – and identified 19 supply areas (European Commission, 1995; 1996) in four broad sectors of activity: services for daily life; services to improve living conditions; cultural and leisure time services; and environmental services.

Extending these investigations, the European Commission conducted a programme to enhance the value of local initiatives intended to stimulate exploration and action in this area, in particular by reconfiguring structural funds, and via a pilot programme of the Directorate-General for Employment on the "third system" to get a better assessment of the system's impact on job creation. However, there was no real link between this exploration of job creation and earlier efforts in favour of the social economy (Delors, 2004). In this regard, it should be recalled that in the 1980s the European Commission created a Directorate-General devoted to the social economy. However, because of its limited legitimacy and funding, it remained marginal until it was eventually abolished in the 1990s. Its activities were formally integrated into the Directorate overseeing small and medium-sized enterprises, but the shift in institutional responsibility reflects its reduced visibility with regard to economic issues. Nevertheless, the associative rebound triggered an opening-up of the "Information Society" Directorate-General to associations, which by then were considered a means of enhancing citizen participation in European construction.

Permanent structures like the European Consultative Forum on the Environment and events such as the first Convention on Civil Society, held in 1999 by the Economic and Social Committee, sought to initiate a "civil dialogue". It was then that political aspects took precedence, and one spoke not of the economy but of associations, civil society or non-governmental organisations.

The variety of socio-economic experimentation in Canada

The convergences between Europe and Canada are striking, especially with regard to the new social economy, but there are divergences in their historical trajectories, especially with respect to Quebec. First, despite origins that are in some ways comparable, mutual societies did not play as central a role in Canada as they did in Europe with regard to social security, and the recent trend towards demutualisation has reduced their numbers. Nevertheless, the ones that did retain their legal form – and especially those affiliated with trade unions (*e.g. SSQ Groupe Financier* in Quebec) – generally did so advisedly. Second, co-operatives played a strategic role in economic development, especially in agriculture (*e.g.* the Wheat Pool in western Canada and farm co-operatives in Quebec) and in savings and loans (*e.g.* the *Mouvement Desjardins* in Quebec and credit unions throughout Canada). Third, Quebec co-operatives played an important political and cultural role relating to the issue of French-speaking control over the Quebec economy, which imbued them with a sort of "soul" (Lévesque, 1993, 1990, 1989).

In this context, it will be understood that even if tensions exist between groups such as the *Conseil de la Coopération du Québec*[5], which unites all of the co-operatives, including the solidarity co-operatives created in 1996, and the *Chantier de l'Économie Sociale*[6], a network of networks of most actors in the new social economy, relations between the two must be seen in different terms than in Europe. For example, the *Mouvement Desjardins* facilitated the constitution of the *Chantier de l'Économie Sociale* and even housed the organisation in its *Complexe Desjardins* facility during the initial years of its existence, donating a former bank office for the headquarters. Similarly, the *Conseil de la Coopération du Québec* and the *Chantier de l'Économie Sociale* are both represented in the Canadian section of the International Centre of Research and Information on the Public, Social and Cooperative Economy (CIRIEC) and in the *Réseau d'Investissement Social du Québec* (RISQ), an investment fund dedicated to the social economy. Yet what makes the relationships more complex, and also rich with new co-operation potential, is the diversity of connections and in some cases orientations that are increasingly to be found among organisations sharing the same juridical status.[7]

The concept of social economy, until recently, was used almost exclusively in Quebec to refer to collective enterprise. In the rest of Canada, community economic development shared the values of the social economy despite the different vocabulary. The reality of what we may call democratic socio-economic initiatives is widespread throughout the country. It is in the recent period that the Quebec experience inspired the Canadian government, which acknowledged the social economy by creating a Secretariat for the Social Economy and adopted a social economy development policy in 2004. The government also announced the earmarking of new funding for social economy initiatives: CAD 100 million (Canadian dollar), CAD 30 million of which has been designated for Quebec for permanent capital investment in social economy enterprises through the creation of a secondary market; this is supplemented by CAD 17 million for capacity building, including CAD 3 million for Quebec, and CAD 15 million for research. This was possible because, as in Europe, there have been numerous civil society initiatives in economic development and social development, in a great many cases with state support. These socio-economic initiatives, which distinguish themselves from those associated with either the public or the private sectors (hence the use of the term "third sector") are increasingly recognised for their capacity to achieve success in areas where the others have failed, either separately or even in combination (Economic Council of Canada, 1990; OECD, 1999). The current Canadian government has abandoned its direct commitment to the social economy. However, the federal government initiative taken in 2004 mobilised actors across the country to work towards a policy framework to support and consolidate social economy initiatives. This mobilisation has not been affected by the stance of the current government despite the withdrawal of substantial resources. The work to secure commitment by government is a priority of actors networked across the country.

The social economy includes both new personal services to fulfil needs that the welfare state meets poorly, if at all, (as a rule, predominantly non-market services) and new economic activities (often predominantly market-based) to help integrate excluded persons into the labour force or to revitalise rural areas or declining or even abandoned urban ones (Fontan, Klein and Lévesque, 2003). Due to this capacity to mobilise a broad range of resources, some analysts refer to the social economy as reflecting a wide diversity of worlds and logics (market, civic, industrial, domestic, inspiration and project based approaches). While the aspirations of the

1970s for sustainable development and quality of life continued to prevail over the last two decades, the renewal of the social economy (as a reality and not as a concept) in Canada was deeply affected by the crisis in the early 1980s and the impact of globalisation and the opening-up of markets, economic restructuring and the rise of the knowledge-based economy, political and social changes, the reconfiguration of the welfare state and new social issues such as social exclusion and new forms of poverty. The crisis and profound changes led to new opportunities and new needs that would mobilise civil society actors and lead to a new-generation social economy[8]. Social innovations emerged both to respond to new and urgent social problems that especially affected certain communities and social groups and to meet the demands of new social movements – the community movement, women's groups, environmental groups, local communities, cultural communities and so on. In this context, the initiatives generally reflect the search for new relationships with the state and the market and the need for new regulations and a new division of labour, as is the case in Europe.

Table 5.1. Four major categories of social economy organisations and enterprises

Needs and opportunities relationship to the market	**Social Economy (responding to urgent social needs)**	**Social Economy (responding to new opportunities)**
Predominantly non-market based social economy **(social development)**	Examples: • Shelters for the homeless • Collective kitchens • Reintegration of school dropouts	Examples: • Child-care • Perinatal centres • Eco-museums
Predominantly market based social economy (economic development)	*Examples:* • Training businesses • Re-adaptation centres • Soup kitchens • Community-based investment funds • Development funds	*Examples:* • Social enterprises • Labour co-operatives • Natural food co-operatives • Organic farming • Recycling

Source: Lévesque, 2003.

As Table 5.1 clearly shows, the new social economy has developed primarily in two areas: as a strategy to combat poverty and to address occupational exclusion. Both areas have spawned at least four major types of social economy organisations. Each area (responding to urgent social needs or to new opportunities) include initiatives that involve predominantly non-market activities and, as a rule, are oriented towards social and cultural development, as well as predominantly market activities, more closely associated with economic development. In other words, responses to urgent social needs and to opportunities can both involve social development or economic development, but predominantly non-market initiatives tend to take the form of non-profit associations, whereas those that are predominantly market-oriented can be non-profit organisations, co-operatives or mutual societies. In addition, there are a large number of support and advisory organisations and sectoral and regional networks. In Quebec, the *Chantier de l'Économie Sociale* has been providing a governance framework for all sectors in the social economy since 1996 (see www.chantier.qc.ca).

Predominantly market-oriented social economy organisations and enterprises (such as natural food co-operatives and recycling enterprises) must factor in market forces if they are to be viable, but the presence of market activities alone does not mean that profit-making has become an objective. In addition, predominantly non-market organisations and enterprises, which receive a substantial share of their resources from the state through redistribution, also benefit from voluntary work and grants through reciprocity, and include a variable proportion of market activity. Seen from this perspective, the boundaries between economic development and social development are often blurred in the social economy, as illustrated by community economic development (CED), whose activities involve job creation and the promotion of new business creation as well as the development of proximity services (*e.g.* social housing) and training to enhance the employability of excluded persons. The estimated turnover of social economy enterprises in 2003 was CAD 19.3 billion (CAD 18 billion for co-operatives and mutual societies and CAD 1.3 billion for non-profit organisations); excluding financial service co-operatives (CAD 7.7 billion) and mutual insurers (CAD 2.3 billion), the estimated turnover was CAD 9.3 billion (CAD 8 billion for co-operatives and CAD 1.3 billion for non-profit organisations). Together, the co-operatives and mutuals in 2003 employed 77 708 persons and had 7 318 359 members. Their assets totalled CAD 103.9 billion. The number of co-operatives and mutual societies was 2 774.[9]

On the ground, organisations and actors have established criteria for identifying who is part of the social economy based on the legal status of organisations, their values (*e.g.* solidarity) and their principles and rules (*e.g.* one person, one vote). All agree that while legal status facilitates the clustering of organisations faced with similar challenges, they do not necessarily ensure uniform practices. Social economy organisations that produce goods and services (economic activities in the substantive sense) must be working explicitly in the public interest (when bringing together members, similar to how self-help organisations function), which is not always necessarily the case. Furthermore, they are supposed to operate independently from the state and the private sector (hence the term "third sector", understood as different from both the state and the private sector). This means that the social economy organisation must be controlled by a voluntary association of people (hence the term "voluntary organisation") and not by state or private funders (Dreessen, 2001). In social economy organisations, democratic procedures and autonomous management are just as compelling criteria as non-profit status, if not more so.

The principles and values of the *Chantier de l'Économie Sociale* are based on a consensus among the social actors that is more present in Quebec than elsewhere. The concept of the social economy adopted in Quebec can be summarised as follows:

- The ultimate goal of services to members or to the collectivity.
- Autonomous management (which excludes associations or organisations controlled by the state or by an external entity).
- A democratic decision-making process (which excludes non-profit organisations in which decisions are not the result of a democratic process).
- Primacy of people and work over capital in the distribution of power and proceeds.
- Individual and collective participation, control and responsibility.

In its evaluation guide, the *Guide d'Analyse des Entreprises d'Économie Sociale* (2003: A3) characterises the goods and services produced by the social economy emphasising the social dimension of economic activity. That is:

- The social utility of services and goods, especially for the collectivity concerned.
- The complementarity of goods and services produced to those of the public and private sectors.
- The link between economic activities and the development of local collectivities.
- The economic and social impacts on the community and on the territory.

These social dimensions of economic activity are supplemented by the manner of producing (or the conditions of production):

- Organisational democracy.
- Collective and social ownership.
- Participatory management.
- Primacy of people over capital.
- Creation of sustainable jobs.
- Worker training and employability enhancement.
- Development of the exercise of citizenship, forms of solidarity and individual and collective empowerment.
- Sustainable development.

These various ways of characterising the realities underlying the term "social economy" mirror those found elsewhere in the world, especially when the social economy is explicitly at issue (Dreessen, 200l0; *Conseil Wallon de l'Économie Sociale,* 1990; Monzon and Barea, 1991).

Since the definition of "social economy" by social actors is the result of compromise – including compromise with the state – it is not accepted without reservation, debate, and even opposition. Depending on their (collective) interests and political vision, social actors and movements tend to broaden the definition to encompass their own activities, whereas others seek to narrow its scope in order to highlight their differences. If we take Quebec as an example, (for illustrative purposes), the women's movement proposed a broad definition of the social economy in order to include community action, *i.e.* initiatives for poverty reduction and combating exclusion and unemployment, as well as initiatives to increase social awareness and build solidarity – a definition that is thus not limited to the production of goods and services nor to the market portion of the social economy. At roughly the same time, the community movement demanded that autonomous community action be clearly distinguished from the social economy in order to keep the funding that the state earmarked for popular education and the defence of social rights. More fundamentally, these actors feared that by becoming involved in activities that were heavily entrepreneurial, they might be forced to contribute to the marketisation of daily life (which they opposed). This position surprised many, especially insofar as autonomous community action had contributed to the founding of many associations and enterprises belonging to the social economy (*e.g.* child care and adult education). Likewise, many actors across Canada expressed fears concerning the possible commercialisation of charitable organisations and dependence of voluntary initiatives on the state. In this sense, the social economy poses a political question to social actors concerning, *inter alia*, the relationship of civil society initiatives to the state and to the market (Lévesque, 2003).

The recognition of the social economy by the province of Quebec and its economy-related ministries helped tilt the scales towards a more entrepreneurial and market-based vision of the social economy. If, according to the *Chantier de l'Économie Sociale,* the government of Quebec was prepared to commit CAD 1.1 billion for child care centres (*"Centres de la Petite Enfance"*), CAD 1.7 billion for recycling enterprises, CAD 233 million for community housing, CAD 48 million for homecare and CAD 1.5 million for perinatal care from the year 2005, the underlying assumption was that this funding would generate positive results. Likewise, organisations for the financing and support of the social economy (such as local development centres and community futures development corporations) tend to turn more spontaneously to the market activities of the social economy than to those primarily non-market activities. While some of the more recent documents of the *Chantier de l'Économie Sociale* have been influenced by that vision (Chantier, 2001; Guide, 2003), the fact remains that the initial definition seeks to be inclusive and thus relatively broad. In a sense, these questions over the definition of the social economy (and even over the relevance of the concept) are inevitable, given the great diversity of the actors concerned, but for researchers they also raise important research questions.

The social economy approach invites us to make a fairly explicit distinction between organisations that produce goods and services and organisations that militate for social rights: the former are to be found principally within the realm of the economy, understood concretely as the production of goods and services, while the latter operate chiefly in the political realm, seeking to influence the powers that be through raising awareness, advocacy and even lobbying. Yet insofar as the economic realm and the political realm are not impermeable, especially for economic organisations dependent on the mobilisation of people, there are many hybrid cases. For example, social economy organisations, because of their democratic *modus operandi*, try to create readily accessible public spaces to define collective interests and the common good, which constitutes a political activity affecting the life of the community. Likewise, there are advocacy groups that fall squarely into the realm of politics that at the same time offer services to their members (which constitutes an economic activity). One example of this is the *Association Coopérative d'Économie Familiale* (ACEF), which militates for the rights of the disadvantaged, but a substantial portion of whose activities consist in helping families with modest incomes to balance their budgets, or to file for bankruptcy with the fewest possible negative repercussions for the family. In the field, the definition of the social economy, and above all the recognition of that definition by the state, is fairly rapidly becoming a political issue. As a result, researchers must analyse these definitions if they want fully to grasp the challenges of the social economy – challenges that vary from country to country and from one region of a country to another.

Diversity of theoretical approaches

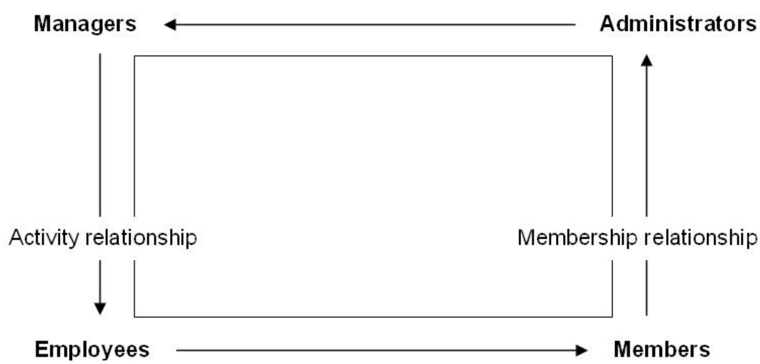
As Erwin Dreessen (2001) noted in his research on the voluntary sector, there are as many definitions of the social economy as there are objects of research and theoretical approaches to address the social economy. Moreover, researchers have founded scholarly journals and formed scholarly associations and networks corresponding to these various definitions and approaches.[10] With this in mind, we will explore approaches that explicitly use the terms "social economy" and "solidarity economy", although in Canada and Quebec the term "new social economy" is used as a synonym of "solidarity economy". We will end with a review of similar concepts also used by researchers, particularly in Canada.

It is possible to go back to the nineteenth century to identify the first *Traité d'économie sociale* (Dunoyer, 1830; Desroche, 1983) and to discover a large number of authors that were using the term "social economy": Frédéric Le Play[11] (1872), Charles Gide (1890), Léon Walras (1896), Max Weber, who began using the term *Sozialokonomische Wissenschaft* in 1904, and Émile Durkheim, who came upon the term "social economy" following his stay in Germany, when he discovered the historical German school. Such an exploration of the historical references to the social economy, reveals that the term "social economy" was used both to distinguish a new disciplinary approach to the economy (an alternative to political economy and to prevailing theories in economics) as well to unite various economic organisations based on the association of persons. That said, we will limit discussion to approaches developed over the past three decades.

Approaches centred on organisations

The resurgence of the term "social economy" in Europe towards the mid-1970s owes much to the efforts of Henri Desroche and Claude Vienney to "theorise" the common characteristics of co-operatives, mutual societies and associations, while drawing on a tradition that was over one hundred years old. This research was carried out in close co-operation with the circles involved, especially with the *Collège Coopératif.* Desroche and Vienney found social economy organisations to be more complex than other forms of organisations and enterprises insofar as they combine an association of persons with a goods or service producing entity, reciprocally linked in a dual relationship of activity and membership (Vienney, 1994). The resulting complexity is illustrated clearly by Henri Desroche's quadrilateral schema (Desroche, 1976), which suggests the possibility of quadripartite democracy based on an internalisation of actors (members, employees, administrators and managers), resources and results elsewhere externalised.

Figure 5.1. Quadrilateral of actors in a social economy enterprise



For such a complex relationship to be maintained despite the underlying great potential for conflict, it is necessary if not crucial to have an appropriate legal status that can ensure regulation through specific rules. The legal status most commonly provides the basis for the first definition of the social economy. This first definition has the advantage of rapidly identifying those organisations that face similar challenges. It does not, however, guarantee that the rules will in fact be put into practice. Moreover, it is possible that certain organisations experience similar complexity without having any one of the three identified legal forms (co-operative, non-profit or mutual society). That is why Henri Desroche added the concept of "uncertain characteristics" reflected in community enterprises, trade union enterprises, communal enterprises and public enterprises controlled by a democratic body (Desroche, 1983).

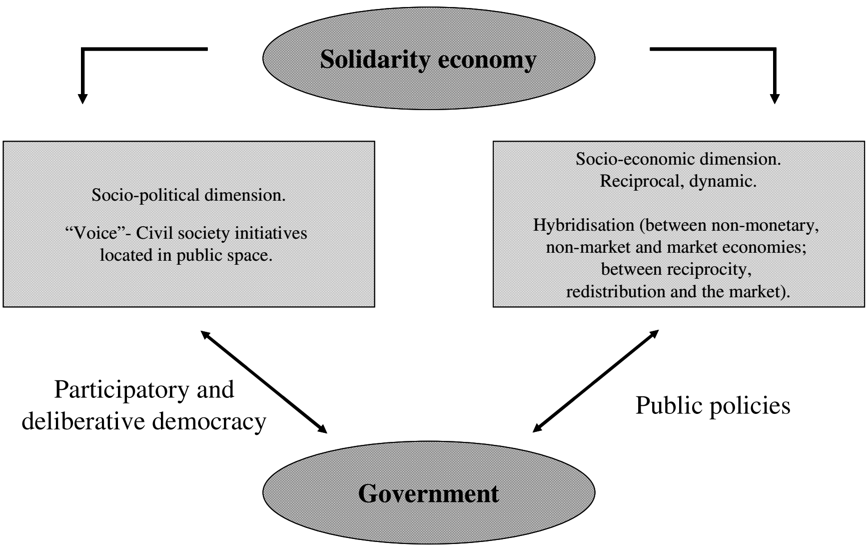
A second definition proposed by Claude Vienney goes one step further, with a systemic definition characterising the social economy in terms of actors (relatively dominated and thus affected in their daily lives and activities), of activities (activities that are socially necessary but satisfied poorly, if at all, by the state or by the market) and of at least four specific rules governing: 1) relations between members (democratic practices); 2) relations between members and the enterprise (determination of the activity by the members); 3) relations between the enterprise and members (distribution of surpluses or allocation of earnings); and, 4) the enterprise or the goods/services producing entity as such (sustainable collective ownership) (Lévesque and Ninacs, 1997). In this definition, the social economy must not be confused with the informal economy, nor with the domestic economy.

The solidarity economy

Historical definitions have been questioned by a new generation of researchers who, beginning in the early 1990s, have offered a number of other definitions seeking, among other things, not only to capture more clearly the new generation of associations, but also the context in which they emerged. The originality of this research is that it goes beyond the operational dimension and adopts an approach that links the micro (the enterprise or organisation) and the macro (the state and the institutional context); in addition, it redefines the economic and political dimensions of the social economy. It highlights the fact that the new dynamic described above is emerging in a context of a crisis in Keynesian regulation (state-market) followed by a reconfiguration of the welfare state and the restructuring of the economy in which civil society is becoming a complementary pole to the state and the market. From this perspective, the new social economy or the solidarity economy is not only defined as an economic activity with a social purpose, but it is also based on an expanded concept of the economy and of the political sphere. The social economy, by defining itself as a set of organisations, had left the wider question of its role in the economy and in contemporary democracies open. The current interest in exploring this role by researchers who have documented the multitude of initiatives that have emerged over the past two decades, has generated a perspective on the solidarity economy that renews its links to the origin of associationism. It is an approach that, rather than considering initiatives as organisations or collective enterprises, defines them in terms of their bi-dimensionality, which is at once both socio-economic and socio-political – as shown in Figure 5.2.

Clearly, a major contribution of the solidarity economy approach stems from its socio-political dimension. In the nineteenth century, the extension of the market prompted reactions from society, which included the creation of associations and then the development of the welfare state. It is this historical process that Salamon (1987, 1990) recounted, emphasising that associations had in fact been the “first line of defence” erected by society, but that their shortcomings (insufficiency, narrow focus, paternalism, amateurism) forced them to forge co-operative links with the state. This functionalist explanation does exhaust the subject, as Salamon and Anheier (1996, 1997) themselves recognised when, following the Johns Hopkins project's early research, they adopted a "social origins approach" in order to gain a better understanding of national situations through an analysis of their historical origins and development.

Figure 5.2. The two dimensions of the solidarity economy



The relationships between these initiatives and government are critical, because they have an impact on two political issues: the first focuses on the potential for action by members of the political community as a whole; and the second that is centred more on the exercise of power. All of the interactions between government and civil society initiatives result in mutual effects, the intensity and forms of which vary considerably over time. On one hand, the entrepreneurial initiatives of a diversity of social actors, by their very existence, participate in the evolution of forms of government regulation. On the other hand, the rules adopted by government influence the trajectories of initiatives. To isolate organisations without grasping their relationships with the public sphere precludes understanding of both their past and their future.

At the socio-economic level, the solidarity economy approach is supported by research showing that the economy cannot be reduced to the market, but that it includes the principles of redistribution and reciprocity.

Instead of considering the economy from a formal neo-classical perspective, (rational calculation in situations of scarce resources and unlimited wants), the solidarity economy approach is inspired by Karl Polanyi (1944), and defines the economy from a substantive perspective, that includes the three economic principles of the market, redistribution effected primarily by the state, reciprocity and the gift in which civil society engages voluntarily (Mendell and Salée, 1990). This analytical framework is used as a reference by a variety of authors and has been the basis for territorial development research by the Organisation for Economic Co-operation and Development's (OECD) Local Economic and Employment Development (LEED) programme.

The combinations of market, redistribution and reciprocity that characterise societies have varied historically. Contemporary society is no different, featuring all three "patterns of integration": the market economy in which the distribution of goods and services is primarily the responsibility of the market; the non-market economy is one in which the distribution of goods and services is primarily based on redistribution controlled by the social state, and the non-monetary economy in which the distribution of goods and services is based primarily on reciprocity. The solidarity economy approach emphasises the hybridisation between the three patterns of integration that characterise contemporary economies but are generally not linked. From this perspective, it is by combining resources from each of these activities that social economy structures can protect themselves against the threat of trivialisation and marginalisation.

The mechanics of this hybridisation underlying the solidarity economy approach, which link the economic dimension to the political dimension needs to be explained. In this approach, economic activities arise out of reciprocity (voluntary engagement) and recognition of the various stakeholders in which activities (goods or services) are jointly defined, especially in the case of proximity services, thereby creating public spaces allowing for the development of new ways of living together and reinforcing social cohesion. This process involves substantial investment in a democracy that should be not only representative, but participatory and deliberative as well.

Researchers in this school define the solidarity economy as: 1) a plural economy because of the plurality of principles and resources mobilised; 2) a component of a mixed economy of social welfare, meaning that it occupies an intermediate space between private enterprise, the state and the domestic sphere, thus highlighting both its socio-economic and its socio-political dimensions (Evers and Laville, 2004); and, 3) a third sector which, while distinct from the state, private enterprise and the informal domestic economy, nonetheless overlaps with each of them because the boundaries between them are blurred.

Finally, the two meanings assigned to the third sector – non-profit organisations and the social economy – involve two theoretical approaches that are fairly different, and probably experiences that are different as well. The non-profit organisation approach considers the absence of profit-making the determining factor for voluntary organisations that seek to achieve objectives in the general interest or in the collective interest, whereas for social economy organisations, it is the democratic process and stakeholder participation that permit the achievement of these objectives, even if some or all of their activities are market in nature. More recent analyses of the solidarity economy tend to question the idea of a sector with rigid boundaries, in the name of an expanded conceptualisation of the economy as a plural economy, and of politics as a public space. For this and other reasons, they also question the proposal of Salamon and Anheier (1998) to make the third sector a sector of civil society, considering it rather as an intermediary space. In sum, the solidarity economy is participating in the constitution of a "new regime of governance of the general interest" mobilising the state and its agencies in a novel manner, the market through enterprises and civil society via, amongst others, voluntary associations (Lévesque, 2003).

Similar concepts for a contrasting reality

Unlike in Quebec, the social economy concept is used very little elsewhere in Canada but other, similar concepts point to a comparable reality. Among those concepts, that of community economic development has been the most widespread since at least the mid-1980s. It is frequently defined as "a process by which communities initiate and implement their own solutions to economic problems, to build long-term community capacity and foster the integration of economic, social and environmental objectives" (Ross and McRobie, 1989). Community economic development highlights the importance of a model of governance that can mobilise the various components of civil society and other stakeholders, such as business and government, in order to define a perimeter of solidarity. According to some scholars, the place occupied by community participation in community economic development is strategic not only for the success of the approach but also for its identification with the social economy (*Morin et. al.,* 1994). Community economic development questions mainstream approaches to development, including the separation between the economic and social spheres. In this regard, definitions constitute a conceptual reference: that formulated by the OECD (1999) and the EMES network, and that put forward by the British Government in 2002.

Another concept that is relatively close to that of the social economy is "social enterprise", which is increasingly being used in the United States, the United Kingdom and continental Europe. A social enterprise has a social objective targeting community development or the satisfaction of social needs. There seem to be two prevailing trends: the first case that is predominant in Europe, recognises the social dimension of enterprises, reflecting the evolution of a complex of enterprises increasingly referred to as the social solidarity economy; in the second, which has taken root in the United States, the notion can be used to describe non-profit organisations with more and more commercial activities or entrepreneurial features. Other research focusing on the profile of social entrepreneurs – hybrid individuals that are at once entrepreneurs and social militants, highlights the special difficulties confronting these social entrepreneurs, including access to financing, lack of solid grounding in the business community, and so on (Badelt, 1997).

The emphasis on social enterprise (and subsequently on social entrepreneurs) opens up a debate on the transformation of associations – a debate raising important questions that are not always clearly defined. Research has focused primarily on the activities of these enterprises and their financing, but it poses very few questions about their capacity for autonomy *vis-à-vis* the market or state funding. For non-profit organisations the concept represents a sort of dilemma insofar as the term "enterprise" connotes market activity. For the social economy, the concept raises fewer questions about market activities than about autonomy, relationship to the community and democratic process. Moreover, this notion orients research to intervention on the micro-level, disregarding the fact that a social enterprise can contribute to the reshaping of the welfare state, or to the economic reconversion of territories.

Lastly, the notion of social innovation is increasingly associated with the concepts of social enterprise and social economy. Social economy organisations and enterprises are believed to be a greater source of social innovations for the good reason that they generally emerge in order to satisfy needs that are met poorly if at all by the market or the state (Zimmermann, 1999). Their roots in the community and proximity to certain social groups allow them to identify needs and opportunities more quickly than others. Likewise, their structure, which encourages the participation of various stakeholders, is conducive to the circulation of information, and thus to the emergence of new ideas and new projects. Even so, social economy associations and enterprises are rarely aware that they are innovating, since they do so spontaneously. For this reason it is useful to identify these innovations, describe them and study the conditions under which they emerge and spread. For this purpose, social innovation can be defined as "any new approach, practice or intervention, or any new product that is developed to improve a situation or to solve a social problem" and that "has been adopted by institutions, organisations or communities" (Bouchard, 1999). To sum up, a social innovation is no doubt a social and socio-economic experiment, but an experiment that has succeeded and that can be replicated elsewhere. As a result, if social innovation must prove its social utility, it can certainly be validated via the market, but also via its institutionalisation, through public services and the social economy.

From this perspective, social innovations are seen not only as organisational innovations, which are fairly commonplace, but as institutional innovations as well, which are less commonplace, or as new institutional arrangements, new rules for social and socio-economic regulation or new ways of resolving social and socio-economic problems. Thus, government policies adopted recently in Europe, Canada and Quebec in favour of the social economy, while still modest, are institutional innovations that create conditions conducive to its development. They are the result of a process of negotiation between actors in the social and solidarity economy and respective governments, and a shift from community action to public action. The hybridity and intersectorality of the social economy demand horizontal government policies in contrast to the silo approach in most ministries. New political bodies, including intersectoral boards, are new and unique forums for discussions and debate; they represent one of the elements of a new institutional context and the co-production of public policy by all stakeholders. Lastly, it must also be added that social innovations are present not only in the social domain but also in the economic domain; not only in social economy associations and enterprises, but also in the private sector and in the public sector.

Conclusion

This chapter highlights the great diversity of experiences in the social economy and of the theoretical approaches that attempt to describe them. This diversity can be observed in a variety of practices in different countries, as well as in different regions, as is illustrated clearly by the case of Quebec and its influence on the rest of Canada. These socio-economic initiatives, regardless of what they are called ("social economy", "solidarity economy", "third sector" or "third system"), are an integral part of a new political economy that recognises the importance of the social in the economic, that makes the initiatives of civil society visible and legitimate and, more recently, that reflects citizen demands for a more responsible economy. From this perspective, the social economy is increasingly being recognised not only for its stated objectives (satisfaction of unfulfilled needs), but also for its potential for transforming our societies and our economies, including its capacity, from today, to fulfil hopes for another form of development, for another globalisation.

More specifically, the social economy potentially represents a space for social innovation that is decisive both for social development and for economic development, especially through local development. However, from the perspective of research on the social economy, many questions remain unanswered, since this potential is not always tapped, nor can it be in the absence of enabling conditions that are increasingly documented, and which require the contribution of the state, and the market. Some research focuses primarily on enterprises and organisations (the micro-perspective), such that the main questions asked concern the compliance of practices with the values and principles advanced. Other research focuses instead on the role of the social economy in society, and on the role ascribed by the state (the macro perspective). Research that successfully and convincingly links both levels of analysis is scarce. It seems to us that the most strategic questions lie at the interface between these two types of approaches. Our chapter cannot escape this difficulty, although the focus has been primarily on a review of the institutional context, of the relationship with the state and civil society and the respective roles of the state and the market.

The diversity and multiplicity of initiatives and the institutional contexts in which they are located require new methodologies of evaluation and new indicators for reporting on economic as well as social returns; quality of service as well as working conditions; and the contribution to social capital as well as the strengthening of democracy in organisations and local areas in which the social economy is present. This great diversity and multiplicity suggest the high relevance of comparative analysis, not only between sectors of activity but between countries and regions as well. Moreover, the state of research also seems to reveal that the institutional context, the dynamism of social movements and their capacity to forge favourable alliances are decisive factors influencing the relative size and dynamism of the social economy in any given society.

We can hypothesise that the macro-sociological and macroeconomic scope of the social economy lies primarily in its capacity to question both the market and the state from the standpoint of the efficiency and quality of services and the democratisation of community services and production. As stipulated by the solidarity economy approach, the political space occupied by the new social economy clearly reveals the growing importance of civil society initiatives in the economic sphere, obliging us to transcend a bi-polar vision centred exclusively on the market or on the state. Lastly, it would be impossible to neglect the impact of research, and in particular of research carried out in partnership, on its institutionalisation and recognition by government. In many cases, this involves the co-production of public policies involving researchers, actors and government agencies alike.

In the process of institutionalising the social economy, the definition or contours of the social economy is a political issue that is still open, although the trend is towards closure. Researchers who study the social economy in partnership with the actors in the social economy reap many benefits since they have direct access not only to the field, but also to so-called "tacit" knowledge, not to mention the active participation of partners in the codification of this knowledge. However, partnership should not prompt researchers to abandon more fundamental research and seek answers to questions whose impact is not immediate. More explicitly, we would say that research carried out in partnership demands that the link between fundamental and applied research be made, between the short term (that of urgency) and the long term (that of opportunities). Research carried out in partnership cannot be fully satisfactory for all stakeholders unless it is not only able to answer the most concrete and immediate questions, but also contribute to the advancement of knowledge about society and the economy.

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Notes

1. www.unites.uqam.ca/econos/index.htm.
2. CIRIEC: International Center of Research and Information on the Public, Social and Cooperative Economy, www.ulg.ac.be/ciriec; EMES: Research programme on the emergence of social enterprises in Europe, www.emes.net; ISTR: International Society for Third Sector Research, www.istr.org.
3. The corresponding websites are: www.crises.uqam.ca; www.aruc-es.uqam.ca; www.crida-fr.org; and http://lise.iresco.fr.
4. This section draws upon J-L. Laville, *et al.* (1999) *The Social Economy: Diverse Approaches and Practices in Europe and Canada,* www.istr.org/networks/europe/laville.evers.etal.pdf
5. The *Conseil de la Coopération du Québec* was founded in the early 1940s. See its web site: www.coopquebec.coop/.
6. The *Chantier de l'Économie Sociale* was founded in 1996 in conjunction with a Quebec socio-economic summit, but it became autonomous as a non-profit organisation in 1999. See its web site: www.chantier.qc.ca.
7. For example, non-profit associations are not all represented in the *Chantier de l'Économie Sociale* whereas certain co-operatives, such as solidarity co-operatives or home care co-operatives, share a number of features with associations working in the same areas.
8. According to Statistics Canada (2004), in 2003 there were 161 227 non-profit and voluntary organisations in Canada, 46 326 (28.7%) of which in Quebec. Their main areas of activity were sports and recreation (21%), religion (19%), social services (12%), grant-making, fund-raising and voluntarism promotion (10%), arts and culture (9%), and development and housing (8%) (Statistics Canada, 2004: p. 10). While not all of these organisations are part of the social economy, their numbers and areas of activities reveal the vitality of civil society.
9. The CAD 1.3 billion figure is an estimate provided by the *Chantier de l'Économie Sociale*. The other data are taken from Lepage (2005).

10. Including: ARNOVA, CIRIEC International (social economy enterprises and public enterprises), the International Society for Third Sector Research (ISTR) (Johns Hopkins University), and the *Rencontres Internationales d'Économie Sociale,* EMES. They have also founded journals such as, for example, *Annales de l'Économie Publique, Sociale et Coopérative/Annals of Public and Co-operative Economics* (Oxford, Blackwell and CIRIEC International), *Économie et Solidarités* (Presses de l'Université du Québec et CIRIEC-Canada), *Economic and Industrial Democracy* (Sage Publications), *Social Innovation* (San Francisco, Stanford University), *Review of Social Economy* (Routledge, New York), *Revue Internationale d'Économie Sociale* (Paris) and *Voluntas International Journal of Voluntary and Non-Profit Organization*, New York, Kluwer Academic/Plenum Publishers.

11. At the 1867 World's Fair in Paris, Le Play had organised an exhibition on the social economy covering a variety of so-called "social economy" experiments and initiatives (Desroche, 1983: p. 71). Around 1850, he founded the *Société Internationale des Études Pratiques d'Économie sociale,* which published the *Bulletin de la Société d'Économie sociale. Chantier de l'Économie Sociale*.

Chapter 6.

The Social Economy in Central East and South East Europe

by
Ewa Leś and Maria Jeliazkova

The chapter explores the evolution of the social economy in Central East and South East Europe and highlights the way in which the development of the contemporary social economy is deeply rooted in the historical traditions established before the Second World War and the effects of the Communist era. Highlighting the impact of the transition, the strengths and weaknesses in the development of the social economy in the region are explained as being embedded in the similar national and international policies that have produced similar paths of developments. The mainstreaming of social inclusion policies and programmes, and decentralisation and local development, can hardly be successful if social economy organisations in the region are not provided with an environment which enables them to fulfil their potential.

Introduction

The idea of delineating certain general features or models of the social economy in Central East and South East Europe is undoubtedly very attractive but it is also a challenging one. Although recognising the scale of the task, this chapter offers an attempt to trace some possible trajectories of the development of the social economy in the region rather than suggest solutions. The outlining of past, present and emerging trajectories leads to a consideration of the social economy as a component of the broader and more universal mechanisms of social inclusion. Consequently the birth and evolution of the social economy as a specific mechanism of inclusion is deeply embedded in the changes of the broader mechanisms of social inclusion.

Social economy in Central East and South East Europe prior to the Second World War

Despite common opinion, the social economy sector in Central East and South East Europe did not develop as a direct "product" of the breakthroughs of 1989. Foundations, associations and co-operatives have a long-lasting and diverse history in this region. Prior to the Second World War, social economy organisations played an important role in many countries of the regions, although the sector's size and field of activity varied significantly from country to country. They represented the interests and developing survival strategies of disadvantaged populations – such as credit co-operatives which were popular among poor farmers all over the region for enabling access to lending facilities. In Poland, pre-war social economy organisations complemented the government by providing social, educational and health services and developing social entrepreneurship via the co-operative movement; in 1927 there were 3 539 credit co-operatives with over one million members. In Bulgaria, co-operatives based in villages increased in number from 492 in 1909 to 2 852 in 1927 and to 4 476 in 1941 (Keliyan, 1992).

In parts of South East Europe, the rural community played an important role in fostering social inclusion. The rural community not only used to be a bearer of economic development but was, to a certain degree, also a defender of the political interests of a large part of the population. These communities were characterised by a high degree of self-government, at least as far as the control and use of common resources was concerned, even in the long period in which many South East European countries did not have their own nation states. Indeed, it has been argued that Thomas Moore, in his famous *Utopia*, followed the social structure and forms of social control from the South Slavic small societies. Throughout the years, the rural communities preserved and even increased their informal role in addressing social exclusion and influenced and determined the development of the social economy in the region.

The second important feature is the comparatively late establishment of modern nation states in Central East and South East Europe. This has had considerable influence on citizenship, and the structures within civil society, as well as on the dimensions of social inclusion (and social exclusion). The late arrival of nation states allowed for the consolidation of the ethical and legal equality of all people regardless of ethnicity and religious affiliation. Moreover, people were incorporated by a form of social inclusion, namely citizenship with a strong connection to nationalism. This process was valid for Western Europe as well as Central East and South East Europe. However, a difference soon appeared as a result of the different types of citizenship. Wallerstein described the situation in the West: “What citizenship did was to shift exclusion from an open class barrier to a national or hidden class barrier” (Wallerstein, 1998: 21). When the nation states in South East Europe emerged, the concept of citizenship was somewhat different – it was not class, but ethnicity which was important and went from being an open division to a hidden one in the new states.

The particularities of the citizenship which emerged have undoubtedly influenced the various civil society structures. After nation states were established, the number of civil society organisations quickly increased and greatly developed their activity. Indeed, the social economy, which came into being in the second half of the 19th century in the region, developed widespread charitable activities, mainly mobilising private resources for welfare and educational activities.

Long-term impact of communism on the social economy

After the Second World War the long-standing traditions of the social economy in the countries under consideration, were destroyed and their continuity broken. In the late 1940’s and early 1950’s their activities were already under strict political and administrative control. The status of social economy organisations was significantly eroded, as the adverse political, legal and financial conditions almost totally inhibited a truly free working of social economy organisations. The communist authorities dissolved many foundations and associations, and deprived co-operatives and the remaining voluntary organisations of their greatest strengths – namely, defining democratic principles, meeting needs and representing interests independently from government. While truly independent civil society initiatives of a socio-economic nature were drastically limited in Central East and South East European societies, various quasi-non-governmental organisations and co-operatives were allowed and even forced to exist. Deemed "social organisations" and "social actions", they basically promoted the objectives of the totalitarian state and legitimised it via very high levels of, often coerced, membership and volunteerism. As a result, social economy institutions which existed under communism played the role of quasi-public agencies in nationalised economies, where central governments became the main providers and organisers of goods and services, without the independent involvement of citizens. The main mechanisms for implementing "socialist democracy" and social inclusion were accelerated industrialisation, state-dominated welfare regimes and the communist apparatus. The negative impact of the communist period on social economy institutions can be evidenced by:

- A distortion of the notions of philanthropy, charity, pluralism, mutuality and self-help, and voluntary work, and their endowment with a pejorative and contemptuous meaning.
- A dramatic drop in the size of social economy institutions: in most countries of the region, they were limited to only one allowable type of association and quasi-co-operative sector.
- The nationalisation and incorporation of a portion of civil society organisations into the state infrastructure.
- Forced and imposed co-operatives and participation, led to a proliferation of quasi-social economy organisations which were effectively tools of the state and were utilised and manipulated accordingly, thereby negatively impacting upon social capital.

Consequently, these factors have led to a process of disorganisation, demobilisation, fragmentation, a decline in the levels of social capital and even a distrust of social economy institutions, thus contributing to a growing social anomie. Discouraging citizens' involvement contributed heavily to weakening and shrinking civil society initiatives.

Of course, it should be pointed out that there were considerable differences amongst the countries in question as to the extent of the communist state interference in the functioning of social economy organisations. In Romania, for example, even quasi-non-governmental professional associations were banned in the 1970's, whereas in Hungary and Poland self-help networks and other circles of voluntary groupings, such as professional associations and certain mutual benefit societies, were allowed to exist.

Nevertheless, the imposed and ostensibly named "public initiatives" hampered spontaneous civil society initiatives and undermined the untapped reserves of genuine participatory motivation in different countries in the region. The Central European experience shows that severe limitations, such as an unfavourable ideological climate and legal and financial restrictions, prevented citizens from active involvement in socio-economic initiatives rather than any lack of desire to participate *per se* (Leś, 1994).

During the communist period, co-operatives existed as quasi-state agencies as they were an integral part of the planned economic system. Although formally co-operatives maintained different property status, co-operative private ownership was effectively liquidated (Kolin, 2004; Huncova, 2004; Les and Piekara, 1998). As happened to many associations and foundations, numerous assets and properties held by co-operatives were taken over by the state (Les, 2004: 187). For example, in Czechoslovakia "credit and saving co-operatives with all their assets and liabilities were taken over by the state savings bank in 1954" (Huncova, 2004: 216). They were incorporated into national economic policies and their economic activity was subjected to central and regional economic plans. During the communist era, the state administration appointed its own people (the so-called "nomenclature") to key positions in co-operatives. Bureaucratisation and centralisation of co-operative organisations (as well as subordination to the totalitarian state and monopolistic position that co-operatives enjoyed under communism in some areas of the national economy) were all factors that contributed heavily to the rather unfavourable reputation that co-operatives developed and which has hindered their development in the period since 1989 in Central East and South East European societies.

After the Second World War, modernisation theories defined development as a specific form of industrialisation: an accelerated one, with a high degree of state interference and isolation from the developed centres of the world economy, although, influenced by the dominant ideologies, it had also been labelled "socialism". Whatever we call this development, a main feature is industrialisation, which determined the basic changes in the mechanisms of social inclusion throughout this period. The accelerated, state-induced industrialisation turned the industrial enterprise workplace into a key component of the new mechanism of social inclusion. It is upon this that all other components of the inclusion mechanism were built, such as the state/social regime with national social insurance, national health system, social support, etc.. Whereas, after the Second World War, the central planning governments had adverse policies towards democratic civil society, they did promote the growth of human capital that gave rise to a new urban professional class. This, in turn, became an enduring presence, to a certain extent, in civil society culture and later "translated into leadership of civil society organisations capable of challenging the state socialist regime" (Les, *et al.*, 2004: 282).

This post-Second World War mechanism of social inclusion in Central East and South East Europe exercised its oppressive effect upon the previous mechanisms of social inclusion. The decline in civil society organisations is usually associated with an explicit ban, due to the absence of democracy. However true this may be, the explanation is hardly complete, especially against the background of the specificity of citizenship in the region. The influence of accelerated industrialisation upon the changes in the social inclusion mechanisms is worth mentioning. Thus, it might partially explain why, and how, the number of social economy organisations were considerably reduced and instead several other types of mass organisations – such as sport and recreation associations, societies for the dissemination of knowledge, professional organisations, co-operatives for the disabled, consumers' co-operatives and certain mutual benefit societies in various countries – developed instead.

The re-emergence of the social economy in Central East and South East Europe: the impact of transition

The growth of the social economy in Central East and South East Europe can hardly be attributed solely to the processes of democratisation and decentralisation that followed the overthrow of the communist governments and adherence to European integration policies. The re-emergence of institutions of the social economy, notably foundations and associations who received significant early support from external actors, also finds its explanation in the deterioration of the socialist welfare state. Last, but not least, sources of inspiration for the upsurge of the Central East and South East European social economy were rooted in local, historical and religious traditions. The renaissance of the social economy was particularly strong during the first years of transition (Nałęcz and Bartkowski, 2002). Indeed, in the decade, 1989-1999, the size of associations grew 123 times in Slovakia, 81 times in the Czech Republic, 14 times in Poland and three times in Hungary. There is the potential for further untapped reserves of participatory motivation among societies in this region to materialise.

The model of the socialist welfare state had been eroding in Hungary and Poland since the late 1970's. The symptoms of this erosion included reduced subsidies for goods and services, the modification of state social policies and the increasing number of organised groups addressing issues independently of state control. The communist governments were forced by economic hardships to reform social welfare systems and to tolerate and recognise the voluntary organisations working in this field. In order to increase the role of the voluntary sector, laws on foundations were passed by the governments of Poland in 1984 and Hungary in 1987. At the same time, countries of the former Soviet bloc manifested a growing dissatisfaction with the communist system that could not fulfil the promise of social justice and economic plenty. Political disappointment with the communist regime gradually led to the creation of the "alternative", "parallel" or "second society", which expressed itself through voluntary groupings and informal networks concerned with public and economic life in several Central East and South East European countries during the late 1970's and the 1980's. The rise of social economy institutions from the beginning of the 1990's finds explanation as well in the untapped potential of voluntary structures under communism.

Thus, it is no exaggeration to claim that the civil society organisations emerging in Central East Europe prior to 1989 constituted one of the principal mechanisms of breaking citizens' apathy and setting up "small circles of freedom". As the cradle for multiparty politics, organisations such as the Workers' Defence Committee and the *Solidarność* (Solidarity) trade union in Poland, the Fund for Poverty Relief *Szeta* in Hungary, Charter 77 in the former Czechoslovakia, and the Popular Front in Estonia provided an institutional and moral basis for the peaceful democratisation process in the region.

The rapid growth of civil society organisations in Central East and South East Europe was influenced as well by the processes of autonomisation of certain professions, such as the medical profession. This was a phenomenon described as "pressures for occupational autonomy". For example "[t]hese groups pressed for the formation of alternative, independent, professional outlets such as centres specialising in preventive and therapeutic services for children" (Leś, 1994).

However, at least three other arguments seem relevant to these evolutionary and endogenous factors. Firstly, the transition period has had two important aspects connected with the social economy: political changes were accompanied by the reconstruction and liberalisation of former mechanisms of social inclusion. These were connected to a considerable reduction in social rights and access to social services. Both types of changes have greatly influenced the emergence and development of the social economy. To a great extent the sector itself had been created mainly as a result of, and in conjunction with, the political breakthroughs and they were one of the most important instruments for the implementation of changes (some were ecological, some came from charity organisations, and, in Poland, some from the Solidarity trade union movement). At the beginning of the transition, when the state withdrew from the provision of various social services, it made room for some social economy organisations to penetrate into this sphere, and indeed the severe lack of services made the role of the social economy inevitable. However, in many cases, social economy organisations, representing local interests and needs, had engaged in local survival strategies and during the transition were left without public support and foreign aid and were not able to fully develop their potential, whereas organisations with an advocacy function proliferated and accumulated ample resources designated for "civil society development".

Secondly, the socio-economic transition of the late 20th and the early 21st century in most countries of the region has largely had a monolithic pattern. In Poland, for example, economic institutions of advanced capitalism were introduced immediately at the beginning of the transformation (such as the liberalisation of the Polish currency and the de-industrialisation policy) have been widely inadequate to the local economic situation and have inhibited society from developing local coping mechanisms relevant to the level of post-communist economy and local traditions. Staniszkis, an eminent Polish sociologist has recently coined the term "structural violence" for this phenomenon, a result of the pressures of international institutions and the trends of globalisation (Staniszkis, 2005). The same pressures towards homogenisation could be observed in social reforms in certain countries of this region, such as in pension reform, health care reform, social service delivery reform. It is hardly possible to explain the similarities of the reforms by internal (national) factors. These reforms have resulted in restricted access to, or even exclusion (through unemployment), from income as well as healthcare and social services, and thus enhanced the development of the social economy as a part of social inclusion mechanisms. These processes have largely been accompanied by the difficulties associated with economic restructuring, the presence of weak democratic institutions and a patchy legal framework, and have resulted in immense social crises in most countries under analysis (with high unemployment rates, dramatic increases in poverty and inequalities, and social fragmentation being common outcomes).

Finally, the different international and foreign donors that had provided practical and financial support for the development of some aspects of the social economy, notably associations and foundations, in Central East and South East Europe introduced programmes based on similar aims and target groups with the expectation of similar results in different countries. This was hardly supportive towards the development of co-operatives or local/territorial civil society organisations representing local interests and developing pro-active coping strategies. At the same time, in most of the countries there was little state support or subsidies available. Perhaps it could be argued that the re-emergence of a civil spirit in the region was conditioned more or less endogenously by political changes and the legal frameworks. However, to a greater extent, the real opportunities for the development of the social economy were, and still are, provided exogenously. This is demonstrated by the fact that, despite the political changes and the available legal framework, rural co-operatives have hardly survived as they were not supported by foreign donors.

Thus, there are many grounds upon which to argue that international and foreign donors have provided a degree of impetus for the development of the certain segments of the social economy both in the broader and more narrow sense of the concept: 1) indirectly, by the impact on political changes and social inclusion mechanisms; and, 2) directly, by programmes and activities providing financial support for the social economy. The policies of international and foreign donors, and the logistical and financial support given by them have, largely, defined the social economy. Indeed, this complex (and still nationally differentiated) exogenous-endogenous interplay has greatly influenced the establishment and development of the social economy.

Roughly speaking, two stages can be outlined in process of transition. In the first period (during the 1990's) the basic direction seemed to be a shift from over-centralised forced mechanisms of inclusion based on industrialisation to over-liberalisation, de-regulation and the consequent lack of new mechanisms of inclusion. Most of the countries considered had undergone an economic and social crisis, characterised by high levels of anomie and distrust. At best, such societies could support the instrumental character of social economy. Put under strong institutionalised and non-institutionalised pressure, the social economy organisations of this period served mainly as a shelter for the excess labour of previous middle-class representatives of the sector due to growing unemployment and decreases in real wages.

In the second period, more evident after 2000, a mild shift could be observed which may, albeit with many reservations, be called a "re-socialisation" of some institutions of the social economy. Some of its characteristics are seen in the enforcement of public-private partnerships, the growing importance of localities/territories and a community-based approach. In any case, it is worth pointing out the coincidence of this shift, which is also a consequence of an on-going process of decentralisation, with: a) the emergence of new mechanisms of social inclusion; b) the increased importance of social economy organisations; and, c) a change in the main direction of financial support from non-European to European Union (EU) actors.

The evolving legal frameworks

After the breakthrough of 1989, the fundamental principles underpinning social economy organisations – freedom of expression and freedom of association – were generally guaranteed and enforced in Central East and South East European countries by the Constitutions and Charters of Human Rights and Freedoms. New legislation was conducive to the development of some social economy institutions and enabled a process of restoring and setting up the legal and fiscal structures for this set of institutions. The significant upsurge in the formation of foundations, associations and unincorporated civil society groups after 1989 was evidence of the lifting of political and legal restrictions on voluntary organisations. It is important to recognise that co-operatives actually declined as a result of a failure to politically recognise their economic and social function, and their contribution to the social economy. This was as a result of the focus on for-profit enterprises and the perception of their primacy in filling the gap left by the withdrawal of the state, complemented by the belief that foundations in particular could ameliorate the worse consequences of the market *vis-à-vis* social exclusion.

The legal institutionalisation of some social economy institutions gradually improved during the transition period, simultaneously following and supporting the stages outlined above. In the 1990's, especially in the first half, general legal frameworks were put into place in the countries of Central East and South East Europe. The development of these legal frameworks reflected and responded to grass-roots level activity to re-establish the social economy, as well as pressure to conform to basic democratic standards. Associations and foundations are the most widespread organisational form, with co-operatives and other income-generating non-profit organisations also being recognised by legislation.

Framework laws regulated social relations concerning the rights of citizens to associate and stipulated the principles of creation, registration, development, and the termination of the activities of civil society organisations. Their importance lay in the way they legitimised both the involvement of civil society organisations in the political changes and the implementation of different projects, financed by donors' programmes. Generally these first generation laws provided room for the recognition of social economy institutions and their support by foreign donors, without differentiating between different forms and purposes of the social economy, and "liberally" providing a high level of freedom of activities and autonomy, both in contextual and financial terms. The withdrawal by governments from many welfare activities had left civil society organisations to cope themselves with the growing uncertainties which people confronted, dependent upon their own human and social capital.

As time passed, the need and pressure for better harmonised legislation gained force in all countries of the region. The evolutionary adjustment followed, more or less, three interconnected lines.

Development of more specialised social economy legislation

In almost all of the countries, new legislation for the social economy was developed and adjustments were made both to the new realities of the social economy, and to address the abuse, corrupt practices and violation of different laws (for example, taxation law and inappropriate duty free imports) to which inadequate legislation had contributed. Similarly, new legislation attempted to differentiate between the organisations which focused on general and private interests, and socially useful organisations/foundations. This enabled the development of new requirements towards the general interest social economy.

However, legal obstacles continue to be seen as one of the barriers for the development of social economy organisations, and there exists pressure for new reforms in certain countries (including the Czech Republic, Bulgaria and Poland). The legal basis is seen as being inappropriate for the successful functioning, fundraising and sustainability of social economy organisations. All the countries of Central Europe suffer from incomplete and unstable legal and fiscal frameworks for social economy organisations, especially those organisations evolving towards producing goods and services. A general impression is that there is a need for fiscal systems and support services for the social economy sector comparable to those established for small and medium enterprises.

In most countries of the region, perspectives on regulations conducive to social enterprises exist, but further active policies at the level of framework regulation, taxation, financing infrastructure, governmental incentives and subsidies, contracting out services and, improving the public's awareness of social enterprises are required. New laws that attempt to legitimise social entrepreneurship have been enacted in Poland and Hungary (Social Co-operatives), in the Czech Republic, Slovakia and Hungary (Public Benefit Companies), Slovenia (Not-for-Profit Institutes) and Lithuania (Social Enterprises). In other countries, the legislative framework does not yet recognise a legal form of social enterprise and the understanding of their role is rather poor and based on existing co-operative law (such as in Bulgaria, Croatia and Serbia). Whilst these laws were built on and improved the first framework laws, there are still significant short-comings which prevent the full exploitation of the legal form. For example, in Poland the law on social co-operatives (Law of April 27 2006 on social cooperatives (DZ. U. 2006 Nr 94, poz. 651), only allows for social co-operatives to be founded by people threatened by social exclusion) and 80% of the members must come from the target group. This law is currently being revised, with the percentage of members required from the target group expected to be reduced.

Creating an enabling environment

To ensure that social economy organisations can fulfil their potential it is important to provide an environment that enhances the role of social economy organisations and encourages stronger linkages between social economy organisations, local authorities and other actors, as well as acknowledging the important role of users of social economy organisations.

Providing space for the social economy with laws on social assistance and social service delivery

Legislative reforms in the provision of social services have provided a role for social economy organisations and the involvement of local authorities by institutionalising their functions and enabling local authorities to delegate tasks to social economy organisations. Examples of this include: Law No. 34/1998 adopted to give associations and foundations the legal right to establish and manage social assistance in Romania; Social Assistance Act/2003 and the Regulations for its implementation in Bulgaria; the Humanitarian Assistance Act of 2003 in Croatia; and, the Law on Social Assistance of 2004 in Poland.

These legislative reforms enabled the provision of social services to be contracted out and entitled the social economy organisations to deliver selected social, education, healthcare and other general interest services financed by the local authorities and the state budget. In addition to this, in many of the countries the changes in these laws have gone through a consultation process with selected social economy organisations.

Improving the linkages between the social economy and local authorities

Another factor contributing to the institutionalisation of the non-profit sector in Central East and South East Europe is the decentralisation of public administration. In most countries of Central East and South East Europe, public administration reform led to a three-tiered system, except for Poland where a four-tiered system was introduced. Although the overall impact of decentralisation on the development of the social economy had been positive and contributed to the involvement of non-profit organisations in consultation, service delivery and local development, the reforms have not been particularly helpful in strengthening the capacities of non-profit organisations, particularly at the grass-roots level.

Examples of such developments are: the Public Administration Reform 2001-02 in the Czech Republic; the Public Administration Reform of 1999 in Poland and the Act on Public Benefit and Volunteering, which became effective 1st January 2004. Whilst the Polish regulation did not replace the discretionary character of delegating public tasks to the social economy by central and local governments, it was a significant step forward as it obliged local authorities to co-operate with social economy organisations based on yearly and long-term programmes of co-operation.

Promoting state support and partnerships

The legislative framework has provided a new role for the state in the development of social economy organisations. In most of the countries, legal arrangements for budgeting and auditing, and formalising the relations between state structures and social economy organisations were implemented. These arrangements followed two main directions:

Enforcing partnerships between the state, local authorities, and social economy organisations

By way of illustration, in an attempt to give the social economy the role of an equal partner in the implementation of social policy, the government of Croatia adopted, in 2001, a Programme for Co-operation between the government and the social economy. In 2002 the Council for the Development of Civil Society was established, aimed at the elaboration of strategies for the development of civil society (Zganec, 2004). Another example of this trend are the amendments to the Polish Act on Public Benefit and Volunteering of April 2007, which envisages welfare partnerships as a form of co-operation and co-production of services between local authorities and social economy organisations.

Providing public finance for the social economy

In most of these countries, legislation already permitted the social economy to receive state government contracts for service delivery; in the Czech Republic, the subsidy reached 70% of the proven costs of the social economy. In addition, in Hungary, Lithuania, Poland and Slovakia, the laws provided citizens with the right to devote one percent of their income for socially useful causes performed by public benefit organisations as well as public sector institutions (the case of Hungary). In Bulgaria 10% of the income of individuals is exempted from taxation, if it is given to public benefit organisations.

Better addressing the needs of vulnerable groups and introducing pro-active measures

During the early 21st century, laws concerning different vulnerable groups, notably children and the disabled, were also adopted in many countries. The national legal frameworks especially addressed some vulnerable groups. For example, in the Czech Republic, the valid legal framework distinguished several groups of citizens (mostly those vulnerable to social exclusion and requiring social services): families and children, the disabled, elderly citizens, people who require social assistance and people who could not adapt socially.[1] In Poland two legal acts, one on social employment and one on social co-operatives, have provided the homeless, the long-term unemployed, the disabled, refugees, drug addicts and ex-prisoners, with such measures as supported employment and the possibility to establish social co-operatives.[2]

Better adjustment to the European inclusion process

The period after 2000, unlike the previous one, witnessed the official recognition of poverty and exclusion as problems within Central East and South East European societies. Influenced by European developments and supported by European and international institutions (such as the United Nations Development Programme and the World Bank) countries in Central East and South East Europe devised “Poverty Reduction Strategies” and “Strategies for Development”.

The European Inclusion Process and the Lisbon Agenda played an important role. In many countries the Joint Inclusion Memoranda and National Action Plans were the first reports illustrating the overall picture of poverty and social exclusion. The focus on European programmes, the requirements to mobilise all stakeholders, the implementation of active pro-employment policies, and the involvement of social economy in projects connected with pre-accession and structural funds had all started to influence the activities of the social economy (legislative changes included). Furthermore, these programmes have acted to enhance the role of the social economy as welfare providers and to improve their visibility both to policy makers and the public.

General overview of the social economy in the region

Key Areas of Activity and Types of Organisation

Considering the types of social economy organisations and their activities, three points of particular importance can be made:

The re-emerging social economy and the lack of vision for the development of co-operatives

Public opinion is very often strongly negative towards many social economy organisations in Central East and South East Europe, not necessarily without reason. Two basic reasons for the public negativism can be identified. The first is the lack of financial transparency and the opportunities for corrupt practices. The second reason is rooted in historical antipathy to the co-operative form following their use by the state during the communist era.

Thus, despite the general legal frameworks that guarantee freedom of expression and freedom of association, which were put into place in the countries of Central East and South East Europe, the process of establishing a supportive political climate, and a sound legal and fiscal basis for the social economy to deliver public services, thereby enhancing the inclusion and integration of the marginalised parts of these societies remains incomplete.

This is particularly valid for co-operatives. In contrast to the remarkable proliferation of foundations and associations since 1989, the Central East and South East European co-operative sector has not experienced vigorous growth and similar political and legal institutionalisation. In many of the countries, such as the Czech Republic, law and policy have not, as yet, given co-operatives a chance to participate in the development and implementation of policies for employment, social cohesion and regional development (Huncova, 2004: 219). As in many countries of the region, in Lithuania, the co-operative social economy sub-sector suffers from "the lack of effective legislation, the mistrust of people in one another, as well as a certain fear of a return to the kolkhoz or collective farm" (Bubnys and Kaupelyte, 2004: 254). In Poland, with the exception of credit unions, the co-operative sector is still overlooked either as the mechanism of local economic self-sufficiency and socio-economic development, or as a means of transforming the public welfare system. In the span of transitions in most of the countries under analysis, the co-operative sectors were also overlooked as a possible form of privatisation via co-operative ownership structures, though they could have preserved jobs and contributed by decreasing unemployment and preventing bankruptcies.

Whilst co-operatives are an indispensable element of a democratic system and a modern market economy and should play a vital role in restoring the sense of trust, solidarity, local economic sustainability, it will be necessary for considerable public hostility to be overcome before co-operatives can effectively play such a role. Instead, as the Polish case indicates, the co-operative sector had been left alone lacking political recognition, public financial support and other national (internal) and foreign (external) investments. As a result, instead of investing in the restructuring of co-operatives, the co-operative sector in Poland saw a dramatic decay through dissolution or the transfer to private ownership. Indeed, as with many actors, co-operatives were unprepared to face the conditions which the implementation of a market economy brought. Three main problems were identified at the time: 1) a shortage or complete lack of capital (co-operatives were weakest in terms of capital); 2) a low-skilled labour force; and, 3) a low-skilled management unable to run co-operatives in free-market conditions (Sztanderska, 1997: 96).

A clear exception is the sub-sector of credit co-operatives which has undergone, and is undergoing, a remarkable renaissance since the transition. By April 2007, they had over one million and a half members. They render financial services to individual employees in a form of savings and credits as well as providing credits to small enterprises.

Promoting “development”: social economy organisations in the field of employment

An important tendency seems also to indicate a different direction in the rise of the social economy in new EU member states. Instead of the traditional provision of social services, this tendency is focused on development and has to do with the pro-active, pro-employment EU policies. Perhaps one of the most important examples comes from Poland, where a new generation of social economy organisations of unemployed, low-income and low-employability groups have developed. Among new co-operatives are agricultural producers’ marketing groups and social co-operatives established to create jobs and address social exclusion issues. In 1999, the first Polish institution aimed at the promotion and support of local co-operative initiatives – the Co-operative Development and Local Entrepreneurship Association in Olsztyn (WAMA-COOP) was established. Its main goals are to:

- Help the development of new co-operatives.

- Promote good economic practices and the sound management of co-operatives.
- Create employment opportunities.
- Encourage entrepreneurship and local development.
- Foster social inclusion in the region.

An important category of social economy organisations is that of organisations which focus their activities on assisting groups threatened with social exclusion by combining humanitarian aid along with socio-occupational/economic activation. Indeed, they increase the potential of the sector in the area of socio-economic re-integration of the disadvantaged populations. Comprising about three thousand civil society organisations, this includes organisations that benefit particularly those groups threatened with social exclusion, including the homeless, people with disabilities, and minorities, as well as populations where combating unemployment is of great importance, such as young people and rural populations.

Distortion in the composition of resources and financial assets

An underestimation of the innovative roles that local social economy organisations can play in local development, produces financial constraints on the vast majority of this sector in the region. This, consequently, has led to diminishing numbers of social economy organisations and puts a limit upon their scope of activities. In 2002 only 58% of Polish associations and foundations had adequately met their stated role and functions, whereas 30% were inactive, mainly due to a lack of financial resources. Indeed, a high death rate within the social economy was reported in most countries in Central East and South East Europe.

The model of financing the social economy in South East Europe differs to a large extent depending on the way it is institutionalised. Some countries have adopted special legislation in this field, such as in Croatia where funding is secured from the government budget and from gambling. In Macedonia, most social economy organisations receive funds for specific projects from donors and international organisations, with an insignificant part coming from the state. The social economy typically submits financing applications directly to donors; it is very rare for the donors themselves to contact the social economy. Subsequently, there is no regulatory organ that supervises performance standards or effectiveness of services rendered by social economy organisations.

In turn, in the majority of countries, the share of social economy organisations actually delivering services is limited. The Polish findings reveal the small share that Polish organisations have in the market of services ranging from 0.01% in general health care, 0.6% in primary education, 3% in secondary education, to 14% in nursing homes (Leś and Nałęcz, 2001). According to Hungarian data "[t]he third sector contribution to the total output is 5% and 3% in education, and health and social care respectively" (Kuti and Sebesteny, 2004).

Thus, a crucial factor in terms of the social economy organisations' economic status in the countries of Central East and South East Europe is revealed as a distorted composition of their financial assets. The prevailing majority of resources belong to a relatively small group of social economy organisations, a phenomenon which might be called the "oligarchisation" of the financial base of some of the social economy in Central East and South East Europe: 9% of Polish organisations possess almost two-thirds of financial assets in the sector and 75% of organisations have only one-tenth. In Hungary, 94% of the total revenue of the social economy profit organisations' belongs to one-third of the organisations (Kuti and Sebesteny, 2004). Another contributing factor to the analysis of these organisations' economic potential in the region is that their paid workforce and material assets are concentrated in big cities and that local organisations often lack paid personnel and public support. This reflects the fact that a good part of the social economy in Central East and South East Europe have not evolved from the traditions and interests of local communities. Moreover, in some countries a notable element of local social capital retains its informal character rather than being incorporated into formal organisations.

Conclusion

In Central East and South East Europe the re-emergence of institutions of the social economy has occurred mainly in conjunction with the transition process and associated socio-economic restructuring. In most countries, its re-development had to do with massive unemployment and poverty experienced as a result of the economic transformation, and deficiencies in the market mechanisms of the national economy. Growing institutional and administrative vacuums in the social welfare system, and the decline in public service coverage during the transition, have led socially-minded leaders to establish new organisations and institutions, such as foundations and associations. They, then, have attempted to bridge the post-communist welfare gap albeit with varying levels of success. At the beginning, they were oriented towards reactive measures, addressing the social and material needs of the weakest groups and, gradually, following the financial flows, have expanded the scope of their activities, seeking far more effective modes of assisting groups with low employability by providing skills training and job creation services.

In addition to creating innovative instruments of social inclusion, the potential of the social economy in Central East and South East Europe is slowly being increasingly utilised for the citizen-led production of local public services. Co-operative run schools managed by parents and teachers, associations running small village-based schools managed by parents, local public entities transformed into limited companies owned by local authorities and citizens' groups, and new women's co-operatives are all examples of the new generation of social economy institutions in the region, revitalising solidarity, democracy, and economic self-reliance.

Presently, the main roles of the social economy sector in Central East and South East Europe are:

- Filling the gaps generated by market failures in the credit, housing, consumer and agricultural sectors.
- Bridging the post-communist welfare gaps in social services, services of general interest and public utility services.
- Filling the gaps in government policies and programmes for inclusive labour policies and social inclusion via the provision of work and social integration programmes for the long-term unemployed and other groups of special needs.
- Building partnerships for local development.

Although the social economy sector has been re-discovered in most of the countries of Central East and South East Europe, many of them are at the crossroads of their development. Whereas in some countries, such as the Czech Republic and Romania, service oriented foundations and associations have enabled a financial basis for development, in other countries many local social economy organisations and most of the co-operative sector do not benefit from pro-active policies.

The most basic strategies to re-establish social economy institutions in the countries of Central East and South East Europe as meaningful mechanisms of inclusion, integration and local development require:

- The use of different policies by national and international institutions which support largely grass-roots, territorial innovative initiatives and different local structures as primary mechanisms of social inclusion and local sustainable development. The contribution of the social economy to social, economic and political developments in the region will be strengthened while retaining the local cultures of coping with social and economic problems, as well as through building modern effective institutions and procedures locally.

- The means by which to foster the development of social enterprises in the work integration sector, as well as in the provision of social services, general interest services and public utility services.
- Creating an enabling environment for social economy organisations, especially financial and business support bodies.
- Ensuring fair compensation from the state and local authorities for the production and delivery of goods and services by social economy organisations.
- Supporting, both organisationally and financially, grass-roots social economy organisations.
- Building training capacity for social economy entrepreneurs.

Well developed social economy structures can successfully counterbalance the negative effects of globalisation and protect local communities against pauperisation. The analysis herein shows that social economy organisations have considerable, but as yet sufficiently untapped potential to develop innovative forms of action in socio-economic policies and local development.

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Notes

1. Social assistance benefits are provided in accordance with: Act No. 482/1991 Coll., On Social Neediness; Act No. 100/1988 Coll., On Social Security; Act No. 114/1988 Coll., On the Jurisdiction of the Czech Republic Bodies in Social Security; MPSV Decree No. 182/1991 Coll.. The state social support benefit system is codified by Act No. 117/1995 Coll.

2. Law of April 27 2006 on Social Co-operatives (DZ. U. 2006 Nr 94, poz. 651); Law of June 13 2003 on Social Employment (DZ. U. 2006 Nr 94, poz. 651).

Chapter 7.

A Supportive Financing Framework for Social Economy Organisations

by
Katerina Hadzi-Miceva with Nilda Bullain[1]

In recent years, social economy organisations have assumed an important position in Central and Eastern European. They have strengthened their role of representing citizens' interests and have been providing a myriad of activities to address the different needs of various groups in society. Governments and social economy organisations have worked together to develop laws that guide their establishment and operation. However, the laws that should enable social economy organisations to draw from different resources to implement their activities and support their sustainability remain a challenge. This chapter provides a comparative overview of the legal issues that require consideration in developing strategic policies for supporting the sustainability of social economy organisations. It discusses issues such as: the legal framework for the establishment and governance of social economy organisations; the extent to which publicly beneficial organisations are distinguished and supported; and, the effect of different resources on the viability of social economy organisations. The innovative approaches adopted by different countries to address the challenges in government funding are also explored. By analysing these issues the chapter aims to underscore the important role of the policy and legal environments for the viability of social economy organisations. It also emphasises the need to enable social economy organisations to use a diverse range of resources to support their activities and to allow them to undertake them in a creative and sustainable manner.

Introduction

Social economy organisations[2] have played a vital role in the establishment of stable models of democracies after the political transformations that have occurred in Central and Eastern Europe (CEE). They have not only successfully served as vehicles for expressing and representing citizens' needs but they have also addressed the immediate needs of their beneficiaries or target groups (such as women and children) by directly engaging in service provision, or lobbying for changes to government policies. Recognising the potential of these organisations, and their contribution to the public good, governments in the transitional countries have launched legislative reforms to facilitate their existence and their operations, and to regulate their relationships with stakeholders, so as to ensure their sustainability. Nevertheless, these organisations still face many challenges pertinent to the financial aspects of their sustainability. This is true especially for countries in South-East Europe (SEE) where foreign donors are a predominant source of funding, while the mechanisms for government support remain underdeveloped and non-transparent.

Having reviewed the regulatory frameworks that support the financial viability of the sector in the countries of the region, this chapter will provide a brief comparative overview of the basic legal issues pertinent to the registration of social economy organisations. In particular, the types of organisational forms found in the social economy, and the legislation governing the public benefit status of social economy organisations, which is a prerequisite for state support in most countries of the European Union (EU) will be examined. Financial sustainability is obviously critical for social economy organisations if they are to be able to meet their objectives. With this in mind, the chapter will explore the three major revenue sources for social economy organisations – income generation, direct government support, and philanthropy – and the legal and fiscal frameworks, and tax treatments that have an effect upon them.

By providing a general overview of the existing mechanisms which support the viability of social economy organisations, and outlining the successes and challenges found in regional examples, this chapter aims to convey the message that no one, single mechanism can serve as a panacea to the sustainability problem if introduced independently from the others. Indeed, it is necessary for governments and social economy organisations to work together to develop policies that can outline the most desirable approach to enhance the financial sustainability of the sector.

Framework laws as a basic factor for sustainability

An environment which seeks to enable the sustainability of social economy organisation presupposes, firstly, the right of citizens to associate freely in order to achieve common interests and needs; and, secondly, clear and well-defined rules that support their viability and functioning (Rutzen, Durham and Moore, 2004). To create the necessary conditions for social economy organisation to operate, the legal framework should contain rules which regulate the basic lifecycle of such organisations from registration to dissolution, including the type of activities that they can engage in and their governance structure.

The importance of provisions regarding registration, organisational form, governance and dissolution for the overall sustainability of social economy organisations should not be underestimated. They set a protective framework for the activities of social economy organisations and limit the ability of governments to interfere with their rights to be established and to operate freely. Generally, framework laws should determine basic rules for social economy organisations seeking to obtain legal entity status, but should not restrict informal activities of unregistered organisations. Mandatory registration contradicts the nature of citizens' association and inhibits the ability of citizens to perform ad-hoc or informal activities that benefit their local communities. The non-mandatory registration requirement is also in line with the internationally promoted idea of freedom of association as a basic constitutional right of citizens. Indeed, the obligation for mandatory registration was challenged before the Constitutional Court in Croatia, and as a result Croatia abolished this requirement (Golubovic, 2000).

Laws from Central East European countries generally recognise two main organisational forms of social economy organisations: associations and foundations.[3] Associations are membership-based organisations, which can be established for the mutual benefit of its members or for the benefit of the public or certain disadvantaged groups. The members of associations constitute the assembly as the highest governing body, although usually associations have another body (such as an executive board) that performs management functions.

Foundations require property dedicated to a specific purpose and are governed by a board of directors appointed by the founders. Some countries impose a minimum capital requirement for registration. Foundations can be defined as endowed grant-making organisations only (Czech Republic or Slovakia), or as both grant-making and operating foundations (Estonia or Hungary). As with associations, foundations can be established for private or public benefit.

In addition to the two basic forms, some countries have introduced other forms which are similar to associations. For example, Poland recognises "simple associations," which lack legal personality but are easier to form than other associations. Lithuania provides for the establishment of "community organisations," which are similar to associations but limit membership to individuals. Macedonia and Serbia allow for the establishment of "associations of foreigners" but limit the purposes they can pursue. Furthermore, the Czech Republic has introduced the "funds" which (unlike foundations) do not require an endowment and so they may use all of their property to pursue their statutory purposes.

A third organisational form has been introduced, for example in the Czech Republic and Hungary, which is non-membership based, and organisations that acquire it can engage more actively in income generating activities. "Public benefit corporations", in the Czech Republic, can be established for the purpose of providing publicly beneficial services. They may also engage in complementary operations (economic activities) if the income from such organisations does not negatively affect the quality, scope, and availability of the public services it offers.[4] However, they may not invest in the entrepreneurial activities of other people. The Hungarian "non-profit companies" are discussed below.

To limit arbitrary government decision-making, most of the countries have adopted rules that introduce a straightforward registration process, requiring basic documents (act of establishment, governing document and application form) and define narrowly the grounds for refusal. Although, the majority of Central East European countries have adopted acceptable grounds for refusal of registration (incomplete submissions, basic legal requirements not satisfied, or illegal activities), some laws still contain vague terms, which can be subject to discretion. For example, under Croatian law, if the activities of a fund or foundation are seen as "immoral" or the registration authority finds that the purpose "lacks seriousness", registration can be refused. This is currently being revised, and the Croatian Ministry of Justice is preparing a new draft Law on Foundations that will bring the regulation of foundations in line with good practices across Europe.

Limiting the grounds for involuntary termination is also an important factor which contributes to the creation of a favourable environment where social economy organisations can operate without the fear of discretionary government intervention. Even though laws throughout the region have adopted strict provisions for determining the cases of involuntary termination, some still tend to cause problems. For example, Slovenia allows the responsible ministry to dissolve a foundation if it decides that the changed circumstances make the continuation of the foundation unnecessary. This provision is problematic, as it gives registration officials a great deal of discretion as to whether to dissolve an organisation.

Apart from the registration and dissolution provisions, laws also set basic guidance as to the governing structure of the organisational forms, so as to facilitate and promote accountability and good governance. Associations are governed by their assembly, and foundations by a board of directors. In Hungary, public benefit companies are governed by owners or quota holders.

An important aspect of social economy organisations is their internal democracy. Unfortunately, some framework laws in the region are vague, or silent, about governance structures, and even if the basic governing bodies are prescribed, their roles are not clearly defined (Wyatt, 2004). In Hungary, for example, the Law on Association provides that the bye-laws should reflect democratic principles. However, this is not further clarified and therefore registration judges interpret this provision in very different ways. While this had some positive effects, the “one vote per member” rule has been enforced through judicial practice, at the same time judges intervene unnecessarily in the organisational autonomy of the associations (Fülöp, 2006). For example, judges would require that the founding document includes details on how meetings are convened, by requesting that they contain the provision that all members must receive posted invitations for meetings (as opposed to emailing or calling them by phone), or by requesting that the founding document foresees the establishment of a committee to count the votes where decisions are made by a secret vote.

Generally it can be said that social economy organisations still need guidance and capacity building to strengthen their internal governance structures and perform their activities in a professional and responsible manner. A recent survey conducted in Bulgaria shows that “in more than one-fourth of the cases staff participate in the governing bodies” of the organisation, but that there are no clearly written responsibilities of the members of the governing bodies. At the same time, the “disloyalty […] of individual members, poor performance of responsibilities and [the] non-fulfillment of commitments” are often reasons for conflicts between the governing body and the Executive Director, according to the survey. In addition, a “regular financial audit is not a frequent practice…. Around one-third of them (31%) do not conduct such an audit at all, and 25% have […] occasionally” (Bulgarian Center for Not-for-Profit Law, 2006).

A similar survey in Hungary showed that social economy organisations do not have “a clear understanding of the differences between governance and management. This is reflected in the fact that 42% of respondents assign to board members the role of managing day-to-day operations, and 53% of management staff are voting members of the governing body." Furthermore, social economy organisations "do not generally recognise cases in which conflict of interest is involved, and do not consider such situations improper or ineffective". In terms of financial accountability, the survey found "that although 81% of respondents prepare annual reports, only 32% distribute the annual report effectively." It is important to note that 68% of the respondents are public benefit organisations, who are required by law to publish their reports (Mura-Mészáros, *et al.*, 2002). This results in both poor accountability and low levels of transparency, which weakens the public image of social economy organisations. This, in turn, has an impact upon the ability of social economy organisations to mobilise financial or other support from government, individuals and business.

Most importantly, social economy organisations are greatly affected by the way framework laws regulate the type of activities they can engage in. There are two key issues that are usually part of framework laws and which are important when considering the financial viability of social economy organisations: 1) the permissibility of social economy organisations to engage in income-generating activities; and, 2) public benefit status as a prerequisite for state support. For example, when the government of the Czech Republic introduced the mechanism for endowments, it recognised that it needed to revise its Law on Foundations to make this instrument effective. In general, the amendments removed the prohibition on the investment of assets from endowments, and provided various mechanisms, and rules, for managing endowments (see below). Poland and Lithuania also sought to review their regulations when the percentage designation system was introduced, in order to ensure that the designation was effective and directed to activities that are of public benefit. As a result, only those organisations that have acquired public benefit status can now be recipients of the percentage allocation.

The legal framework and the sustainability issues pertinent to the ability of social economy organisations to engage in income-generating activities will be discussed in detail below. However, it is important to emphasise at this point that according to the John Hopkins Comparative Research Project, 53% of the income of social economy organisations in the surveyed countries is generated through fees for services, economic activities, investments and other income generating activities.[5] It is therefore crucial for the viability of social economy organisations that governments revisit their policies and improve framework laws to support engagement in activities which enable social economy organisations to sustain their statutory purposes.

Public benefit status

Public benefit status essentially distinguishes between organisations that are established for the mutual interest of the members, such as sailing clubs, from those whose activities benefit a larger community. Countries generally list the type of activities that are considered of public benefit and prescribe the criteria so as to further define the status. For example, in the Netherlands and in Poland public benefit social economy organisations are those that operate principally for public benefit purposes and provide services to a larger and undefined group of beneficiaries. Public benefit status can be conferred on social economy organisations either through provisions included in framework legislation (such as in Bulgaria and Romania), in separate public benefit legislation (Hungary, Lithuania, Poland and Latvia), but also implicitly through provisions in tax or other laws (Croatia and Slovakia as well as most Western European countries). While organisations that receive public benefit status are entitled to more benefits than others, in turn they are subject to greater supervision by the government and have to comply with stricter rules on accountability. The purpose of this scrutiny is to protect the public from possible fraud and ensure that the benefits these organisations get are not wrongfully used.

Governments generally decide to provide special benefits to public benefit organisations because such organisations serve more effectively the needs of local communities and society as a whole. By addressing social needs they complement, or supplement, the obligations of the state or provide services that are under-supplied. They often identify and respond to social needs faster than governments and are capable of delivering services more efficiently and directly. In addition, governments have an interest in supporting public benefit social economy organisations because in the provision of their services they raise additional funds, thus saving the state money and mobilising larger community support.

The benefits granted to public benefit social economy organisations generally come in the form of profit tax exemptions, exemptions from property, gift or inheritance taxes, customs duties exemptions, tax benefits to donors, preferred status for government funding and contracting or use of public property (ICNL, 1996a). Therefore, public benefit status is fundamental to the sustainability of social economy organisations because most countries in the region treat this status as a prerequisite for granting tax benefits or other types of state support. For example, France, Germany and Hungary allow only public benefit organisations to receive tax-deductible donations. In other cases public benefit organisations benefit from tax relief on their economic activities, such as in Hungary where public benefit organisations have a higher threshold of tax exempt income from unrelated economic activities. In some countries, such as Croatia, there may be no explicit status defined in law, but tax benefits are nevertheless only linked to public benefit purposes. Even foreign donors sometimes base their donation policy on the precondition that social economy organisations have received public benefit status or its equivalent.

Financial sustainability

A sound and appropriate legal framework is not only a precondition for the establishment of social economy organisations, but also has an impact on the democracy and governance of social economy organisations and on the activities they can engage in. By establishing the basic framework to allow social economy organisations to generate their own income, and by distinguishing those organisations that serve the public good, the legal framework is an integral part of all public policies affecting the financial sustainability of social economy organisations.

Sources for financial sustainability

Generally, there are three main sources of revenue available to social economy organisations:

- Government funding (central and local level).
- Income generating activities: fees for services, sales, membership fees, rents, investments, business ventures, etc.
- Philanthropy (financial donations and in-kind support from volunteers).

As noted above, according to the John Hopkins Survey, income generating activities constitute the largest source of revenue (53%), in comparison to government funding (35%) and philanthropy (12%) (Salamon, Sokolowski and List, 2003).

The relative importance of all three sources varies, depending on the local circumstances in each country. Accordingly, each country should decide which source to focus its attention upon, based on an assessment of the strategic priorities, the local conditions and the needs of social economy organisations. For example, the government of Hungary decided that it would need to increase the level of government support, compared to other policy alternatives. Consequently, in its strategy from 2002 it adopted this goal by setting a target of doubling the level of government support by the end of its term. To support this aim, it created the National Civil Fund as a grant mechanism, which distributes funds for operational costs to non-profit organisations. As a result, the funding allocated through various public mechanisms in Hungary exceeded 40% by 2005. However, while the priority at any give time may lean towards one source, it should be noted that an approach to only strengthen one revenue source will not alleviate the sustainability problem of the sector as a whole. Countries should consider ensuring that there is an enabling legal environment for social economy organisations to fully utilise all types of resources.

First, creating possibilities for using diversified funding resources is important to support the existence and to foster the flourishing of different types of organisations. Not all social economy organisations will have easy access to all resource revenues as the potential to receive funding from a source might depend on the field of their activity (Table 7.1). The John Hopkins Survey illustrates that, at the global level, social economy organisations active in the health and social service fields benefit the most from government funding. Social economy organisations engaged in culture, education, regional development, environment and advocacy rely mostly on economic activities, while religious organisations and those involved in international development receive most of their funds through philanthropic giving.

Table 7.1. Sources of income and types of activities

Government Funding	Economic Activity	Philanthropy
Health *	Advocacy	Religion
Social services	Environment**	International development
	Education	
	Regional development	
	Culture	

Notes: * Social service: 44% government funding, 37% economic activities, 19% philanthropy
** Environment: 42% economic activities, 30% government funding, 28% philanthropy

Source: John Hopkins Survey, 2003

Second, all resources complement each other. For example, the ability of environmental social economy organisations to engage in income-generating activities and to raise funds through private donations increases their income, which in turn matches the support they receive from the government. This is especially important for the government in cases where it contracts out tasks to social economy organisations to help implement state policies or deliver services.

While this division is relative, and the share of each source to the sustainability of social economy organisations differs from country to country, and also across regions, it reinforces the importance of the need for governments to promote different sources of funding and to remove the obstacles which hinder the development of financial maturity within civil society.

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While this division is relative and the share of each source to the sustainability of social economy organisations differs from country to country, and also across regions, it contributes to the understanding that it is crucial for governments to recognise the significance of promoting different sources of funding and to remove the obstacles which hinder the financial maturation of civil society.

Income generating activities

An important factor which helps measure the supportiveness of the legal environment towards social economy organisations' viability is the permissibility of social economy organisations to engage in income-generating activities, including membership fees, sales, fees from services, investments or renting property. Economic activities may be defined as "regularly pursued trade or business involving the sale of goods or services" (ICNL, 1996b). Income from donations, gifts, passive investment, occasional activities which can result in a generating income, such as fundraising activities usually do not fall under the definition of economic activities as described above because these are not conducted through a market-type transaction.

Income generating activities are considered the most important source of social economy organisation financing, particularly in those countries where support from foreign donations is declining and where private philanthropy has not yet developed to the point where it is sufficient to support the activities of the sector, and also where the mechanisms of public funding are opaque. Allowing social economy organisations to generate their own income could lead to an increased level of effectiveness in programme implementation and to better quality and more diverse services. For example, charging fees for services and products raises the expectation of beneficiaries as to their receipt of a higher quality of service. This triggers the institutional mindset of social economy organisations, which become more aware about the needs they aim to address and the value of services they provide to their beneficiaries. In addition, the ability to engage in income generating activities encourages social economy organisations to consider services that they could not otherwise provide for, with other funding sources. Finally, the ability of beneficiaries to choose the service provider raises competition among social economy organisations, which leads to better quality services and enhances the effectiveness of their work (ICNL, n.d.).

State policies, and a favourable legal environment, play an important role in the ability of social economy organisations to generate income from economic activities to support their non-profit purposes. When regulating economic activities the following issues are generally considered: a definition of what constitutes economic activities; criteria of what is permissible, and to what extent; and, the tax treatment of any revenue generated.

Since economic activities involve a financial or market-type transaction and serve an economic purpose, states have adopted safeguards against misuse of this opportunity. Most fundamental is the non-distribution principle, which essentially ensures that such income is not distributed to the members or associates of the organisation. In addition, the laws require that all income generated must be used to support statutory purposes.

Most countries have set additional criteria that determine the ability of social economy organisations to engage in economic activities. Croatia allows social economy organisations to engage in economic activities to the extent it is necessary, and only in those activities that are detailed in the statute, the legitimacy of which will have been reviewed by the registration authority in advance. However, the lack of clear criteria regarding what is considered to be an economic activity is one of the problems in effectively implementing this provision. Country specific legislation differs regarding the extent to which social economy organisations are allowed to engage in economic activities. Bosnia, Bulgaria, Romania and Slovenia permit only activities “related to the mission” of the organisation, for example, in the case of those social economy organisations that assist people with disabilities selling a publication on the issue would be permitted.

Of all Central East European countries, it is only in Macedonia that social economy organisations cannot engage directly in economic activities and are required to establish a subsidiary (such as a limited liability company) if they want to do so. Under the current judicial interpretation of the law, educational social economy organisations cannot sell a book to help cover printing costs. In practice, social economy organisations engage in economic activities regardless of this prohibition, which undermines the rule of law. In addition, these activities are unregulated and, as a practical matter, untaxed, even if the activities are unrelated to the organisation's mission. The Macedonian Ministry of Justice is currently drafting amendments to remove this prohibition and allow social economy organisations to directly engage in economic activities, without the requirement to establish a subsidiary, which should address such problems.

The third important issue associated with the economic activities of social economy organisations is the tax treatment of the income from such activities. Tax exemptions are generally considered to be an indirect form of government support to social economy organisations, and thus are distinguished from the permissibility of social economy organisations to engage in economic activities, which is addressed in framework laws. The tax treatment of economic activities will be addressed in detail below.

The ability of social economy organisations to generate income and conduct their activities effectively is also dependent on their capacity to develop services that can generate such funds, to create self-financing business models or to utilise the skills necessary to sustain such activities. One approach, which appeared as an answer to the latter point, is the establishment of social enterprises. Social enterprises are business ventures with primarily social objectives whose income is reinvested for community purposes.[6] Social enterprise projects seek to empower social economy organisations to operate income-generating ventures and to make a social impact (Moore, 2004). The U.K. government recognised that "by using business solutions to achieve public good […] social enterprises have a distinct and valuable role to play in helping create a strong, sustainable and socially inclusive economy" (Cabinet Office, n.d.). In 2002, it launched a three-year strategy to support these initiatives by setting the following three outcomes: firstly, creating an enabling environment for social enterprise; secondly, making social enterprises better businesses; and, thirdly, establishing the value of social enterprise. The potential impact of social enterprises on economic and community development has triggered some countries, such as Slovakia and Hungary to adopt similar models.

For example, in Hungary a non-profit social enterprise that generated its income primarily from economic activities (such as by selling handicrafts made by local unemployed people and reinvesting the income in the development of the community) had limited opportunities to operate in a sustainable manner. Either it could have assumed the form of an association, in which case it would not have been allowed to conduct business activities as a primary activity and therefore the potential to grow as a business would have been limited. Alternatively, it could have assumed the form of a public benefit company, which requires starting capital and some kind of agreement with the local government, or another government agency, that proves that this organisation is conducting public benefit activities. In 2006, the public benefit company form was discontinued and as of 1 July 2007 there is the possibility of any for-profit legal form (currently six types exist in the Hungarian Company Code) to assume a non-profit status. Such non-profit companies will be entitled to request public benefit status under the same conditions as associations or foundations. This expands significantly the possibilities of business activities being conducted as social enterprises, because it will enable organisations, like the one described above to, for example, register as a small company, conduct economic activities as a primary activity, grow its business according to market needs and yet remain a non-profit organisation and – eventually – claim tax exemptions if it acquires public benefit status as well.

In addition, investment income also provides an essential source of revenue for social economy organisations and many countries impose additional requirements and limitations on the distribution and the accumulation of capital to ensure that such income is spent in pursuance of their objectives. Slovenia and Macedonia generally treat almost all investment income as taxable, while Hungary and Poland provide exemptions for public benefit organisations.

When considering the opportunities and mechanisms for income-generation as a financial resource for social economy organisations, it is important to take into consideration the local economic situation and also the trust in the quality of services provided by social economy organisations, as factors which determine potential. For example, due to the high tax burden it might be more difficult for social economy organisations to run economic activities in Hungary than in Slovakia. Or if the social economy organisations provide good quality services citizens might be more willing to choose to pay for the services that social economy organisations offer, as opposed to the same type of services offered by other providers. Clearly, the economy must be strong enough to support the self-financing efforts of social economy organisations. It is also important to assess the stage of development of the sector in order to determine the most appropriate strategies that will enable social economy organisations to utilise various opportunities.

Government funding

Governments support social economy organisations financially either directly, by allocating resources from the state budget line, or indirectly, by granting benefits to social economy organisations. In the latter scenario the government is reducing the amount of income that it would have otherwise collected. Some Central East European countries have adopted the percentage mechanism, which goes beyond the traditional forms of government support. Recent data shows that the amount of government funds available to social economy organisations in Western Europe varies from 29% of the total civil society organisation revenue in Sweden and 35% in Norway, to up to 77% in Belgium and Ireland. In Central East Europe government funding represents between 20% and 30% on average from the overall income from the sector (Salamon, Sokolowski and List, 2003).

The interest of governments in supporting social economy organisations through funding mechanisms cannot be measured only by the amount of funding that it makes available to social economy organisations. The rules that regulate the distribution and monitoring of the use of funds should also be considered. Specifically, social economy organisations around South-East Europe have difficulties accessing government funding due to a range of reasons. These difficulties include the lack of transparency in the implementation of funding mechanisms, a lack of professionalism in contracting and grant-making, the fact that there are no clear criteria for accessing funding, and because the decision-making process on grant-making has become politicised. In addition, there is no effective monitoring mechanism to oversee the use of funds and ensure accountability by the social economy organisations that have received them. For example, recent research in Macedonia revealed that the government distributes annually EUR 4.1 million from various budget allocations, however only a limited number of social economy organisations benefit from these funds mainly because of the lack of clear criteria both as to who can receive them and procedures on their allocation. Therefore, when discussing government funding mechanisms it is also relevant to consider the implementation of such mechanisms which determines the effectiveness of the system.

Direct funding

Government funding can be distributed through several traditional forms: subsidies, grants, procurement, *per capita* fees or vouchers. These funds can be distributed from central level budget (through the parliament, ministries, lotteries, privatisation proceeds, public funds and foundations) or through the budgets of local governments (see Bullain and Toftisova, 2005).

Forms of direct support

From the mechanisms of government funding, subsidies and grants are the most common form used throughout the Central East Europe region. In our terminology subsidies serve as general support to the activities of social economy organisations, they are not linked to a specific project and can be used to cover general operating expenses, whereas grants are allocated to support the implementation of a given project which falls within the government's programmes. Subsidies are generally distributed to social economy organisations whose contribution to government policy implementation is considerable and may therefore serve as a general indicator of the public sector's recognition of civil society (Bullain and Toftisova, 2005). Funding through subsidies is usually given to major international agencies (such as the Red Cross), national interest representation groups (such as Associations of Pensioners), major service-providing organisations, and a very few advocacy organisations. Grants, on the other hand, are generally awarded through an open tender-type application process and can provide funding for a range of targeted activities, from the delivery of social services (such as in Germany, Croatia and the U.K.) to the implementation of programmes from the country's international development aid obligations (as in Sweden, Denmark and Germany) (Bullain and Toftisova, 2005).

The procurement mechanism regulates the government purchase of goods and services delivered by the social economy organisations. The challenge of this mechanism is that social economy organisations generally bid together with other service providers, such as businesses, and may be unable to meet technical requirements (such as collateral) or achieve the high standards usually set by governments. Some countries, such as Bulgaria, have amended their legislation to remove the prohibition on the participation of social economy organisations in procurement procedures. Others have created specific mechanisms, such as the public benefit contract in Hungary which has created two categories of public benefit status: the "normal" public benefit organisation and the prominent public benefit organisation. The public benefit contract is a special contract that "prominent" public benefit organisations can sign with a state agency to provide public services. The contract entitles them to the special public benefit status and the additional tax and other benefits (Bullain and Toftisova, 2005). Generally, social economy organisations engaged in social service delivery are most likely to benefit from this mechanism.

Third party payment schemes, common in Western Europe, such as per capita fees and vouchers are not yet widespread in Central East Europe, but have proved to be useful mechanisms of public support mainly for social service delivery social economy organisations. Per capita fees or normative support systems, which are common in Hungary, essentially mean that social economy organisations seek reimbursement from the government based on the volume of services they have provided. Social economy organisations that deliver services in areas such as healthcare or education are the beneficiaries of this system. The voucher mechanism, which was introduced in the Czech Republic, allows municipalities to provide vouchers for the services that fall within their obligation and leave the decision to the citizens to choose their provider. Aside from the fact that these two mechanisms are a form of financial support, they also prompt social economy organisations to compete with service providers from other sectors (public and private), which contributes to higher quality service delivery and ultimately to increased accountability.

Sources of direct support

Of all examples of sources of public support in the region it is worth emphasising two models: 1) the use of privatisation proceeds; and, 2) the creation of a public fund for the support of civil society. Both are important because they have been introduced as a result of concerted government efforts to strengthen the third sector through the adoption of innovative instruments. The former has proven to be successful generally, while the effects of the latter are yet to be assessed.

The distribution of privatisation proceeds to foundations was introduced in the Czech Republic as a result of the privatisation of state-run enterprises. The Czech Government allocated one percent of these privatisation proceeds to a Foundation Investment Fund, which then re-distributed the funds to local foundations in the forms of endowments. The purpose of this mechanism was to assist with the establishment of endowments as a secure resource base for social economy organisations. Foundations must keep the endowment within a certain legally prescribed minimum (EUR 16 000) but may use the rest above that minimum to pursue investment opportunities to achieve their statutory goals (Thomas, 2003). In 2002, EUR 27 million was distributed to 64 foundations, which at that time represented one-third of all foundations in the country (Kalousova, 2003).

Following the introduction of this mechanism, the government introduced changes in the legal and tax systems to create rules for the good management of the endowments and to enhance the ability of foundations to maximise their potential. The amendments introduced several investment possibilities as they provided for a wide range of investment instruments for foundations. At the same time rules for safe investing were introduced, as was the possibility of the professional management of endowments by financial institutions, tax-free capital gains were permitted, and an easier registration procedure was also introduced. Currently, 375 foundations are registered in the Czech Republic, with the value of their endowments exceeding over EUR 80 million (Kalousova, 2003). This instrument also led to improved co-operation among foundations, which pooled their endowments to establish a joint investment portfolio designed specifically for this purpose.

In 2003, the Hungarian Government established the National Civil Fund with the aim of providing a mechanism for institutional support to social economy organisations. Essentially, the National Civil Fund supplements the funds social economy organisations receive via the percentage allocation, by match-funding the funds that are designated to social economy organisations. 60% of the resources of the National Civil Fund are allocated to social economy organisations to support operational costs. In addition, funds from this source also support development programmes, including research, education and international representation. The Fund is administered by a Council and a number of regionally based Colleges. The Council is the strategic decision-maker, which sets the priorities of the Fund, divides the resources among the various purposes and develops other rules of functioning. The Colleges are regional bodies deciding about concrete grant proposals. Social economy organisations elect their representatives to sit on the Council and the Colleagues. In the first year a total of EUR 28 million was distributed to support the operational costs of over 3 500 organisations.

Whilst the introduction of the National Civil Fund was accompanied by great enthusiasm from social economy organisations, the first year of distribution saw the Fund confront significant criticism, which raised concerns as to the real effect of the Fund. This was due to the lack of carefully planned implementation mechanisms. It was revealed that in conceptualising the National Civil Fund the government had not considered a concrete overall strategy to develop the sector. Even the participation of social economy organisations in the decision-making processes raised controversy over potential conflicts of interest. It was found, for example, that social economy organisations connected to members of the Colleges were always awarded the full amount sought while other organisations often received less funding than requested. The Minister of Youth, Family and Social Affairs, Kinga Göncz, called the attention of the National Civil Fund’s Council, the highest governing body of the Fund, to such controversies.

The implementation of the National Civil Fund was based on application requirements which appeared to be too burdensome and rigid. As a result of complicated and poorly designed application forms, between 70 and 90% of the applications were rejected. The Ministry responsible for overseeing the distribution ultimately had to intervene to allow for a broader interpretation of the strict formal requirements so as to permit for a higher number of applications to be considered. Consequently, the decision on the distribution of the funds came later than expected, leaving social economy organisations with only a month to spend the allocated funds, which originally were designed to cover costs for over a year. At the same time, the substantive requirements were rather broad and with no strategic focus. Thus, it is questionable whether the implementation of the National Civil Fund actually acted to assist and support the reform of social economy organisations and to strengthen them institutionally (USAID, 2004). Although the funding potential of this mechanism is considerable, its impact on general financial sustainability in the longer term largely depends on the willingness of the government and the Governing Council of the Fund to learn from the challenges in the first year and to revisit the goals they have set to achieve in order to improve the effectiveness of the system. For the second year they successfully developed a clearer and more user-friendly application system but did not address other issues which could have helped the Fund achieve its purpose, such as the criteria for the types of projects that would be supported.

Indirect forms of support

Indirect support most often appears in the form of tax benefits, use of municipal property or providing services at a reduced cost. The support is considered "indirect" because rather than distributing public funds, governments do not collect the revenue that they would otherwise be entitled to. Indirect support is associated mostly with the implementation of the activities of the organisation. Therefore the legal framework issues discussed above, namely the permissibility of economic activities and public benefit status, are important considerations for governments in shaping their policies on indirect support.

The issue of tax benefits is emphasised as the most important because it is directly connected to the amount of generated income that social economy organisations can utilise in the pursuit of their objectives. Tax benefits can appear in the form of an exemption from certain types of income from profit tax. Almost all countries exempt from taxation the income from membership fees, grants and donations. There is a general consensus that all social economy organisations, regardless of whether they serve mutual or public benefit purpose should be exempted in this case. However, in some countries, such as Bulgaria, mutual benefit organisations are subject to tax on donations (ICNL, 2003).

Tax benefits are also associated with income from investments, real estate and customs. Furthermore, the Value Added Tax (VAT) treatment of the activities of social economy organisations is an important consideration in discussions on their ability to operate and financial viability. For example, the Macedonian VAT Law provides an exemption only for the supply of services and goods by social welfare institutions, and not social economy organisations. This poses a serious burden on the ability of social economy organisations to financially manage social service activities.[7] Even the 6th Directive of the European Commission on VAT does not provide clear guidance on how to treat social economy organisations, and the rules in the new member states vary accordingly.

The ability of social economy organisations to utilise the income from economic activities is not unlimited and is subject to taxation in some countries, although the tax treatment differs from country to country (Table 7.2). Some look at the purposes for which funds derived from economic activity are put to use ("destination of the income test"). Consequently, if the income is used to promote public benefit purposes then it will not be taxed, as in Poland.

Table 7.2. Taxation of economic activities of social economy organisations in Central East Europe

Prohibits direct engagement	Macedonia
Not subject to tax	Bosnia and Herzegovina
Fully taxed	Albania, Bulgaria, Slovenia
"Relatedness" test	Estonia, Latvia
"Destination of income" test	Poland, Kosovo
Hybrid test / tax thresholds	Czech Republic, Hungary, Romania, Slovakia, Serbia, Montenegro

Source: John Hopkins Survey, 2003.

Another approach is to exempt income from economic activities only when it results from "activities related to the purpose" of the organisation ("relatedness test"). For example, in Latvia income from unrelated activities is taxed. Some countries, such as Czech Republic, Hungary, and Serbia and Montenegro have introduced a tax exemption cap in addition to one of the methods mentioned above, so that only income which exceeds a certain threshold is subject to taxation. Hungary combines the relatedness test with the threshold method by introducing a certain limit of exemption for income from unrelated activities. Consequently, all economic activities that are included in the statute of the organisation as supporting the mission are not subject to taxation. However, in addition to the related activities social economy organisations are also allowed to engage in commercial (entrepreneurial) activities which are unrelated to the mission. The income from these activities is taxed only if such income exceeds the threshold. Accordingly, all social economy organisations may benefit from tax exemption on the income from commercial activities which does not exceed

10% of the total income or HUF 10 million (~EUR 41 000). Finally, some countries fully tax the income social economy organisations earn from economic activity, such as in Albania, Bulgaria and Slovenia (Hadzi-Miceva, 2006a).

Percentage mechanism

The percentage mechanism is a relatively new example of state support to social economy organisations. It was first introduced in Hungary in 1997 and although several countries in the region have gladly embraced it, its effect is still being debated. The percentage mechanism is a form of tax allocation as it allows taxpayers to designate a portion of their paid tax to one or more specific organisations. After Hungary introduced the so-called "One Percent Law", Lithuania, Poland, Slovakia and most recently Romania have adopted similar legislation (Bullain, 2004). In addition, based on the Central East Europe experience, a local municipality in Japan has also introduced this mechanism.

Generally, there are two key objectives behind introducing this mechanism: 1) to increase the pool of resources available to social economy organisations; and, 2) to help to develop a philanthropic culture among taxpayers. The level to which these objectives are being met is difficult to assess, however, its potential impact on the sustainability of the sector is questionable.

There are several concerns expressed by policy makers, social economy organisations and experts in terms of the capacity of this mechanism to increase resources. First, this mechanism can be utilised only by taxpayers, and in addition, only by individual taxpayers (expect Slovakia where companies can also designate the percentage). Therefore, the potential group of "donors" is limited. Although all taxpayers can designate the funds with no cost for themselves (as they are basically re-allocating the tax amount that they would otherwise need to pay to the government) only 35% in Hungary use this opportunity. The same figure was true for Slovakia during the first year of implementation. In the second year, Slovakia increased the percentage from one to two percent and also allowed companies to designate. As a result around 42% of the individuals and almost 94% of companies re-allocated the two percent. However, in countries like Georgia or Macedonia where the population, and therefore the number of taxpayers is also small, the culture of paying taxes is still developing and the income tax rate is low, this mechanism might not bring the amount of resources that social economy organisations both need, and aim, to attract.

The second limitation of the mechanism is that it allows only a minimum amount, either one or two percent to be designated. Contrary to philanthropic giving, the "percentage cake" available to the social economy organisations has a given size and cannot be increased. Consequently, it is not only that the amount of available funding is limited, but also the receipt of a larger portion by one social economy organisation reduces the amount available to others. At the end only a small cluster of organisations (such as those who run the best marketing campaigns) really benefit from the mechanism. In addition, the overall amount may be quite small compared to other sources of revenue as the economy develops. In Hungary, for example, funds flowing from this mechanism have been estimated to be less than one percent of the total revenue of the social economy sector.

The effect of the mechanism on philanthropy cannot be easily assessed, as there are no comprehensive research results which can show whether it achieves its second objective. It is important to note that the mechanism was originally perceived as a mechanism for philanthropy; consequently some refer to it as "percentage philanthropy" (Bullain, 2004; Wyganski, 2004). This led to a misperception of the mechanism by both the public and the government. While the mechanism has increased the level of awareness about the importance of civil society among citizens, it has not necessarily resulted in increased financial contributions by individuals (notably, the percentage of private contributions by individuals in Hungary has been declining). On the contrary, according to some accounts this mechanism might have created a feeling in some individuals that they have done their share in society by "giving" a percentage of their taxes and there is no need to give more. Studies in Hungary have found that the same pool of the population (including those with higher incomes, higher levels of education, those living in urban areas, and women) who already donate more often than others, and who volunteer more often than others, are those who designate their one percent. This raises the question as to whether their philanthropic behaviour would be the same regardless of the percentage mechanism, given that they appear to be more socially aware and willing to give anyway.

Of most concern, however, is that the introduction of this mechanism has had an adverse effect on traditional incentives for philanthropy such as tax deductions, including leading to their abolition in Lithuania. Social economy organisations in Poland were successful in lobbying the government to postpone the decision on whether or not to abolish tax incentives after the mechanism was introduced. Although tax incentives are not the prime motive behind philanthropic giving, the example of Slovakia shows that they should not be underestimated. Specifically, even though almost all companies and a high number of individuals decided to designate the two percent, the amount of funding that was distributed to the social economy organisations was still less than the amount that social economy organisations had received through traditional philanthropic forms.[8]

Despite the challenges in implementation, this mechanism does have significant advantages for the social economy organisations, the taxpayers and governments. Most importantly it has proven to raise the awareness of taxpayers as to the existence of social economy organisations; encouraged individuals to identify the social issues important to them and which they are willing to support, and; played a key role in social economy organisations seeking to reach out to people and ask for support. In addition, it has proven to be a good mechanism that can be utilised by local and smaller social economy organisations, notably in Hungary, because they relate more closely to their local communities. Accordingly, it is easier to convince taxpayers in a local community to designate their percentage to their local social economy organisation. However, in terms of its effect as a resource, that is the actual amount of funds that can be raised, the mechanism has had a bigger impact on the larger and more service oriented social economy organisations who operate at a national level. These organisations are better skilled at communicating, can more easily obtain resources to support professional media campaigns and thus attract a larger number of taxpayers.

The mechanism also creates competition among social economy organisations and other beneficiaries, thereby contributing to their professionalism, improving their communication with stakeholders and generally enhancing their image. In terms of taxpayers, the percentage laws provides them with the possibility to decide as to how a certain percentage of tax money is spent, thus decentralising and de-politicising the decision making process. It also increases awareness of the importance of civil society. In turn, governments benefit because they are able to more effectively monitor the needs of their society. In addition, it should not be forgotten that a portion of the designated funds do return to the state budget in the spending process, specifically through VAT.

Although the percentage mechanism seems to be gaining popularity in countries of Central East Europe, the lessons from its implementation should not be ignored. These examples reveal that even if social economy organisations and governments estimate that the mechanism can significantly contribute to the sustainability of the sector, the other, potentially negative factors should also be considered. Most importantly, they illustrate that should this mechanism be introduced, it ought to complement and not replace other existing mechanisms, as in itself it will not be the remedy for the financial viability problem.

Philanthropy

Although according to the John Hopkins global study the share of philanthropy is relatively small in the income of the non-profit sector (12%), it is of central importance to social and economic development in transition societies. The level of philanthropy is an indicator of domestic support for social economy organisations, which is seriously needed in an environment where social economy organisations have been largely supported by foreign funding. In addition, it is an indispensable source for certain types of organisations, such as advocacy organisations, who, on the whole, would be less likely to receive support from government sources due to the types of activities they engage in. Support through philanthropy can take the form of monetary or in-kind contributions. In both cases public policies and the legal framework play an important role.

Government support for philanthropy

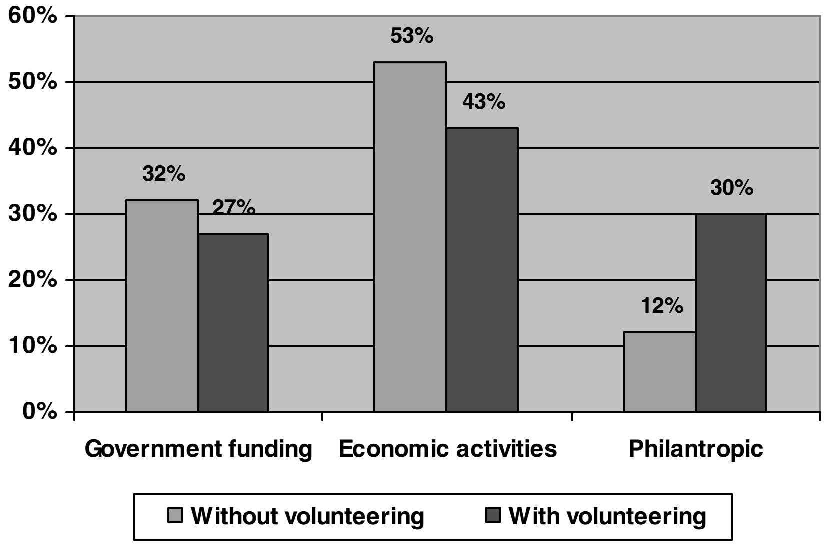
Governments aim to promote or support philanthropy by creating tax incentives in the form of tax deductions or tax credits.[9] By allowing individuals and corporations to receive a reduction in taxes in return for contributions to social economy organisations, governments empower them to commit resources to goals which benefit society. The example of Slovakia, where the relationship with the percentage law indicated that funding from private donations constituted a significant portion of the sector's revenue, shows that the importance of this form of support cannot be easily disregarded. While tax benefits are not the primary motivation behind private giving, they play a key role in the donor's decision as to how much to give, and in what form, and also have an influence upon the culture of giving (Bullain, 2003).

Tax incentives are also a form of indirect support and, as such, are sometimes dependent on the type of activities and purposes of the social economy organisations. Thus, most countries of the region have decided to allow tax deductions, or credits, only for donations given to public benefit social economy organisations (as in Hungary and Estonia) or to those social economy organisations who are engaged in services which are considered of public benefit (as in Croatia).

Volunteer support for philanthropy

In addition to the monetary donations, the contributions by volunteers are also considered a significant part of philanthropy – "It isn't just the money; philanthropy is time and mental work, and it's all tied in together" (Ostrower, 1995). Thus, as the Johns Hopkins Survey points out, philanthropy contributes the least to the overall income of the sector (Figure 7.1). However, if the value of volunteer contributions is added to the philanthropy, its share in the "civil society revenue pie" increases and thus places philanthropy in second place (in comparison to the 43% from economic activities and 27% from government funding). The value of volunteers' increases philanthropy from 12 to 30% (Salamon, Sokolowski and List, 2003).

Figure 7.1. Contribution of each source subject to volunteering



Source: John Hopkins Survey, 2003.

This shows that the volunteer contribution, if calculated based on average salary for fields where volunteers are engaged, is twice as large as donations. Volunteers are an important human resource for social economy organisations and an indispensable part of civil initiatives. To illustrate this in numbers, according to the John Hopkins Survey volunteers represent approximately 43% of civil society workers in the surveyed countries. To bolster volunteering and remove legal impediments to volunteering, countries throughout the EU, such as Spain, Portugal, Poland, Czech Republic, Lithuania and Hungary have adopted laws governing volunteering, while Croatia, Macedonia and Serbia have drafted laws that regulate volunteering (Hadzi-Miceva, 2006b). The mobilisation of volunteers can also be a consideration in granting government or municipal funding to social economy organisations. This is one of the criteria for receiving municipal funding for social service provision in some cities in Croatia.

The economic situation is also a factor to be considered when assessing the potential of philanthropic giving, similarly to the case of economic activities. In addition, the local tradition of giving, and the image of social economy organisations, as well as the development of the skills necessary to reach out to the local community and mobilise their support, are equally important considerations when devising a strategy for supporting the financial sustainability of the sector.

Conclusion

Governments and social economy organisations around the region have recognised that they can support the sustainability of social economy organisations through the creation of a sound legal environment that enables opportunities for diversified funding resources to develop and to be accessed. The successes and challenges of various legislative initiatives have shown that it is not sufficient merely to address the general sustainability issues. Countries need to identify the key problems and to prioritise legislative tasks if they aim to create a solid ground for long-term sustainability.

Primarily, the legal framework needs to be enabling for all revenue sources. We have seen that not all social economy organisations benefit from one source only. As the examples showed, social service organisations rely more on government support, while advocacy organisations benefit from philanthropy and self-generated income. Consequently, none of the three main sources (government funding, income-generating activities and philanthropy) are going to provide an effective solution for the sector if considered independently.

Furthermore, the different levels of economic development of the countries, the diverse needs of social economy organisations and the stage of development of the sector are important factors that need to be taken into account. Thus, in creating public policies and deciding on state strategies for support of the sector, governments should undertake a holistic approach and look at all factors. If they decide to apply models from other countries, governments need to conduct careful analysis of the local circumstances and consider the possible implications of introducing them. Finally, governments should work in partnership with social economy organisations and seek their input in the process of creating public policies and deciding on priorities for legal reform. Only through concerted and jointly undertaken efforts, and the inclusion of all stakeholders, can the reforms achieve the desired results.

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Notes

1. Copyright of this Chapter is held jointly by the OECD and the European Center for Non-Profit Law.

2. For the purposes of this chapter, social economy organisations refer to the basic forms of non-profit, non governmental organisations in the region: associations and foundations. The term will also embrace other legal forms that exist under country framework legislation, such as public benefit companies in Czech Republic.

3. Co-operatives, another form of social economy organisation which is widely in seen in Western Europe, are not particularly utilised in Central and Eastern Europe because of its previous use, notably by the state. Accordingly, they are not examined in this Chapter.

4. Article 17, ACT No. 248/1995 Coll. of 28th September 1995 on Public Benefit Corporations and on the change and amendment of some laws.

5. The study included 16 advanced industrialised countries and 14 developing countries from Africa, Asia and Latin America, and five countries from Central and Eastern Europe, including the Czech Republic, Hungary, Poland, Romania and Slovakia (see Salamon, Sokolowski and List, 2003).

6. Although it has to be clarified that social enterprise is not a legal form in most CEE countries. In fact it can take any legal form, non-profit or even for-profit, that exists in the country (*e.g.*, as associations, foundations, non-profit corporations, co-operatives).

7. In Serbia, the VAT Law required social economy organisations to pay VAT on the import of humanitarian goods and claim a rebate. Due to the lack of financial resources to pay the VAT, custom officials often ship back the donated goods. As a result of joint efforts by domestic and international NGOs, the government amended the law in July 2005 to exempt the import of humanitarian goods from VAT. For more see: www.ecnl.org.

8. See www.rozhodni.sk.

9. Tax deductions allow the donor to reduce all or part of the money that has been contributed to a social economy organisation from the taxable income, thus diminishing the tax base upon which tax will be calculated. Through tax credits the donor deducts part of the donated amount from the total amount of tax liability.

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Glossary

Civil society

Civil society may be defined as a space or arena between households and the state, which affords possibilities of concerted action and social organisation. Thus, it encompasses all voluntary associations of citizens, whether politically motivated or active or not (although the term carries an implication of political consciousness and activity): business, labour, non-governmental organisations, churches, special interest or purpose groups. These elements are the constituents of civil society, but none can individually be representative of it. Business is often excluded, although the OECD does include it, given that channels of communication between traditional organised business and labour and government are generally well established. Most frequently the term is used interchangeably with "NGOs" where the term "NGO" refers specifically to activist groups, although these are simply one category of civil society as a whole.

Co-operative

A co-operative is an association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise. Examples of co-operatives in Europe can be traced back to the 19th century. The International Labour Organisation has recently (2003) suggested that co-operatives should be based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity and share the principles of: voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education, training and information; cooperation among cooperatives; and, concern for the community, which were identified by the International Co-operative Alliance in 1995. A co-operative includes one or more kinds of users or stakeholders: 1) consumers who use the enterprise to acquire products or services (such as a retail co-operative, housing, healthcare or day-care co-operative); 2) producers (such as independent entrepreneurs, artisans, or farmers) who use the enterprise to process and market the goods or services they produced, or to buy products or services necessary to their professional activities; and 3) workers who use the enterprise to secure their employment and control their working conditions. Co-operatives operate democratically (one person, one vote) through two bodies (general meeting of the members or delegates, and the board of directors, which is composed of members elected at a general meeting). The delegate structure may be required to reflect the size of the organisation or the distance covered by the co-operative. The co-operative's start-up capital usually comes from co-op shares purchased by members. Since 1980, special co-operatives, known as social co-operatives, have become more widespread in OECD member countries.

Foundation(s)

Foundations are philanthropic organisations, organised and operated primarily as a permanent collection of endowed funds, the earnings of which are used for the long-term benefit of a defined geographical community or non-profit sector activity. Foundations operate as grant-making institutions, and also as providers of social, health and cultural services. It thus provides a significant link between the private and non-profit sectors, acting as a recipient of private capital and a funder of non-profit organisations. Foundations are tax-exempt, incorporated, not-for-profit, organisationally autonomous, and cannot be controlled directly or indirectly by government at any level, corporations, associations and their members, or individuals). Because they occupy a unique and central place in the non-profit sector, the development of foundations will strongly affect the future of the sector as a whole.

Mutual organisations/societies

A mutual organisation is an organisation owned and managed by its members and that serves the interests of its members. Mutual organisations can take the form of self-help groups, friendly societies and co-operatives. Mutual organisations exclude shareholding as they bring together members who seek to provide a shared service from which they all benefit. They are widely represented in the insurance sector.

Non-profit sector

The best known definition, while not commonly shared, particularly in European countries, is undoubtedly that supplied by the Johns Hopkins University in Baltimore (*www.jhu.edu/~cnp/*). According to this definition, the sector includes organisations which are voluntary, formal, private, self-governing and which do not distribute profits, such as hospitals, universities, social clubs, professional organisations, day-care centres, environmental groups, family counselling agencies, sports clubs, job training centres, human rights organisations and others. In fact, entities belonging to the non-profit sector can vary from country to country according to national history and tradition. The term non-profit, born in the USA, refers mainly to the absence of profit distribution. This is substantially different to the European approach of "social economy", which includes co-operatives. However, this difference is less significant when investigated through empirical research. C. Borzaga and J. Defourny (*The Emergence of Social Enterprise*, 2001, Routledge, London) argue that the distribution of profits is in any case limited by internal and external regulations in co-operatives and mutual organisations in European countries.

Social economy

The term "social economy" first appeared at the beginning of the 19th century in France. It was, nevertheless, only at the beginning of the 20th century that it began to be employed to indicate various entities aimed at improving collective working conditions and individual lives. This concept is now also used by Anglo-Saxon countries to refer to the production of goods and services provided not solely by the non-profit sector, but also, in some cases, by private enterprises with shareholder agreements that force the majority of shareholders to agree to social objectives undertaken by the firm. Among the organisations belonging to the social economy, one can find associations, co-operatives, mutual organisations and foundations. This type of economy is essentially regulated by the stakeholder principle, which stands in stark contrast to the notion of shareholder capitalism. The "social economy" is a broader concept than the non-profit sector, as it is less strictly bound to the non-distributional constraint, according to which organisations cannot legally redistribute their surplus to their owners (see also "Third sector").

Social enterprise

An organisation form which has flourished in recent years, many definitions of social enterprise exist. Apart from academic definitions, and those elaborated by international organisations, which are built around general criteria, definitions used within countries are specific to the national understanding of the phenomenon of social enterprises. Increasingly countries are developing legal definition of social enterprises. Generally, this concept refers to any private activity conducted in the public interest, organised with an entrepreneurial strategy and whose main purpose is not the maximisation of profit, but the attainment of certain economic and social goals, and which, through the production of goods and services, brings innovative solutions to problems such as social exclusion and unemployment (see *Social Enterprises,* OECD, 1999). In this way, social enterprises combine the entrepreneurial skills of the private sector with a strong social mission that is characteristic of the social economy as a whole. Social enterprises are part of the thriving and growing collection of organisations that exist between the private and public sectors. They come in a variety of forms including employee owned businesses, credit unions, co-operatives, social co-operatives, development trusts, social firms, intermediate labour market organisations, community businesses, or charities' trading arms. They mainly operate in two fields of activity: the training and integration into employment of persons excluded from the labour market, and the delivery of personal and welfare services.

Solidarity economy (économie solidaire)

The idea of the solidarity economy is mainly used in France and Canada (Quebec), and is also widespread in Latin America. It has different meanings according to the geographical context in which it is used: in the South American context, it mainly refers to fair trade and the popular economy, in Quebec it is linked to cooperatives, non-profit enterprises as well as to community economic development (*mouvement économique communautaire*) and in Europe to solidarity initiatives, mainly, but not exclusively, in the proximity services. Sometimes the term is used in association with the term social economy (as in Quebec) and sometimes in opposition to it, notably where the social economy is seen as composed of established organisations, while the solidarity economy mainly refers to non-established citizens' initiatives aimed at experimenting with new paths of economic development. In the European context, examples such as the fair trade movement are developing inside the sector, together with innovative forms of financial/non monetary-exchanges based on reciprocity.

Third sector

The concept of "third sector" is often used as a synonym to the non-profit sector and, more recently, also to "social economy", particularly in European literature. The term was chosen to reflect the idea that the sector assembles these otherwise disjointed entities, and that it sits between the public and private sectors and follows unique social goals and internal organisational rules. Its mode of financing is mixed, as it can seek both private and public funding. The idea of establishing a distinct "third sector" has given rise to many hefty debates, which have centred upon the danger of using the third sector as a residual sphere or "dumping ground" for those individuals excluded from the private and public sectors. To avoid the danger of social polarisation, the third sector should not merely be seen as an alternative route or juxtaposition to the public and private sectors, but as an interactive and reflexive component of economy and society. Others have argued that the boundaries of the third sector cannot be established with certainty, and for this controversial reason the European Commission preferred the use of the term "Third System".

Third system

The term "Third System" was first utilised by the European Commission in 1997 and refers to the economic and social fields represented by co-operatives, mutual companies, associations and foundations, as well as all local job creation initiatives intended to respond, through the provision of goods and services, to needs for which neither the market nor the public sector appear able to make adequate provision. On the initiative of the European Parliament, in 1997 the European Commission introduced a new pilot action entitled "Third System and Employment". The aim of the action was to explore and enhance the employment potential of the "Third System" with an emphasis on the areas of social and neighbourhood services, the environment and the arts (http://ec.europa.eu/employment_social/publications/2002/ke4502555_en.html).

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The Social Economy

BUILDING INCLUSIVE ECONOMIES

The social economy is rapidly gaining in visibility at the international, national and local levels in most OECD member countries. Social economy – also know as "non-profit" or "third sector" – organisations have grown in number and relevance, contributing to employment, social inclusion, democratic participation and community building. Much remains to be done, however, to create the necessary enabling environment to support the creation and development of social economy organisations and to mainstream the sector in economic and social policies in order to maximise its impact on the economy.

This publication offers new insights into the economic theory of social economy organisations, their role in an evolving political and economic context, and the links to local development and the empowerment of users. Building on theoretical and empirical developments in OECD member countries, the publication also presents the main challenges for the social economy in Central East and South East Europe. Recommendations for action are included.

The book is essential reading for policy-makers, practitioners and scholars interested in the latest theoretical and empirical developments in the field of social economy in OECD member and non-member countries.

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