

# **Social Enterprises in Europe and the development of a common strategy in the European Union**

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Ladies and Gentlemen,

First of all, I would like to thank the organisers of this Conference for inviting me to participate in such an interesting event. It is a unique opportunity to exchange views and opinions between representatives of a wide variety of organisations, each contributing with his/her expertise to the final conclusions regarding the Conference's topic. Furthermore, I have to tell you that my contribution is a very interesting challenge for me. It is my aim to present you with a view

on the position that social enterprises must have in the planning and the development of the European Union's strategy for the creation of a European society of cohesion, prosperity and employment.

The concept of "social enterprise" is not new in the European sphere. Within the framework of the European Union, this concept appeared for the first time in 1997, when, following a relevant initiative of the European Parliament, the European Commission initiated a new pilot action titled "Third System and Employment". This action aimed to explore, through studies and pilot implementing projects, the ability to increase employment, through enterprises which do not belong to the public sector and, at the same time, do not aim to financial profit, i.e. partnerships, foundations, unions, charities, etc.

Fourteen (14) studies and sixty seven (67) pilot implementing projects were financed, and they were based on real enterprise experience of a social nature. The cost of this scheme was about 20 mil Euros, and was paid by the European Commission. This first effort of institutionalised development of social entrepreneurship, at European Union level, revealed some very interesting information, that must be taken into account when planning the EU strategy on social enterprises.

The first basic element is the definition of social enterprises. They are entities with formal legal status (i.e. firm, foundation, union of

persons), they are independent and self administrated, their activity is focused on specific fields, within the framework of a local society. The aim of their action is usually social. However, we must note a differentiation. In the Anglo-Saxon model, which preceded all other models, the profit of such enterprises is re-invested in the enterprises themselves, aiming to achieve further results. In the continental-european model, there is a more redistributing aspect, as it allows, a partial redistribution of the enterprise's profits to the shareholders, while the remaining profit is reinvested in the enterprise for achieving its aim. This differentiation has an important effect on the financial viability of social enterprises.

The social enterprises are active in the fields of social services (i.e. providing social care at home), of environment (i.e. protecting nature) and of culture (i.e. organising cultural events). These are fields usually covered by the state. The employment capacity of these fields has been impressive, as many new job positions have been created at EU level. These correspond to about 7.9% of the total figure of those employed in the public sector, as an EU average. In countries like Ireland and Holland, where social entrepreneurship has been developed, this percentage is 14%-16%, while in countries where there is no such development (i.e. Portugal, Greece, Luxembourg) the corresponding percentage is below 5%.

It is noteworthy that people developing this kind of enterprises belong to the so called "vulnerable social groups". For instance, there are women, whose access to the labour market has been hampered significantly, thus excluding them from this market. Establishing social enterprises is a very successful activity, on the women's part, as it has results on two directions: First, it allows women who participate in these enterprises to be employed, thus participating in the labour market. Second, if these enterprises provide social care services (i.e. child care), then the women who benefit from these services as recipients (i.e. mothers) may seek the opportunity to enter the labour market, as these services will be the "bridge" to reconcile family with professional life.

Another vulnerable social group developing social entrepreneurship includes people with mental health problems. Usually such persons, when they are not treated in hospitals, are experiencing poverty, social exclusion and unemployment. It has been noted that such persons wish to work, regardless of the seriousness of their symptoms and their social side effects. This desire is practically a need of these persons, as they understand their lack of employment as a lack of financial resources and an element of social exclusion, thus feeling more intensively that they have a mental health problem. Their inclusion in schemes such as the social enterprises create conditions of regular and long term employment, thus resulting in

positive situations, like the reduction of these persons' anxiety for social rehabilitation and their need for hospital treatment.

All these elements are indications that the European Union must focus on social entrepreneurship. Developing a relevant strategy is imperative. This strategy must include an integrated action plan, which will support social entrepreneurship. It is, therefore, necessary to have three basis axes in this strategy.

The first axis is the creation of a business environment, which will allow social enterprises to be developed as effectively as possible. A very important part in that respect is played by the governments. They must establish close co-operation with the institutions of the European Union, which are involved in supporting social entrepreneurship. A corresponding co-operation must be developed between the various governmental and administrative authorities of each member state, at central government level (i.e. between ministries), at regional government level and at local government level. The content of this co-operation varies according to the circumstances. In any case, however, it must focus on the simplification of the regulatory, institutional, administrative and taxation framework regarding social entrepreneurship. The simplification of the proceedings regarding the establishment and operation of a social enterprise, in combination with the granting of tax incentives for such schemes, are a catalytic factor for developing

social entrepreneurship. Furthermore, a basic choice, in order to support social enterprises, is for the state to make use of the services they have to offer. It has been noted that the services provided by the social enterprises are of very good quality, economic and effective. The use of innovative practices by these enterprises is the cause for the high quality of their services. It would be, therefore, useful to involve such enterprises in procedures of public procurement, with regard to the provision of services to the public. Especially the tenders held by the local government authorities are an excellent occasion in order to facilitate the participation of social enterprises in public tenders. Allowing social enterprises to provide public services at local level will improve the quality of services provided by the local government and will boost social entrepreneurship.

The second axis of the strategy for the development of social enterprises in the European Union is the improvement of the business elements of such enterprises. As every enterprise, the social enterprises need professional business advice and corresponding training. Given that they have specific targets of social and economic nature, their business activity must be supported. It has been found that the social enterprises have as their main financing source various forms of grants provided either by the public sector or by the private sector. This has led to a regime of dependence from the person or the body providing the grant. The use of other financial

tools which may be used as sources of funding, such as various forms of lending from banking institutions, is very limited. This situation exists due to the availability of numerous forms of grants as well as to a well-established negative perception of lending, especially because of the business risks involved in the latter. Nevertheless, such financial tools may be used by the social enterprises in order to resolve possible problems of financial liquidity, which are quite often in cases of grants. Also these tools may be used for the acquisition or development of equipment for the social enterprises. It is true, however, that the social enterprises do not have large financial credibility in the banking system and their applications are rejected at a greater rate, compared to corresponding applications of small and medium sized enterprises. This situation is a result of lack of familiarity of the lending organisation with the structure and operation of the social enterprises, the lack of possibility of providing financial security to the loans on behalf of the social enterprises and the low levels of investment activity of such enterprises.

I would like to elaborate a little further on this point. Investing in the field of social entrepreneurship has a lot of perspectives. This must be the object of an information campaign for any possible investor. In order to have an integrated strategy that will promote such an activity, the social enterprises must be in a position to present their accounts analytically, in order to reflect their financial situation as

accurately as possible. Also their success rate must be evaluated. It is, therefore necessary to establish a system of social auditing, that will verify their business credentials. Such a system must not, however, burden the social enterprises in a manner that will impede their operation. Also, it must be noted that all investments in enterprises, from which the investors have a certain profit, is more attractive for the banking institutions. For that reason, the european model of social enterprises has more possibilities of financial viability, compared to the anglo-saxon model.

The third axis of the EU strategy on social entrepreneurship is the establishment of the concept "social enterprise" and the value of such an activity. It is true that today, we do not have exact information on social enterprises. We must establish the exact number of these enterprises and the extent of social entrepreneurship, as a percentage of general entrepreneurship, at European Union level. Also, it is necessary to have a information campaign on social entrepreneurship, that will include, among other activities, presenting prizes to successful social enterprises, thus bringing forward models of innovative business activities. Another useful step would be to examine whether it is possible to have a collective representation of social enterprises, thus allowing to participate in institutionalised schemes of social dialogue between the social partners. Finally, the possibility of having an accreditation system, regarding the quality of services provided by social

enterprises, will be an important development in the effort of establishing certain points of reference regarding their overall quality, thus improving the public's trust towards such businesses.

Bringing my contribution to an end, I would like to point out that reinforcing social entrepreneurship must be a focal point for European political thought. Such activities contribute decisively to the development of a European Society of cohesion. We all believe in Europe as a society of cohesion and prosperity and we work towards that direction. With these thoughts, I would like to thank you for your attention.