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## **An Action Plan on the Social Economy – an opportunity for Social Services and Inclusion.**

Eurodiaconia, a European network, on behalf of its 52 members in 32 European countries, representing over 30 000 organisations, welcomes the proposal of an Action Plan for the Social Economy. Many of our members are actively engaged in the social economy in line with the definition of social businesses in the Social Business Initiative is businesses “*for which the social or societal objective of the common good is the reason for the commercial activity*”, where “*profits are mainly reinvested to achieve this social objective*”. Under this definition, based on existing EU law on the meaning of the word “enterprise”, all diaconal organisations operating in a market with a social aim would be seen as social enterprises. Eurodiaconia therefore welcomes the initiative, as many members have noted a lack of support for such activities and that they face many challenges, not least as a result of the COVID crisis.

Eurodiaconia is a network of churches and Christian NGOs providing social and healthcare services and advocating social justice. Together our membership represents the needs and unique experiences of 52 national and regional organisations in 32 countries. *Diakonia* is Greek for service and in the biblical sense, this means service for and with people in need.

Eurodiaconia has actively contributed to consultation to the proposed action plan through Social Economy Europe and Social Services Europe and so does not intend this contribution to rehearse what has already been submitted by both other organization. Rather, through this paper, we wish to stress some specific issues common to our membership as not for profit providers of social services within the social economy.

The Social Business Initiative of 2011 saw the European Commission distinguish between two types of social enterprises: “*businesses providing social services and/or goods and services to vulnerable persons*” and “*businesses with a method of production of goods or services with a social objective*”. Given that most diaconal social services would fall in the first category, Eurodiaconia stresses the importance of initiatives to support this category of enterprises, not just initiatives aimed at those able to be self-supporting and artificial distinctions made between established service providers and newer social enterprises should be avoided. Furthermore, as is the case in many of our members, the second definition can often be part of the way to understand the first definition, with production activities for commercial sale being part of the services provided to vulnerable people, e.g.,

upcycling of previously owned goods, secondhand stores, publishing and printing houses, catering activities and others.

As in some languages the terms social enterprise and social business do not both exist Eurodiaconia does not seek to define a distinction between the two terms. In some countries there seems to be a development towards a more unifying definition of social enterprise, as a distinct category from, for example, the non-profit sector, because the non-profit criterion is not seen as an essential requirement for social enterprises. In other countries the term social enterprise refers predominantly to cooperatives, non-profit organisations or associations. The proposed Action Plan refers to the Social Economy and we take that as a broad term to include all types of social enterprise activity.

Eurodiaconia members do however stress the importance of the social objective over the economic objective of a social enterprise. For them the key objective is to promote and protect the well-being of those that use their services as well as the wider society, representing a long-term commitment and not short-term profit-maximization for shareholders or investors. Therefore, they provide an added value for the public authorities that fund their work, as any profits generated from public money are reinvested for the general interest.

Another principle of social enterprises cited by the Commission and embraced by Eurodiaconia is democratic involvement in governance. Diaconal organisations promote cooperation with their local community and develop the participation and empowerment of service users but as diaconal structures are not usually run like cooperatives or mutual societies this principle should be seen broadly. However, there is an increasing tendency towards shared ownership or membership of social enterprises which is understood as differing from the co-operative model which could be explored in a future action plan.

### **Contributing to fighting poverty and social exclusion**

Eurodiaconia believes that access to social services is necessary to uphold human dignity and is a fundamental right. This is supported by Part 1 article 14 of the European Social Charter and Article 34 1 of the Charter of Fundamental Rights. Social enterprises providing social services run by diaconal organisations enable people to integrate or reintegrate into society, to access and retain employment and offer a route out of poverty and exclusion. We see that any action on the social economy in Europe must go hand in hand with the development of the European Pillar of Social rights Action plan and the achievement of the UN Sustainable Development goals as well as aligning with the principles of non-discrimination and equality.

As part of the social economy, and in line with the principles of the EPSR, social services are an essential part of any social inclusion strategy, both preventive services, to address the causes of and prevent poverty and exclusion, as well as services that tackle the symptoms. Additionally, social services assist in accessing the labour market and enabling people to stay in employment. As a result, social services are an indispensable part of the social economy to reach an aim of an inclusive society.

## WISE

Work Integrating Social Enterprises play a special role in combating social exclusion, particularly of disadvantaged groups. The core mission of WISE is creating jobs or training opportunities for disadvantaged people and the integration of these people into society by offering them a job. Many Eurodiaconia members run such enterprises, where excluded or disadvantaged people are employed in a mainstream business environment, such as a café or gallery, or where they work in sheltered workshops. They are often trained either to re-enter the labour market or the focus may be socialisation. The importance of social enterprises as a socialisation tool to combat exclusion from not only the labour market but society as a whole must not be underestimated. Our members have proved that giving people a start through a social economy activity can be part of a pathway to a more autonomous and participatory life, opening the door to access social benefits, training, housing and ultimately participation in the labour market.

### Challenges to be addressed in the Social Economy Action Plan from the perspective of Social Services Providers

Despite the role that diaconal social enterprises play outlined above, many Eurodiaconia members experiences challenges in accessing funding and finance. The challenges when it comes to financing may be diverse, but members also have numerous challenges in common. As early as 2008, because of the financial and economic crisis and the impact of austerity measures, many have been unable to provide the services they wish to because of decreasing funding and increasing demand. Funding cuts in the social sector have also been seen in part as a result of the low value attributed to social care. This has been further heightened due to the COVID crisis.

The European Commission and Member States appear to have lost focus on the principles of social investment. Investing in social and health infrastructure and services should not be regarded as a cost, and in particular preventive services in many cases reduce long-term care or service needs, therefore reducing expenditure. The European Semester, and in particular the Annual Sustainable Growth Survey must continue and expand the promotion of measures to ensure social investment, in line with the European Pillar of Social Rights and the eventual action plan. This should then motivate Member States to prioritise social investment not only in the recovery and resilience plans in 2021 but in future years.

#### 1) Private finance

Private financial institutions are increasingly interested in investing in social enterprises and bring an expectation of social and economic returns. With an increased involvement of private finance there is a risk of monetisation of service outcomes, which could result in a 'creaming' effect, whereby services for the most vulnerable might be discontinued in favour of projects that lead to higher success rates. Private finance or philanthropic organisations may be more ready to support new, small projects, but also often with a focus on groups that are more "favoured" in the eyes of the public, such as children, and not asylum seekers

for example. Public authorities are sometimes not willing to invest in innovative projects and a similar risk is that the state would renege on its responsibility if services are financed by philanthropic organisations. The European Commission has recently launched a study on payment by results and this should be looked at carefully as part of the Social Economy Action Plan. We would also recommend more work to be done on bridging the gap between private financing in restricted areas of services and a wider approach while still being able to retain both the societal and democratic element of the social economy and enterprises within it.

## 2) Public finance and public procurement

Eurodiaconia members believe however that government is responsible for the well-being of its people and for guaranteeing access to social and health care. A free market would not guarantee access to services for all; often those with the least financial means have the most needs and life risks such as unemployment are often structural rather than individual. Public responsibility and therefore public financial commitment are necessary at all levels of government to ensure access for all to social services and that service providers are able to provide quality services. In the context of increasing interest at EU and national level of involving private finance for the development of social enterprises this finance should not detract from the state responsibility, financially, and in terms of regulation to ensure access.

A trend in many countries is to fund services through competitive tendering rather than via grants. Combined with the impact of austerity measures there is increasing downward pressure on costs of services from contracting authorities, which often has a negative impact on the quality of those services. It is also common that contracts are short-term, including contracts financed by public authorities using EU funds, and funding may not be adjusted to inflation.

There is much misunderstanding about the content of EU public procurement legislation and what it does or does not allow. The current EU directive on public procurement highlights the special characteristics of social services and their societal importance. It also widens the possibilities to reserve contracts for products and services to sheltered workshops for not just people with disabilities but also disadvantaged workers. It is essential that the European Commission provides guidance to member states about this and how to ensure the provision of quality social services in the contracting process, in order for the services to be able to fulfill their role in society. It is clear to our members that the social provisions under the directive are underused – if used at all – and so we would recommend that the European Commission provides further support to commissioning authorities and organization who may wish to tender for services in how the social provisions are to be understood and implemented. Furthermore, our members often find that the proposed budget envelope for the provision of social services, including those relating to the social economy, is insufficient, thus leading them to be unable to participate due to resulting poor quality of a service at such a low price. This is therefore indicative of the lack of sufficient social investment in Member States and has a direct impact on the participation of social economy enterprises in the open market.

State Aid questions should also be addressed. The specific nature of social economy enterprises as being required to reinvest any surplus should be reflected in the EU competition and state aids rules as well as promoted by the European Union's Law. We have started to see evidence of large-scale venture capital companies underwriting private for-profit entities who wish to enter into the social economy which could ultimately distort the market and price social enterprises out. With share the view of Social Economy Europe that *the General Block Exemption Regulation should be modified to better take stock of the specific needs of the social economy Small, medium, and micro social economy enterprises, especially those of social utility<sup>18</sup>, should have a different treatment than conventional SMEs as they face additional obstacles. A greater support should be given for the employment and training of vulnerable people such as long-term unemployed, over 50s, NEETs and people with disabilities which often find work opportunities in social economy enterprises.*

### 3) Investment

Some organisations struggle to find investment capital as often only costs are covered by public financing and therefore are highly dependent on debt financing. In some countries if organisations carry out a commercial activity they can only take the legal form of a regular profit-making organization, there is not the option to be classified as a social enterprise or type of not-for-profit organization, despite the fact that they show different characteristics to commercial companies, i.e., those found in the Commission's definition.

### 4) Measuring social and financial impact

Private finance expects enterprises to show their social and economic return on investment and there is increased expectation from funding authorities for the same. Being able to measure social impact is valuable because it can help improve services for the service users but there are also trends for organisations to have to show "performance" rather than real impact. The nature of many social challenges addressed by social enterprises means that change or improvement in quality of life can be slow or very incremental. This should be taken into account in measuring any impact.

As one of the aims of measuring social impact should be to improve the positive impact on the individual involved in a service or project, to improve their quality of life, it is important to measure subjective perceptions of impact by individuals as part of the process. "Storytelling" and not just numerical reporting is essential in showing the impact and indicators should be developed with the social enterprise in order that what is measured is relevant for the enterprise to show its impact according to its objectives. There cannot be a single methodology or set of indicators to measure social impact of social enterprises because of the diversity of the organisations, the people they work with and the contexts within which they work. In addition, any measurement framework should be proportionate to the capacity of the organization and to the usefulness of the measurement generated, in terms of time needed to implement and report impact using the framework. All these elements should be taken into account when developing a measuring and reporting framework or model.

## 5) Use of EU Funds

EU funds have shown they can be essential for ensuring high quality social services in the social economy. With the advent of the new Multi Annual Financial Framework from 2022 both Member States and the EU should ensure that social economy actors have access to these funds and that the specific nature of social enterprises are understood in that context. Additionally, work should be done on the InvestEU programme to ensure that the social window encourages investment through social enterprises and that access to investment funds is not highly burdensome for small organisations. National operating programmes should work with social economy actors to identify the best ways of accessing funds in a sustainable social and quality orientated way.

### Recommendations: social enterprises for social inclusion

#### 1) Ensuring an inclusive social Europe:

- Ensure that through the Action Plan on the European Pillar of Social Rights and European Semester process Member States effectively report on and are held to account on their targets to decrease the number of people living at risk of poverty
- Carry out ex-ante social impact assessments of any policy or reform recommendations to ensure the economic and financial objectives supports social cohesion and inclusion
- Ensure a social investment approach, including the promotion of adequate social protection, is mainstreamed into all EU-level processes, ensuring the sustainability of essential social protection systems and social and health services
- The Action Plan should include active outreach approaches for those who may not easily be aware of or included in the work of social enterprises such as minority groups, people who experience structural discrimination, people in rural areas or other situations of exclusion.
- Any proposals for the social economy should be aligned with existing initiatives such as Roma National Strategies, the integration of Third Country Nationals and the Council Recommendation on the Long Term Unemployed as well as the enhanced Youth Guarantee and the proposed Child Guarantee.
- The use of EU funding programmes such as ERDF, ESF+ and InvestEU should be maximized for the social economy sector.

#### 2) Supporting social enterprises:

- The Commission should recognize the diversity of social enterprises, ensure EU-level actions are taken to support social enterprises of all types and that initiatives relating to financial support instruments for social enterprises do not only address private financing mechanisms, but also public mechanisms
- Recognize and support the role of not-for-profit social service providers, politically and financially
- National governments should allow social enterprises to be able to choose from a variety of legal forms and should ensure that a commercial activity does not necessarily entail a legal status as a commercial organization but allow them to keep

a not-for-profit type status. They should also consider recognizing the special characteristics of social enterprises through a specific legal status

- Ensure that the disadvantages of being a not-for profit organization operating in a market environment are taken into account (such as not counting tax breaks as subsidies)
- Public authorities should meet social enterprises' investment needs, not just running costs
- The Commission should increase guidance to Member States about the 2014 public procurement directive in the transposition phase and afterwards, clearly explaining the possibilities in the legislation to enable long-term financing of quality social services and highlight the conditions for other options for the contracting of services than procurement. Targets should be set for Member States in the use of social considerations in the tendering process to give evidence on the success of such promotion.
- Contracting authorities must avoid short-term contracts for social enterprises providing services to enable them to maximize their potential for job creation and facilitate social inclusion
- The European Commission and national governments should support the creation of centers to advise and assist all types of social enterprises and support social entrepreneurs' business skills
- Any social impact measurement tool should take a long-term approach, be flexible, tailor made to the social enterprise and its users and help the social enterprise achieve and promote its objectives
- Governments and financial actors should support the creation of funds that value social impact highly but have lower expectations on financial returns

### 3) Supporting work integration

- The Commission and national governments should promote and fund projects and transnational mutual learning exchanges that facilitate the reintegration of persons with disabilities into the regular labour market (including through the ESF)
- National governments should support evidence-based innovative approaches in this regard
- Public support for sheltered workshops should enable providers to ensure an income for those working there sufficient for an adequate standard of living
- The European Commission should launch research into the methods of successful mainstream workplace integration of people with disabilities, people who experience homelessness and the long term unemployed.

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