FairShares Labs
IO1 – Annex A - Country Context Reports

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(IO1 - Methodology)

**Consolidated Findings – 06th July 2018**

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Country Reports

Each country report considered “The state, developments, opportunities and challenges of social economy (including the Blue Economy, Living Labs and FairShares enterprises) in the partner’s host country (Germany, Croatia, Hungary, Netherlands and the UK).

Methodology

Each partner was asked to prepare a short report on the definition and legal frameworks for social enterprise, significant trends, challenges and opportunities that might enable FairShares (FS) development, and the regions or areas where FairShares Labs (FSLs) might be located. Their work included a consideration of the environment for Blue Economy, Living Labs and FairShares Model (FSM) development in each country. Each partner undertook their own desk research to answer the following questions:

1) To what extent do social enterprises exist in your country and what understanding is there about? What are the most popular definitions (1 page)

2) What legal framework exists for the social economy to operate? Is there useful data relating to social/blue economy, (e.g. number of businesses (entrepreneurs), employed staff, involved employees, customers, turnover and evidence of any new developments)?

3) What significant trends are relevant to the FairShares Labs (FSLs) project? What makes the FSLs innovative, interesting and necessary in your country?

4) What are the main challenges for FSLs (and social, blue, FS enterprises) in your country?

5) What are the opportunities for FSLs (for social, blue and FS enterprises) in your country? What goals can be achieved within this project?

6) In what regions and areas will FSLs be located and why? What will be the target groups and how will they be attracted in terms of their location, demographics or economic activity?1

The unedited results (often much longer than the brief asked for) were saved together, collated, compared, edited and interpreted by Professor Rory Ridley-Duff (Social Enterprise International Ltd). The results of the editing were then sent to their original authors for final checking before preparing Annex 1 in the main IO1 report.

This document shows the final edited text for all countries (also available separately).

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1 Reported in IO5.
Croatia

Definitions and State of the Art

In Croatia, ‘social economy’ is used as a synonym for ‘solidarity economy’ and defined as a wide range of economic activities taking place in the space between the market (private), the public (state) and the non-market (non-profit) sector. The aim of the social economy is the creation of social and economic benefits to society, although some scholars use the term to explain the variety of third, non-profit and voluntary sector activities. It is mainly understood as aligned with the values and principles of the sustainable economy (triple bottom line) and the social enterprise movement in its wider sense (accepting multiple stakeholders, with a strong emphasis on co-operatives and traditional associations).

In recent years, CEDRA HR has started using and promoting the term “eco-social economy” to stress the green and environmental aspects of sustainable development. It has adopted an inclusive attitude to parties who are community-based and follow solidarity principles, such as social enterprises, social enterprise support organisations, ethical banks, co-operatives, social co-operatives, community development and civil society organisations, networks, solidarity groups, local action groups and foundations.

In 2014, the Good Economy Co-operative initiated a Good Economy conference in Zagreb. This is an international gathering of social economy actors every spring, who work to promote values and models of good economy (See www.dobra-ekonomija.hr/). Good economy is defined as one that supports a decent quality of life for the entire community by creating lots of opportunities to satisfy needs without endangering others. The idea extends to taking responsibility for nurturing solidarity, using and sharing resources in a fair way while respecting the need to make a sustainable ecosystem. One key conclusions from the 2017 Good Economy Conference was:

“As good economy models spread trust and solidarity, sustainability and responsible production, democratic principles and participative approach, areas where good economy models are being practiced have a better chance of successfully passing through crisis periods and preserving the basis for a decent quality of life.”

In Croatia, social enterprise has been officially defined within a national strategy (2014 – 2020) as a business activity based on principles of social, environmental and economic sustainability, where the profit/surplus is entirely or partly reinvested for the benefit of the community. At the same time, a social enterprise is defined as any legal entity engaging in continuous economic activity that can prove its business model is aligned to criteria for defining social enterprises.

These criteria include:

1. A social entrepreneur accomplishes a balance of social, ecological and economic objectives through business;

2. Social enterprises carry out the activity of producing goods, commodities or services to earn profit through market exchange while having a positive impact on the environment, local community and society as a whole;
3. Social enterprises create new values and achieve financial sustainability by raising at least 25% of revenues through business activities within a three-year period;

4. A social enterprise reinvests at least 75% of revenues or surpluses earned from business activities to realise their business objectives;

5. Social entrepreneurship is characterised by voluntary and open membership and a high degree of autonomous action. In the Republic of Croatia, local and regional government bodies, or a public authority, cannot be the sole founders of a social enterprise;

6. Social enterprise is characterised by democratic decision-making processes, and the process of decision-making is not exclusively a right of ownership or membership, but also includes key stakeholders: workers, beneficiaries or consumer and associate organisations;

7. Social enterprises monitor and evaluate their social, economic and ecological effects and impacts;

8. Social enterprises that close must transfer their property to another social enterprise with the same or similar business objectives, or to a local government body that will use it to support social enterprise.

Table 1 shows a range of progressive organisations in Croatia who may be interested in the FSM and provide support for FSLs.

Table 1 – Key Social Economy Support Organisations

<table>
<thead>
<tr>
<th>Name</th>
<th>Acronym</th>
<th>Website</th>
<th>Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cluster for Eco-Social Economy and Innovation</td>
<td>CEDRA HR</td>
<td><a href="http://www.cedra.hr">www.cedra.hr</a></td>
<td>CEDRA HR supports eco-social innovation and development through a network of support centres for existing and potential social entrepreneurs. It provides information, education, consulting, liaison and networking activities for people, organisations, institutions and communities with the same or complementary goals, values and endeavours.</td>
</tr>
<tr>
<td>Co-operative for Ethical Financing</td>
<td>CEF</td>
<td><a href="http://www.ebanka.eu">www.ebanka.eu</a></td>
<td>CEF is the first ethical bank (E-bank) in Croatia, a member of the European Federation of Ethical and Alternative Banks (FEBEA) with the goal of registration with the Croatian National Bank. The investment areas of the E-bank will be: • agriculture, especially ecological agriculture and renewable energy; • small and medium sized companies in manufacturing, processing and professional services; • computerization and new technologies; • social enterprises / start-ups.</td>
</tr>
<tr>
<td>Social Innovation Lab</td>
<td>SIL</td>
<td><a href="http://hkkki.eu/">http://hkkki.eu/</a></td>
<td>SIL promotes the concept of social innovation in the Western Balkans and is a constantly growing network of motivated and enterprising representatives of the academic, public, private and civil sector, promoting the concept of social innovation. It creates an environment that stimulates support for the development and application of social innovations.</td>
</tr>
</tbody>
</table>
Impact Hub Zabreb

HUB Zagreb

https://zagreb.impacthub.net

HUB Zagreb is a space and community of entrepreneurs and social innovators that offers resources, inspiration and collaboration opportunities. Impact Hub Zagreb offers its members, individuals, companies and organisations a co-working space with wireless internet access, a private talk room, meeting room, printing and copying capability, combined with access to a local and global community of change makers.

Institute of Social Sciences Ivo Pilar

(based in Zagreb)

http://www.pilar.hr/

Ivo Pilar is a public institute that has developed a comprehensive network for cooperation with foreign and local institutions, organisations and researchers including international and regional governmental organisations, institutions, associations and NGOs. It undertakes scientific research in the field of social sciences and humanities.

Legal Framework

In Croatia, the legal framework does not recognise social enterprise as a separate legal entity. It is understood as a business and governance model that can be organised within the existing legal forms as a limited liability company, an NGO or a co-operative. A distinction is made between social enterprises registered as a Ltd company, operating within the NGO sector, operating as a social co-operative or within the remainder of the co-operative movement.

Relevant acts of law that influence the development of the social economy include:

- Act on Associations, OG 70/97, 106/97, 88/01, 11/02, 74/12
- Act on Co-operatives, OG 36/95, 67/01, 12/02, 34/11, 76/14
- Act on Foundations, OG 36/95, 64/01
- Act on Social Welfare Institutions, OG 76/93, 29/97, 47/99, 35/08
- Company Act, OG 152/11, 111/12
- Act on Vocational Rehabilitation and Employment of Disabled Persons, OG 143/02, OG 33/05, NN 157/13
- Act on Public Procurement, OG 90/11, OG 83/13, OG 143/13
- Act on the Promotion of Small Business Development, OG 29/02, 63/07, OG 53/12, NN56/13


Co-operatives have a long tradition in Croatia and are quite well organised through a Centre for Co-operative Entrepreneurship. There are precise statistics on membership, employment, turnover and profit within Croatian co-operatives. The Croatian 2016 Annual Report shows 1,218 active co-operatives registered, with 20,483 members creating 2,595 jobs. Most co-operatives are active in agriculture and forestry (41%), while others cover food processing, fisheries, construction, trade, tourism and other services. Collectively they had revenues of €216.95m (0.5% of GDP).
On the other hand, there is no official register for social enterprises as they are not recognised as such in law. All statistics gathered are based on mapping research done by support organisations such as Association for Creative Development Slap (Waterfall), CEDRA HR, Institute of Social Sciences Ivo Pilar and ACT Group. According to research from 2015 by the Ivo Pilar Institute, only 90 social enterprises fall within the criteria of the national strategy. Their research was based on earlier research on social entrepreneurship in Croatia done by Slap and CEDRA HR (2011 – 2013). Their study provided an analysis for 2013 and 2014.

<table>
<thead>
<tr>
<th>Legal entity</th>
<th>Year 2013</th>
<th>Year 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Associations (48.9%)</td>
<td>45</td>
<td>44</td>
</tr>
<tr>
<td>Co-operatives (34.4%)</td>
<td>36</td>
<td>31</td>
</tr>
<tr>
<td>Companies (14.4%)</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>Institutions (2.22%)</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td><strong>TOTAL:</strong></td>
<td><strong>95</strong></td>
<td><strong>90</strong></td>
</tr>
</tbody>
</table>

In the year 2013, a total of 95 social enterprises employed 784 persons, while the number of employees in 2014 slightly grew to 795 which were employed by the total of 90 legal entities. The annual revenue for the related social enterprises in the year 2013 was €25.1m with a small decrease to €23.8 in 2014.

Source: iPRESENT project 2015, Institute of Social Sciences Ivo Pilar

**Trends**

Currently there are several trends in Croatia that may influence the environment for SE development and FairShares:

- **being innovative** – embracing a wide spectrum of innovation in the social sphere
- **being green** – businesses, platforms, coops that prefix their activities with ‘eco-
- **co-working spaces and hubs** – developing in big cities mainly targeted at young entrepreneurs and social enterprises
- various **cooperation platforms** created around international projects or **networks** that develop common funding opportunities (most of them with no clear common goal or agenda thus not sustainable in the long run).
- **EU funded projects** - run by government institutions and development agencies

Unfortunately, the biggest trend in Croatia is the large number of young educated people leaving the country to look for jobs, career opportunities and a better standard of living. Most of them go to Ireland and Germany. Similarly, rural areas are being left without educated people due to internal migrations towards big urban areas. The government’s reaction has been to introduce an inefficient and expensive employment subsidy which – instead of creating new jobs – provides subsidised short term (4-12 months) employment.

**Challenges**

The existing support infrastructure is ineffective

There is a support infrastructure around regional development agencies, business centres and incubators heavily funded by government (national, regional and local) or the EU. Most of these
are not efficient as the key staff are employed and delegated through different political parties regardless of their professional profile and experience. They preferentially assist organisations and businesses that fit their politics.

CEDRA HR, on the other hand, is a cluster of resource centres for social enterprise. It does not have sufficient funds to provide an on-going support service to either social enterprises or other stakeholder groups. As this project is not securing funds for the operation of FSLs, Slap and CEDRA HR will need establish a more sustainable business model for its operation.

Social enterprises with and without support
Social enterprises are facing many problems such as:

- not being recognised as social enterprises
- not having access to funding
- no support infrastructure (know-how, funds, access to the market)
- the public not recognising the existence and benefits of the social economy
- not having a visible impact on local economies
- no proper support to boost or scale up.

Croatian Legal System not a good Fit for the FSM
In Croatia there are no specific social enterprise legal forms and the only relevant document is the National Strategy for SE development. At the same time, legislation on co-operatives and associations is not adjusted to FS principles of equal participation in governance and profit distribution to all main stakeholder groups. The FSM could be only organised in the legal form of a limited liability company using a measure of creativity, or in partnership rules that fit the rights of founders, investors and labour. It is still challenging to meet the voting and profit sharing rights of users.

Therefore, legal and financial experts will need to be involved into creating and testing specific governance models including a set of internal contracts and regulations to fit FSM principles.

The main challenges for further social development are as follows:

1. To ensure sufficient and systematic financial support for social enterprises that have ideas/products/services and the capabilities to survive in a market;
2. To improve tax measures and reliefs for social economy actors according to examples of successful practice in Europe;
3. To open the public procurement system to social economy actors in accordance with examples of successful practice in Europe;
4. To introduce social impact measurement after an in-depth analysis of its various models and their applicability in a diverse context to social enterprises in Croatia;
5. To integrate and implement education on social entrepreneurship in the Croatian education system at all levels;
6. To make social entrepreneurship visible to the public, and therefore appropriately evaluate social enterprises and

7. To create legal and institutional frameworks for social enterprise as a new legal entity to create the foundation for more creative governance models.

Opportunities

Rural Areas
Slap is already active **covering specific rural areas**. It is active primarily by involving local action groups (LAGs) as generators of local development. In many cases, it includes local governments which are open to innovative approaches and are willing to test new models. Nevertheless, it would be crucial to have other local actors (NGOs, businesses, entrepreneurial individuals) leading the entire process and having LAGs as providers of space, facilitation, access to funds and decision makers.

We may be able to use available EU grants and the government’s employment subsidies to help **existing social enterprises** reorganise their governance structure and fully apply the FSM. Slap has already assisted at least 15-20 social enterprises at various phases of development so there is trust. About half a dozen social enterprises have the capacities to apply the FSM.

Goals to be achieved within the FSL project

1. To further promote the FSM and use of the FS Platform
2. To establish a FSL in Osijek and Zagreb (possibly in Split) and make them operational
3. To train 3-5 FSL mentors/experts to be available to FSL beneficiaries
4. To apply the FSM to the establishment of at least 2 FS companies in Croatia
Germany

Definitions and State of the Art

Social economy and entrepreneurship have a long tradition in Germany linked to the works of Friedrich Wilhelm Raiffeisen and Herman Schultze-Delitzsch. They were social reformers and founders of cooperative businesses and gave their name to the movement in Germany in the 19th century. Over time, social enterprises (SEs) have started to work in different fields like education, social and health care services, kindergardens, social inclusion, sustainability, environmental and consumer protection. Unlike countries where the social economy is associated with production (such as France and Spain), in Germany it is often identified in terms of social-welfare businesses, mostly provided by “Wolhaftrtsverbünden” (welfare federations) and their member organisations.

Their legal basis and rights are protected in the German Grundgesetz (constitution): they are counterparts to public authorities with their own responsibility for social affairs within “social welfare state principles”. Based on the subsidiarity principle, the state transfers the provision of social welfare services (e.g. youth, people with disabilities, unemployed, seniors, care etc.) initially to the “not for profit” sector and the social and welfare organisations. With the liberalisation of the market, some private and “for profit” SEs have become involved too. As financial regulations have changed, with less emphasis since the turn of the century on paying for these services through the state or public social insurances (care, healthcare), there has been a corresponding change from a cost recovery mindset to one of based on charges, market rules, cost-benefit ratios and business management. This trends has occurred in both the “not for profit” sector and welfare businesses.\(^2\)

The Centre for Social Investment (2013) report that the social economy in Germany involves more than cooperative businesses and social welfare activities. It has developed from the traditional Third Sector in areas and industries financed by the welfare state. New and socially innovative cooperatives and businesses are now competing with traditional and well-established welfare organisations. As a result, they are starting to introduce established business and management tools whilst also seeking to be socially innovative.

In public and expert groups, there is agreement to adopt the definition of SEs from the European Commission’s Social Business Initiative:

\[
\text{A social enterprise is an operator in the social economy whose main objective is to have a social impact rather than make a profit for their owners or shareholders. It operates by providing goods and services for the market in an entrepreneurial and innovative fashion and uses its profits primarily to achieve social objectives. It is managed in an open and responsible manner and, in particular, involves employees, consumers and stakeholders affected by its commercial activities.}^{3}\]

The Centre of Social Investment (2013) (p. 5) developed a further, more detailed, definition of social entrepreneurship that includes:

\(^2\) Centre for Social Investment (2013) *Social Entrepreneurship in Deutschland – Potentiale und Wachstumsproblematiken*, p. 3.

\(^3\) KOM (2011), 682 final, p. 2-3.
• SEs that take an innovative approach to help achieve public welfare goals in more effective or economical ways;
• SEs with a transformative impact;
• SEs that create new approaches to achieving sustainable welfare benefits.

Furthermore, social entrepreneurship involves:
  o a basic orientation towards addressing social and ecological issues using social innovations and market-based income.
  o Innovative third sector organisations (TSOs), even if they do not have market-based income;
  o performance oriented TSOs, even if they are not especially innovative (e.g. provider of care-/health care services, kindergarten, care of children/youth/people with disabilities),
  o and market-oriented organisations who are copying and adapting fair trade and sustainable consumption.

The last three are subsumed under a new category. From these definitions, the research report defines three main criteria for social entrepreneurship in Germany (p.4):

• A focus on solutions for social and ecological problems (public welfare approach)
  This distinguishes them from regular commercial companies who support public welfare objectives through their profit distribution policies.

• Innovation
  This is important for the political attractiveness of social entrepreneurship in the mind of the public. Innovation in social services that provide preventive strategies, or which are using voluntary resources, reduce long term dependence on public budgets to get higher quality services. Market-based approaches target self-help capacities through investment and knowledge transfer and/or bind themselves to higher ethical and ecological standards (e.g. fair trade, alternative energy).

• Performance-based income
  This distinguishes SEs from civil society organisations (e.g. NGOs and foundations) which exist through donations and fundraising. Many SEs work in regular (pre-existing) markets and are generating incomes (e.g. fair trade, alternative energy and ecological agriculture). Other SEs contribute to quasi-markets in social services and care/healthcare. The SEs are paid fixed fees from public authorities for services that meet quality and quantity standards.

Birkhölzer et al. (2015)4 have defined four historical types of social enterprises in Germany, similar to other European countries, based on criteria relating to economic activities, social aims, profit distribution and participatory governance:
  1. Economic self-help and mutual assistance;
  2. Charitable help for others;
  3. Philanthropy and corporate giving; and
  4. Community initiatives and civic engagement.

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They see new movements alongside these four traditions “but the reasons for their emergence and the historical contexts in which they appeared are different”. New organisations such as work integration enterprises, volunteer agencies and enterprises, self-managed enterprises, self-help initiatives, socio-cultural centres, work integration companies, local exchange and trading systems and neighbourhood and community enterprises have emerged outside established co-operative and welfare support systems.” (ibid., p. 11)

Birkhölzer et al. (2015) identified in their report (p. 11) three notable movements of SEs, which, on the one hand are “reflecting … on the older traditions” and on the other hand “trying to learn from successes and failures and creating new variations”:

1. First, the foundation of new SEs caused by inadequate and insufficient social or public services for childcare, care for the elderly, health and safety, education and training, social housing, urban and rural environment;
2. Secondly, SEs as instruments to fight mass unemployment and social exclusion, and;
3. Thirdly, SEs as instruments of local (urban as well as rural) development.

These three demonstrate that SEs have both a long tradition and contemporary importance in Germany, and that developments and definitions share similarities with other European countries.

Blue Economy and Living Labs

The understanding of ‘blue economy’ in Germany is mostly related to a sustainable maritime economy. In the context of FairShares Labs (FSL), there is no native understanding of a social-ecological and sustainable approach to blue economy in Germany. It is subsumed under the social economy in general. This contrasts German understandings of Living Labs, which have a more detailed scientific/research informed definition that constitutes a further approach.

A Living Lab is a user-centred, open-innovation and social ecosystem that creates common learning spaces and an environment to search for innovations within a public-private-people partnership. The number of Living Labs in Germany are not countable but many of them are dealing with technical and/or web-based innovations on social and ecological questions that matter to the future welfare of society. For example, this includes (amongst others) concepts for ambient assisted living, new mobility and urban development.

The European Network of Living Labs lists only three active (and twelve inactive) labs in Germany. It is not clear whether these are inactive in their role as member organisations or completely inactive. On Wikipedia, the article gives 14 as the number of Living Labs in the region of Baden-Württemberg. This is also the region in which public funds support Living Labs.

A detailed understanding of the FSM is new in Germany and will be published and supported by the partners of the FSL project. A definition in German was not available to the public before this project published a brochure. The best practices identified in IO1 show how the Raiffeisen-movement adopted some FairShares concepts. This agricultural movement includes producer cooperative that have social and financial commitments. However, companies in Germany with more than 2000 employees also have a co-determination approach to governance (which regulates for an equal number of labour and owner representatives on the supervisory board). In cases of stalemate, the president (who is typically a representative of the owners) has a casting vote. Co-determination rights in metal and coal-mining industries, however, are different. It this
case, there is strict equality in executive board and supervisory board representation. Any stalemate triggers calling in a neutral person agreed by both sides. This person has the final vote.

The authors do not know of an example where clients/consumers have a share of the business with the exception of cooperative banks (Volks- und Raiffeisenbanken), cooperative housing and football clubs. In the Bundesliga, the 50+1 rules means that customers (fans) must be majority shareholders (Bundesliga.com notes two exceptions to this general rule). Further to this, some SEs constituted as associations can admit providers of labour as members.

Legal Framework

In Germany, there is no specific law for SEs or social economy. Regarding the enumeration of types of old and new SEs, we can identify some specific laws for the different legal forms. These laws focus on the legal basis and statutes of SEs, the tax laws and permissions granted to them as businesses (Gewerberecht = commercial law). Most of the popular SEs are registered as associations (“e.V.”) or companies with limited liability (“GmbH”) and as registered co-ops (“e.G.”).

Tax law

SEs (whether associations, foundations, co-ops, limited (GmbH) and joint-stock companies) can apply for the status of “not for profit”, “for public benefit” or “charity” dependent to their statutes. This status can also be held by churches and welfare federations with specific objectives. The differences are important for the reporting and the disposal of donations.

The German “Abgabenordnung (AO), Article 52” defines a positive list of objectives which are accepted as “for public benefit”. These include a range of social purposes but also culture, sports and much more. The result is that these organisations are exempted from corporation tax and trade tax generally. However, these ‘not for profit’ companies must organise their bookkeeping and their business activities under four different categories: charitable activities, asset management, primary purpose trading (called Zweckbetrieb) necessary to achieve charitable objects and secondary trading “for public benefit”.

Income sources in the ‘not for profit’ sector like donations, membership fees and primary purpose trading must be fully disclosed and 90% of profits must be treated as a ‘restricted fund’ to reinvest in their objects or activities “for public benefit”. However, income from asset management and secondary trading can be placed in ‘unrestricted funds’ to fund additional activities or events. Even so, secondary trading must not dominate a not-for-profit organisation’s activities, nor are they allowed to use profits from charitable activities and primary purpose trading to cover losses from their asset management and secondary trading activities. The profits from secondary trading are subject to corporation and trade tax if profits exceed €5,000 per annum.

Many service offers can be made free of VAT. In the so called Umsatzsteuergesetz (USTG) (Article 4), there is a list of purposes and business activities which are free of taxes, or which have a reduced tax level of 7% compared to the normal level of 19%. This arrangement also includes some primary purpose trading as well as related businesses. However, most secondary trading will attract VAT if turnover exceeds a limit. Each enterprise/organisation must combine all activities on

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which VAT is payable across over all four categories of activity. The tax-free limit for so called “Kleinunternehmer” (small enterprises) is €50,000 annual turnover, providing the year is under €17,500. All enterprises must prepare a tax return based on their legal status. Specific information is described in the sections below.

Commercial Law (Gewerbeordnung)

Article 1 of the “Gewerbeordnung” (GewO) stipulates the right and freedom to undertake any kind of enterprise. For most enterprises, only registration is needed. However, some need specific regulations because of rules on labour and consumer protection (e.g. a bank business) or to protect professional ethics (e.g. lawyers, architects, tax advisors). Such regulations apply whether the organisation is ‘for profit’ or ‘not for profit’. This applies particularly to health and care services, services for children and young people, sheltered workshops, homes for people with disabilities and senior citizens. These need to meet regulatory requirements set by local and regional governments. They cannot operate without health/social care insurances.

Company laws, other relevant laws and legal types for social enterprises

a) Welfare Federations and Associations

Welfare federations have a constitutional basis and are organised as associations. Associations are one of the most widespread legal forms in Germany (Federal offices counted 600,000 in 2015). Seven people are needed to found an association, and they are legally defined in the Civil Law Book (BGB, §§ 21 continued). The ‘charitable’ associations must have ‘charitable’ objectives plus, a democratic structure with a minimum of two association bodies, a members’ assembly and a board which take legal responsibility. However, not all registered associations have a charitable purpose and therefore not all of them seek “charity” or “for public benefit” status.

German law also provides for economic associations. However, because of complicated registration issues it is rarely used. Charitable associations cannot have the objective of undertaking commercial trading in mainstream markets, but many of them (particularly those with social purposes, or which niche- or quasi-market orientations) can engage in primary purpose trading (called Zweckbetrieb). This trading is designed to support the objectives of the association, alongside commercial trading that has a minor role.

b) Registered Cooperative (eingetragene Genossenschaft)

The founding of a “eingetragene Genossenschaft” (e.G.) needs statutes and a minimum of 3 founders. The e.G. must be registered in the register of cooperatives. Drawing on norms for associations and companies, the governing bodies of a e.G. include an executive board, a supervisory board and a general assembly. Members are liable up the value of their (cooperative) shares and the e.G. is liable to the extent of its assets. Co-ops must be members of an external auditing organisation which is covered by a specific law (“Genossenschaftsgesetz”). The objectives of an e.G. are expressed in terms of meeting the needs and interests of their members. In the case of for-profit co-ops, members receive interest on their shares. Co-ops can secure ‘charity’ and ‘for public benefit’ status if their objectives and membership are consistent with the law on public
benefit organisations (e.g. providing health care, education or the social inclusion of its members). Co-ops would be a good alternative to associations when creating SEs.

b) Company with Limited Liability (Gesellschaft mit beschränkter Haftung)

The “Gesellschaft mit beschränkter Haftung” (GmbH) form is popular. There are more than 1m of them in Germany. One or more shareholders, who can be natural or legal persons, can found or own a GmbH. The minimum capitalisation in Germany is €25,000. Managing directors must observe many restrictions and accept personal liability, especially in cases of financial crisis. There are trading laws specific to GmbH (Handelsgesetz).

If the objectives of a GmbH fulfil the requirements of corporation tax law (Abgabenordnung, AO), it can get “for public benefit” or “charity” status. Because the AO does not allow for “charities” or “for public benefit” enterprises to distribute profits to private persons as shareholders, there is a sub-type (“gemeinnützige GmbH”) which is used by associations which are “charities” or “for public benefit” to own subsidiary enterprises. However, “parent organisations” could also be GmbHs, foundations or stock companies creating a wide range of choices for SE development. The GmbH is often used in the social welfare sector to create separation between subsidiary enterprises and their parent organisations where economic risks are high. The GmbH has no requirement for a democratic structure like the association. This allows more entrepreneurial freedom to run as a business. For social enterprises without the status of “charity” or “for public benefit”, this may be a good approach if shareholders want some profits distributed to them.

c) Stock Companies (Aktiengesellschaft)

Stock companies called “Aktiengesellschaft” (AG) have a minimum of €50,000 share capital. It also has two governing bodies: an executive board and supervisory board. The shareholders meeting has less power than the general assembly of an association or co-op, and even the shareholder meeting of a GmbH. The AG also allows changes in shareholders much more easily than in a GmbH and their disclosures regarding shareholders are not as public as for GmbHs. It can be a legal form for companies that are SEs, particularly it is seeks eligibility as a “for public benefit” or “charity” enterprise. In respect of trading, the AG follows the same rules as a GmbH through compliance with Handelsgesetz (HGB) and Aktien-Gesetz (AktG).

d) Foundation (Stiftung)

Foundations have no members. They set out in their statutes both their purposes and the way they will be achieved. Foundations can only distribute profits (surpluses from trading and investments) to beneficiaries, and tax laws vary as they do for associations based on whether their beneficiaries are ‘private’ or aligned with laws for the recognition of ‘charity’ or ‘for public benefit’ status.

Other legal options

There are other legal arrangements to support SEs in Germany. If ‘for public benefit’ or ‘charity’ status is important (to generate donations or specific public grants) there is an “Unternehmergesellschaft” (UG). For this legal form, the founder(s) do not need a capital stock and liability is limited to the assets of the UG. Profits can be retained until the UG reaches the level of capitalisation required for a GmbH.
Trends

It is difficult to get data about number of social entrepreneurs, staff employed in SEs and their turnover levels in Germany. Different sets of data need to be evaluated in relation to different definitions of SE. Below, we present data from two sources. The first comes from “The Social Economy in the European Union” (CIRIEC, 2012).

In 2009/2010, in Germany, employment, membership and volunteering in the third sector was estimated at:

- 830,258 in 7,415 co-operatives, with 20,509,973 members
- 86,497 in 328 mutual companies
- 1,541,829 in 102,393 other associations, with approximately 23 million volunteers.

Figure 1 - Breakdown in Germany

<table>
<thead>
<tr>
<th>Co-operatives and other similar accepted forms</th>
<th>Mutual companies and other similar accepted forms</th>
<th>Associations and other similar accepted forms</th>
</tr>
</thead>
<tbody>
<tr>
<td>- All cooperatives (1)</td>
<td>- Mutual companies</td>
<td>- Non-statutory welfare associations</td>
</tr>
<tr>
<td>7,415 enterprises</td>
<td>328 entities</td>
<td>708,523 full-time; 833,306 part-time</td>
</tr>
<tr>
<td>20,509,973 members</td>
<td></td>
<td>102,393 entities</td>
</tr>
<tr>
<td>Of which:</td>
<td></td>
<td>23,000,000 volunteers</td>
</tr>
<tr>
<td>- Cooperative banks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2009: 168,000 jobs)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1,197 enterprises</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Agricultural cooperatives</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2009: 103,000 jobs)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2,994 enterprises</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Industrial cooperatives</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2009: 35,000 jobs)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>97 enterprises</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Consumer cooperatives</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2009: 15,000 jobs)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>166 enterprises</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Housing cooperatives</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2009: 26,258 jobs)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1,869 enterprises</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Other cooperatives</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2009: 483,000 jobs)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1,092 enterprises</td>
<td></td>
<td></td>
</tr>
<tr>
<td>830,258 jobs</td>
<td>86,497 jobs</td>
<td>1,541,829 jobs</td>
</tr>
<tr>
<td>7,415 enterprises</td>
<td>328 entities</td>
<td>505,984 entities</td>
</tr>
<tr>
<td>20,509,973 members</td>
<td></td>
<td>3,000,000 volunteers</td>
</tr>
</tbody>
</table>

(*): Source: G. Lorenz & K. Birkholzer (Technologie-Netzwerk Berlin) and U. Tihurc (BAGFW).
(1) Cooperatives Europe, Intermediary Report, 2009
(2) ICMIF
(3) BAGfW - Bundesarbeitsgemeinschaft der Freien Wohlfahrtspflege e. V.
Other sources give the following data: For associations and similar, Anheier et al – Destatis / CSI (2011) give (2007) 2,284,410 jobs and 104,855 entities for the dritte Sektor ('third sector').

As total employment is 2,458,584 out of a total working population of 38,737,800, 6.35% of working people are employed in co-operatives, mutuals and associations (p. 47/8). This is a 21% increase on the figure from 2002/3 of 2,031,837. Furthermore, 34% of the country’s adult population (24,065,072) were engaged as volunteers (p. 51). The main employers in the cooperative economy are banks and agricultural producers.

The 2013 CSI report on SE points out that there is no trustworthy database available to count SEs. Only data for the third sector as a whole is available (which excludes SEs in a for-profit market relationship and may include social organisation that do not trade). As there are no links available to qualify their social and/or public welfare orientation, or their commitment to social innovation, accurate figures cannot be given. However, they do claim that:

- SEs turnover less than €250,000 in 50% of cases (categorised as small companies). A small minority turnover more than €5m / annum.
- The number of staff is inversely reciprocal to the number of volunteers.
- Most SEs work locally within Germany.
- There are higher concentrations of SEs in public social services (paid by public authorities through social welfare federations)
- Some ‘for public benefit’ and ‘charity’ GmbHs have a high turnover.

The reports differentiates between a wider and narrower definition, with a high five-digit number of SEs when using the wider definition, and a small four-digit number when using the narrow one.

Lastly, we look at the published data of six welfare federations in Germany for the year 2012 (Bundesarbeitsgemeinschaft der Freien Wohlfahrtspflege, 2012, p. 14). They publish that 105,295 entities/services with 3,702,245 places/beds employ 727,694 people full time and 946,167 part people part-time. This covers health/health care, youth, family, elderly/seniors services, support for people with disabilities, in special situations, training centres and others.

GDP for the social economy is estimated by Friedrich et al. (2012) at 7% (estimated at €165 billion), slightly higher than the employment rate of 6.35% (indicating economic efficiency). The executive summary (p. 9), shows SE (in its narrow definition) is a young movement, but that the existence of older movements show that SE is not a new phenomenon.

Social entrepreneurship is increasing, especially in cooperatives and GmbHs that apply for ‘charity’ and ‘public benefit’ status, as well as ‘intrapreneurial’ endeavours to create new business lines in existing enterprises. In Birkhölzer et al. (2015) it states that:

"the group of younger social economy movements has been emerging since the 1960s and 1970s, alongside the new phenomena of crises caused by transformation processes to a post-industrial society."

The author and the two German project teams recognise these arguments and see the trends in their own research, work experiences and consultancy work with SEs and social entrepreneurs. There is increasing activity within the sharing economy, the social economy and sustainable production (with consumers as co-designers or co-producers in new collaborative ventures).

Several developments in Germany indicate a growing interest in alternative, multi-stakeholder organisational structures and enterprise models. These include:
1. (New) Participatory urban developments -> these projects are searching for new sustainable business models.

2. The ‘economy of common interests’ --> a new business movement started in Austria and spreading to Germany (regular enterprises agree to re-invest a part of their profit in projects with a social and sustainable purpose, structuring balance sheets to show the orientation of the enterprise towards this new model of economy).

3. Holocracy -> a multi-stakeholder approach that is also a new trend in Germany.

4. Sustainable Development Goals (SDG) -> political and practical initiatives to create stronger local establishments, share of prosperity and encourage participation.

5. The political goal to substitute decreasing public funding of social activities by dissolving the barriers between for-profit and non-profit organisations when they seek entry into the market economy. Regular enterprises shall support public welfare and social purposes (e.g. through corporate social responsibility) and welfare businesses focus on better financial and management skills.

6. Registered cooperatives are gaining a profile for meeting the demand for fair participation in enterprises, ethical products and alternative business models (e.g. Fairmondo).

7. The sharing economy is emerging to challenge classical business models of buying or leasing by allowing the sharing goods and services. The objective is a mix of sustainable production with sustainable consumption.

   The new “Bundesteilhabegesetz” (participation law) states that everybody should have the possibility to participate in all fields of everyday life. On the other hand, most disabled people are still working in separate places or are unemployed (at double the rate for people without disabilities). One reason is that many companies still feel uncomfortable hiring people with special needs out of a fear that they will not perform as well as “normal” workers. Companies lack awareness of state funds to pay for necessary equipment and medical support to help with hiring a person with special needs.

   FSLs can provide information on how to fund equipment and medical support for people with different needs. Also, people with and without disabilities still rarely have contact with each other due to separate school and work systems for both groups. FSLs bring them together to help them get to know each other and break down social barriers. FSLs are a way to help create a society where everybody can live in equality, without prejudice, and workers and customers can feel comfortable with whatever need he or she has.

Challenges

Many organisations claim to have a social impact, whether solving customer needs, providing products or services classified as welfare, taking corporate social responsibility, or focussing on social and sustainable impact on a structural systemic level. Because it is not possible to objectively decide which problems and impacts are inherently social, it depends on both perspective and concrete criteria. This is a task we have to solve in FairShares Labs. Our proposed solution is to use social auditing (with an embedded commitment in FairShares Model
rules). This asks the members of each FairShares enterprise to take responsibility for determining which problems and impacts are important to them. Objective standards do not, and should not, apply (except at the level of principles and processes). Local interpretations of problems and impacts guide the social auditing process. Our responsibility is not to define evaluation criteria, but to ensure that social auditing is taking place (with enforcement – if at all - at the level of process only).

The idea of a FairShares economy has similarities with the tradition of a cooperative commonwealth, or a network of partnerships. Cooperatives have a long tradition in Germany, but there are differences between western regions and new regions created after reunification. Cooperatives in eastern Germany had a poor image after WW2 because of the forced restructuring of the economy into co-ops. After 1989, only housing co-ops were saved and retained a positive image. Most ‘forced’ co-ops were dissolved. The eastern regions can be served by a pilot FSL in the city of Erfurt.

Fortunately, a new movement of co-op businesses and the idea of ‘economy for the common good’ appeals to a new generation in Germans in the east. They were born in the 80s and 90s, but are not yet familiar with the idea of a FairShares economy, not is it well known or popular in other regions. However, social equality and justice are important issues not only for the younger generation but also people segregated on the basis of their disabilities, employment status, education, location or other kind of difference.

When it comes to building inclusive FSLs and FS projects, one of the biggest challenges might be accessible buildings and the cost of adapting equipment. Another challenge will be to find and fund staff to assist members (such as sign language interpreters and working assistants). Whilst they should be paid by the public authorities, it can be problematic to convince public institutions to pay for them.

Opportunities

The trends and challenges described above indicate that there are opportunities for FSLs and FS enterprises in Germany. The new trend of the sharing economy, the strength of the social economy and the trend towards sustainable production (including co-production where consumers are also co-designers or co-producers) offers opportunities for FSLs. Taking a FS approach, it is possible to bring these trends and movements into clusters and create an effective movement. There is a societal need for alternatives to traditional economic thinking. In FSLs these alternative models can be developed, tested and integrated with existing approaches to add to the diversity of approaches to (social) entrepreneurship.

There are certain proposals and movements that try to foster social impact. A growing scene for this is social entrepreneurship label. Several labs, associations, institutions and legal actions promote, initiate and support social start-ups. It drives exchange and bridges the gap between for-profit and for-welfare organisations. Business ventures try to improve social impact and NGOs try to act in a more entrepreneurial way and generate profits (surpluses). The movement has several segments, like eco-entrepreneurship that focusses on ecological impact, cultural entrepreneurship that focuses on participation in arts and culture. Social businesses selling
goods/services in open markets need to generate profits (surpluses), whilst welfare businesses need to secure a blend of public and private funding.

The focus on impact is currently dominant in this field. Other aspects such as fair working conditions, wealth sharing and participatory governance that gives a voice to the labour force and users (customers) still lack recognition and are in need of improvement. FSLs can support social start-ups and develop a holistic ‘common good' business model with appropriate organisational structures, which implements additional values and principles that complement the focus on social impact.

Three examples

a) FSLs as a process to support the social inclusion of people with disabilities

The new “Bundesteilhabegesetz“ (participation law, Social Law Book IX) states that everybody (people with disabilities in a further definition) should have the possibility to participate in every field of everyday life. Most people with disabilities are still living in institutions, getting services from welfare federations, are excluded from the labour market in sheltered workshops, or are unemployed (at a rate twice as high as for people without disability). Services are mostly paid for through a quasi-market system in which public authorities directly purchase from providers. The receiver of the services is not involved in the system of contracts, not does it control either the quality or payment systems used by purchaser (public authority) and provider (welfare federation). Services are often not client-centred, nor economically viable. People with disabilities are segregated and cannot be an active part of civil society or engage in entrepreneurship. FSLs can and will empower people with disabilities to become part of the emerging culture of social entrepreneurship that facilitate the pursuit of new opportunities.

Another important in Germany is that people with and without disabilities rarely have contact with each other due to separate school and working systems. FSLs can be a place for them to come together, get to know each other and break down social barriers. FSLs can be an effective way to create a society where everybody can live in equality and without prejudice, where every worker and customer can feel comfortable whatever their need.

b) Bio / organic goods and the better and healthier live

Mainstream markets are more open to products that do not harm nature, or which avoid the use of synthetic ingredients that may harm customers. The production cycle can be organised to prevent ecological harm and preserve its resources. With organic labelling, there are many ways to communicate this (no animal torture, no genetic modifications, sourced from cows that live in open fields and green spaces). The opportunities for environmentally friendly products are part of the possibilities and opportunities for certification and quality management. Labels can help customers buy products that reflect their ethical standards. Customers can play a fuller role, by reflecting the diversity of the challenges and compromises needed to make products that are good for the environment. Customers can lose trust in a label (its certification criteria and quality system) if it does not match their ethical expectations. For this reason, the FSM can contribute to maintaining a quality system by giving a voice to customers and users. Positive social impact can be assisted by enabling producers to provide goods according to criteria set by a labelling system. They can help to implement ethical production, improve ecological outcomes and create greater social impact.
c) New cooperative housing like “Mietshäuser Syndikat (apartment house syndicate)"

To more fairly share power and resources, an innovation has occurred in the housing market. There is a popular solution called “Mietshäuser Syndikat” in which an association becomes the owner of a building or apartment. Everyone who rents space (living space or apartment) are members of the association and they decide and manage the house together. The association organises the required financial support. Because financial resources are separated from the members renting a room and all members have equal voting power. The network of these associations - the syndicate - is also a member of each local association as well. They mostly have a passive voice, a veto, that secures the house and keeps it off the real estate market. Another similar example is the Trias Foundation which buys houses and land for a group of people who want to keep their property off the commercial market. It then use the purchase as communal property and sets fair prices for its users.

FSLs can be incubators of new housing initiatives that adopt the FSM to underpin their SE model. FSLs can help to include people with different abilities in the job market and society. Its projects can offer everyone the possibility to work in ways they want. In FSM-based enterprises, it is possible to include people with disabilities from a target group as Labour or User members. If the enterprises are accessible and provide them information (e.g. in braille and sign language in addition to normal written material) then more people will benefit from the products that each enterprise offers.

References


Hungary

Definitions and State of the Art

There is no single and widely accepted definition of social enterprise in Hungary, nor is there a unified regulatory framework. It is also common to use the term without defining it. Moreover, the word “social” can be translated in two ways: as szociális or as társadalmi. The term “social enterprise” can thus have different translations. Szociális has a narrower meaning, referring to social mostly in connection with financial and welfare-related issues. Társadalmi, on the other hand, means “connected to society”. Though the narrower term (Szociális) was often used in the past, experts have recently started using the wider term (Társadalmi), thus emphasizing that the phenomenon is broader than a focus on employment and welfare-related challenges.

The concept of social entrepreneurship is not widely used across Hungary. The term itself was initially introduced in the second half of the 1990s by a few international development organisations focusing on social enterprises and social entrepreneurs. Relevant actors in the non-profit, private and public sector did not take much notice until recently. Based on the country report to the International Comparative Social Enterprise Models project (ICSEM)\(^6\), the expressions “social enterprise” or “social entrepreneur” are becoming better known in the country and there is a growing interest among development professionals, academics, leaders of non-profit organisations, public officials and even representatives of the business sector. In scientific and public discourse, the terms most widely used describe socio-economic organisations that are not specifically connected either to the for-profit or public sector. The concept of a “non-profit sector” and “civil society” gained recognition after the regime change and “social economy” entered public discourse at the time of EU accession. “Community enterprise” and “community development” are often related to local or rural development while “corporate social responsibility” (CSR) has been used to a certain extent. There are often no (or only minor) differences between the Hungarian and international definitions of these concepts.

In the new Hungarian Partnership Agreement for 2014 - 2020, the term “social enterprise” is explicitly used. An official definition was created for the first time in 2015, nearly ten years after it entered scientific discourse in higher education institutions. There has been a university course on social enterprise since 2006. As a result, the social enterprise concept is currently becoming more relevant in Hungary. Several social enterprises have been established and are in operation. Furthermore, support for the social economy and for social enterprises is expected to play an increasingly significant role in the future, especially as part of Hungary’s Europe 2020 strategy. There are varying traditions with definitions that influence the trajectory of social enterprise:

- Non-profit organisations (NPOs) must meet three main criteria:
  - they must not distribute profit;
  - they must enjoy operational autonomy and be organisationally distinct from the state;

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• they must be institutionalized as independent legal entities.

Still, the most important characteristic here is the prohibition of profit distribution. The term “non-profit sector” is frequently used by researchers and policy makers to describe this group of organisations.

Civil sector and civil society organisations (CSOs) are other widespread terms. They are most commonly used by experts and traditional civil society organisations themselves. The concept of civil society (re)emerged in the 1990s but since its meaning is similar to the non-profit sector, both terms are used interchangeably in public discourse and policy documents. The most crucial element in CSOs is serving the common good through the active involvement of citizens and democratic participation.

The concept of social economy emerged in Hungary from 2000 onwards, mainly in connection to Hungary’s accession to the European Union. It is used by policy makers and researchers in the field. Social economy organisations operate at a local level, between the public and market economy. They react to local needs left unsatisfied by private companies and public institutions by providing employment, generating income with the intention of becoming self-financing over time. A proportion of their revenues come from non-public sources (such as private philanthropy or market income) and their target groups include the long-term unemployed, early school leavers with employment difficulties, women responsible for caring for children, the elderly, people with disabilities or who struggle to integrate socially. The main motivation of social economy in Hungary, unlike countries such as France and Spain, is to overcome deficiencies of social policy and provide new opportunities for the relief of hardship.

There is no database or recent representative study on social enterprises in Hungary. Existing literature mostly analyses statistics related to the non-profit sector for specific legal forms, but not social enterprises. Studies also discuss qualitative case studies or are based on small samples for quantitative research. This makes any description of the sector in terms of the number of enterprises, their size, main activities and target groups unreliable. But despite the confusion, Hungarian definitions do exist. The main meaning of social enterprise is one that emphasises the financial sustainability and innovation of the enterprise. Social entrepreneurs are described as “extremely talented, creative and innovative personalities who are working with exceptional strength and determination, dedicating their talents to a wide range of solutions to social problems, taking on an active role in society” (Ashoka, 2015)7.

Lastly, there is the co-operative sector, which has seen both growth and contraction due to changes in the laws for co-operatives. There was a history of ‘forced collectivisation’ between WW2 and the 1980s which tarnished their reputation, but since 2006 there has been considerable growth in social co-operatives. Today in Hungary there are about 5,000 co-operatives (half of which are social co-operatives) with 1.8 million members and 800 billion HUF turnover. Their distribution is: 46% services, 28% agriculture, 17% industry, 6% commerce, 2% tourism and 1% other. Their core activities are reported as: community organising, member services, common consumption models, exploiting local conditions, market niches and innovation (Association of Social Co-operatives, SzOSzÖV, 2017.)

7 In theory terms, ASHOKA represents the ‘social innovation’ school of thought in a Hungarian context.
Legal Framework

In 1989, the Law on the Right of Association was adopted, legally guaranteeing freedom of association. This was followed in 1990 by the abolition of a regulation on permits to found foundations and associations accompanied by new tax laws that allowed tax free donations to them by individuals and corporations. These new regulations led to growth of the third sector and the revival of traditional civil society organisations (CSOs).

The second half of the 1990s and first half of the 2000s were characterized by the further institutionalisation of the non-profit sector. There was the adoption of the 1% personal income tax law, in 1996, which widened the public’s right to have a say in decisions about supporting CSOs. The Public Benefit Act of 1997 created the category of “public benefit and outstanding public benefit organisations”, which made the activities of the organisations - instead of their legal form alone - the basis for defining whether an organisation qualified as a public benefit entity. Further initiatives included the 2002 Civil Strategy, the main principle of which was that the state should regard autonomous civil society as partners, followed by the creation of the National Civil Fund, in 2003, which aimed to provide financial support to NGOs. After the EU accession, the Act on public interest volunteer activity (2005) determined the content of volunteering and the legal guarantees of volunteer labour, and made it possible for CSOs to include in their accounts voluntary help or the reimbursement of the costs incurred by volunteers.

In 2006, the concept of “non-profit company” was introduced alongside non-profit limited partnerships, general partnerships, limited liability companies and corporations. The aim of the new regulations was to make it possible for former public benefit companies to become non-profit companies without changing their ownership structure (Act V of 2006). Many non-profit companies are thus the “successors” to previous public benefit companies founded by public entities to perform public services. In this sense, they are not traditional CSOs, but public service spin outs. Also in 2006, the social co-operative legal form was introduced. These organisations can obtain public benefit status but have more freedom to carry out business activities than NPOs (associations and foundations). After the introduction of social co-operatives, the growth in the number of NPOs stopped and social economy became more significant in public policy.

The situation changed in 2010. A new administration took a less pluralistic, more paternalistic attitude towards civil society organisations. The new Civil Law of 2011 settled certain legal relations (e.g. principles of cessation previously unregulated) and redefined public benefit status. However, it also “raised many questions, resulting in uncertainty and confusion among CSOs on how to adapt to the new rules” (USAID, 2013: 2). Individual tax incentives for charitable giving disappeared but corporate tax incentives remained. In 2013, a New Civil Code introduced sanctions for debts when terminating an association.

The situation for co-operatives improved in Hungary after 2006. Act X was introduced to create a new framework and the social co-operative movement grew rapidly. This was modified in 2012 (Act XXXVII), and again in 2013 (Act V of 2013 Civil Code). Over time, the relative freedom and flexibility of the law of co-operatives has been eroded. Since 2013, social co-operatives have been able to include legal persons (such as local government and NPOs) amongst their members, even if not actively taking part in the activities. In December 2016, the law was further amended to make the inclusion of institutional members compulsory for all social co-operatives, increasing the
influence of the state and local governments in social co-operatives, decreasing their independence and compromising ICA Principle 4 (Autonomy). Social co-operatives are no longer required to be grassroots organisations – they can be initiated by public sector actors.

Lastly, on June 13, 2017, a law on the Transparency of Foreign Funded Organisations started to require associations and foundations that receive more than 7.2 million HUF (around 20,000 EUR) in international support (not including EU funding) to register as foreign-funded organisations, prompting civil society experts and activists to comment that the law is unnecessary, stigmatising and harmful, and will have negative consequences for the third sector in Hungary.

In summary, there are different legal forms that Hungarian social enterprises can take. According to most recent data by the Hungarian Central Statistical Office, in 2015, there were 18,003 foundations, 31,354 traditional CSOs, 2,995 non-profit companies, and 4,577 co-operatives (of which 2,500 are social co-operatives).

Trends

There is a long history of social entrepreneurial activities connected to non-profit and co-operative sectors in Hungary. The current situation is shaped by social and economic changes after the regime change in 1989, and accession to the European Union. There is now explicit support for social enterprise, and a first official definition in a policy document calling for applications to develop the social enterprise sector. This sets out a definition under which an organisation with the following characteristics can be considered social enterprises:

"non-profit and civil society organisations that have viable economic goals in addition to their social objectives; the profit of their business activities is reinvested for social objectives; and they implement the principle of participatory decision-making in their budgets and organisational functioning" (Ministry for National Economy 2015)

The programme intends to support non-profit organisations and social co-operatives that contribute to the employment of disadvantaged, unemployed and inactive people through their activities - traditionally expected to be carried out by the state.

Table 1 shows six major models of non-profit and for-profit social enterprise in Hungary that can be distinguished by their legal form, sectoral affiliation, social aims, field of economic activity and impact on employment. However, state programmes that target social enterprises consider for-profit legal forms - with the exception of social co-operatives - as ineligible for support. Organisations entitled to support include non-profit companies, social co-operatives, foundations and associations conducting business activities, where they contribute to the employment of disadvantaged, unemployed and inactive people (Ministry for National Economy 2015: 6).
The social co-operative is the only legal form in Hungary intended specifically for social enterprise. They are organised according to three principles: care for others and the community, responsibility and solidarity. In Hungary, all non-profit organisational forms and social co-operatives can acquire public benefit status. The availability of different legal forms means that social enterprise groups can operate different legal entities together.

**Challenges**

Supported employment and public work have long constituted an important source of income for work integration social enterprises (See ‘Public service provision social enterprises’ and ‘Work integration CSOs’ in Table 1). Supported organisations receive funding to employ underprivileged people but might not be able to maintain these jobs when the funding comes to an end. Without support, the third sector is not currently viable. Non-profit organisations in Hungary has long been characterized by excessive financial dependence on state and EU resources (which are now decreasing). The lack of local, corporate and individual donors and the small number of other possible resources means that the third sector in Hungary faces constant difficulties, particularly if small or starting up.

There is a “public employment” policy for long-term unemployed, particularly in regions where work opportunities are limited. Support is provided by the highly controversial public work programme (which eschews more empowering active labour market policies, such as training, support for entrepreneur wages or travel allowances). However, public employment does reintegrate participants into the primary labour market. It acts as a “trap-like” programme creating a
feudalistic system. Hungarian governments have long considered public work an important tool for employment generation through the completion of tasks in the public interest by the central state and local governments. Since 2011, the National Public Employment Programme has focused on achieving reintegration, in the labour market, of the highest possible number of workers, rather than focusing on the long-term, social aspects of inclusion. In contrast, market-oriented ‘social enterprises’ with social aims and sustainable business models remain relatively rare and are not sufficiently visible to the broader public.

Opportunities

From 2014-2020, significant EU resources have been available to Hungary (the Széchenyi 2020 Programme) through ten operational programmes with a significant role for social enterprises. There are also international and domestic private foundations which have directly focused on social enterprise in Hungary for many years. Social enterprises have been supported by various key organisations in the past and opportunities for financing, professional assistance and networking are available today. Certain financial and other for-profit institutions have also been active in relation to social enterprises. These institutions typically offer funding, business education, pro bono consultancy and expert support as part of CSR activities.

There are several networks and communities supporting certain types of social enterprise. The National Association of Social Co-operatives was founded in 2010 and has 44 member organisations. It represents and promotes the interests of social co-operatives in legislation and other public decision making. The National Association of Charity Shops was founded in 2014 by 10 founding organisations operating 19 shops. The National Association of Social Enterprises was formed in 2015; it aims to represent its members’ interests, and its economic development activities support members’ entrepreneurial activities, particularly through promoting their access to markets. There are also fairs, conferences and programmes to facilitate networking; the most important of which is Social Enterprise Day (an annual fair for social enterprises organised by NESsT and National Employment Non-profit Ltd).

To sum up, besides the key role of the state (which focuses on non-profit organisations and social co-operatives that contribute to the employment of disadvantaged, unemployed and inactive people), certain non-governmental actors from both the non-profit and for-profit sector have financial or professional support activities targeting social enterprises and have played an important role shaping the development of the sector.
Netherlands

Definition

Social enterprising in the Netherlands (NL) is mainly seen as being an entrepreneur with a social mission. Another multilingual statement is that "social entrepreneurs seek innovative solutions to social challenges. Like any other company, a social enterprise supplies a product or service and has a profit model. Making money is not the main goal, it is a means of achieving the mission. The purpose of the social enterprise is to create social added value, also called impact."\(^8\)

Besides social enterprise, we talk in NL about corporate social responsibility (CSR). CSR means that companies are responsible for social problems such as air pollution, climate change, working conditions or aging. CSR begins with companies trying not to add to these problems. It is based on taking care of people, planet and profit. Others who go one step further contribute to solving these problems. Socially responsible companies therefore ideally consider the social impact of their activities. That applies to our entire business process. CSR is conceived as an integral view of the core business of the company. There are three kinds of CSR:

1. Standards and values for which a company stands: internal rules of compliance.
2. Social responsibility: the way in which a company realises its core activities and responsibility takes for the ecological and social context, often presented in a sustainability report.
3. Social involvement: the way in which a company gives something back to society, such as sponsor activities, donations for social purposes and allow employees to do voluntary work during company time. Companies do not necessarily communicate this activity.

In practice, it is not so easy and clear. CSR often means that a company operates in a way that is perceived as responsible in society (using common sense). This means that entrepreneurs who run socially responsible businesses are always consciously looking for ways to improve their business and not squeeze society.

In this way we can say that doing social enterprise is going further than CSR. The Social-Economic Council (SER) uses the following definition: “Social enterprises have in common that they are independent enterprises providing a product or rendering a service primarily and explicitly in pursuit of a social objective – in other words, with a view to solving a social problem. They are economically independent enterprises that do not rely entirely on grants, gifts and donations. They are also organisationally independent enterprises that can pursue a policy independent of government or "mainstream" enterprises. The financial objective of a social enterprise is subordinate to its primary, social objective. This is what distinguishes it from other enterprises.”

\(^8\) Source: https://www.social-enterprise.nl/sociaal-ondernemen/
In social entrepreneurship in NL, another phenomenon plays a key role, namely the concept of self-organisation. Complex social initiatives are not so much the result of government or private initiative, but the result of a process of self-organisation. Various approaches to self-organisation include care co-operatives, self-employed co-operatives and energy co-operatives, initiatives where residents are well-organised and can afford investments. Self-organisation has not only been taken as an explanatory concept, but also a political ideal. Self-organisation then refers to people who work outside the state and the market. There is renewed faith in self-organisation, among other things, because people via the internet can communicate much more easily and much faster than before. The government nowadays is embracing the organisational ideal of citizens’ initiatives, self-direction and power “of your own”.

Finally, we must pay attention to the existence of corporations and co-operative associations. These are not necessarily seen as social enterprises in NL or enterprises based on CSR, but they are a specific form of self-organisation that falls within the boundaries of social enterprise definition set out in IO1 (see Ridley-Duff and Bull, 2016; Defourny and Nyssens, 2017). A partnership is an organisation that is managed and funded by members who use that organisation. These can be consumers, entrepreneurs, but also employees or government organisations. In NL some 8,000 corporations of this type are registered in the Chamber of Commerce.

State of the Art

Social entrepreneurship is growing in the Netherlands. The term ‘social enterprise’ is still young, certainly in comparison with our surrounding countries. Research by McKinsey (2011) indicates that there are about 4,000 social enterprises in the Netherlands. They are active in various sectors; from business facilities, social services, consumer products, care, education and international development. Employment in social enterprises in the Netherlands has increased by 36% between 2013 and 2015 and revenue grew by 24%. These growth percentages are significantly higher than for regular SME companies. This success can be explained is several ways: a social enterprise does not strive for profit maximisation and will invest in its own company rather than pay

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9 Source: https://www.social-enterprise.nl/sociaal-ondernemen/
out dividends; an increasing number of customers are interested in the measurable value of a product or service; lastly, the number of impact investors is increasing because more is being invested in social enterprises (McKinsey, Social Enterprise Monitor 2016).

The Netherlands does not yet have a separate legal position for social enterprises. Most social enterprises operate as a limited company (BV). These companies have a profit objective and can attract venture capital. Others are registered as a foundation or co-operative. Some companies also have a BV and a foundation. The SER advises government to act with restraint in developing a policy that requires the strict delineation of social enterprises as a group. First, such policy will be impossible without a strict, precise definition. Second, the Council believes it would be problematic to introduce incentives and other far-reaching policy measures for social enterprises alone. The point is not to create and expand a separate sector for social enterprises but to increase the benefits for society. The SER describes several concrete action points in its advisory report for the government to consider:

- Invest as a group in social impact measurement
- Boost cooperation between social enterprises
- Improve knowledge within government and social enterprises
- Investigate the possibility of introducing a “quality label” for social enterprises
- Improve the climate for financing
- Create more flexibility in government procurement procedures

Following the exploratory SER opinion, the Cabinet plans the following actions:

- Joint investment in impact measurement: a one-time research project is being conducted at an academic institution in the Netherlands to develop an impact measurement methodology, involving social enterprises and utilising available knowledge. In this research, recommendations are made on how to best measure the impact of social enterprise.
- Enhanced knowledge of (decentralised) government and social enterprises: bundling of digital (government) information that is relevant and up-to-date for social enterprises on the website of the government, and learning from the European Social Business Initiative
- Investigate the possibility of a ‘label’ for social enterprises: it is up to the social enterprises themselves to take the initiative to create a new label. If such an initiative arises, the government will look at this with a positive look. The government then looks at what can be done with it.
- Improving the financial climate: continued commitment to existing generic tools and learning of (experimental) instruments such as Social Impact Bonds; further on, the government will examine what stumbling blocks are being discussed after consulting the SER about social enterprises.
- Better use of opportunities in government procurement: better utilisation of procurement legislation to integrate social objectives. This will also be brought to the attention of municipalities.
Request continued SER advice: a SER follow-up will be requested to further elaborate on themes important to social enterprises.

In collaboration with McKinsey, Social Enterprise NL performs the "Social Enterprise Monitor" among its members each year. It is the largest survey of social enterprises in the Netherlands. Many topics are included such as: employment, turnover, what are the main obstacles of social enterprises, their legal form, whether they measure their impact and the motivation of founding entrepreneurs. The main outcomes of Monitor 2016 were:

- **Fourth consecutive year, robust growth in employment.**
  The surveyed social enterprises show growth rates for the fourth consecutive year. Employment grew by 24% between January 1, 2014 and January 1, 2016. This image corresponds to previous years in which the sector also grew strongly. There is a clear trend: social enterprises create economic growth. Both employment and sales grow faster than the SME average.

- **High degree of innovation.**
  Social enterprises often create new products and services; 54% of the companies went to market with a new product or service in the past two years; 20% of the companies surveyed are under two years old.

- **Government difficult to reach as a customer.**
  Social enterprises indicate that the government is the most difficult customer to reach. This is striking because the government has the ambition of 'buying social'. Only 11% of turnover in social enterprises comes from government contracts; the bulk comes from B2B customers (46%) and consumers (32%).

- **Increased social awareness among customers.**
  A surprisingly large majority of social enterprises (82%) indicate that the social awareness among customers over the last two years has increased.

- **Local government often experienced as an obstacle.**
  Asked about the obstacles to increasing social impact (in addition to finding customers), the policies of municipalities are mentioned the most. This is the management task that most of the social enterprises are still looking to do better by doing business facilitated through the purchasing practices of municipalities.

- **Financing less experienced as an obstacle.**
  Attracting funding will no longer be the biggest obstacle to growth. By 2015, a large majority (83%) of social enterprises are succeeding in obtaining the funding sought. A growing group of financiers is interested in social added value.

- **Impact measurement becomes more important and professional.**
  More than half of social enterprises (60%) measure their impact. This is an increase over previous surveys. Stakeholders also ask more often for impact reporting. Measuring is thoroughly addressed; 40% of companies use an external party.
Trends

There are various platform organisations active, such as Society Impact, Social Enterprise NL, Power in NL, Social Impact Factory, SE Lab, Enactus, Social Alliance and MVO Nederland. The platforms are very different, both in terms of organisational forms and funding, as well as target groups and objectives. The Dutch School of Public Administration has set up a Center for Social Entrepreneurship and has recently launched a learning lab called Social Entrepreneurship. The learning team is designed for strategic policy makers of large and medium-sized municipalities responsible for economic policy, social entrepreneurship and/or participation.

The MVO Trend Report 2017 deals with the major trends, across all sectors, themes and occupational groups. The trends are rising from developments in specific sectors or individual themes. They apply to almost all Dutch businesses. The report identifies the following trends:

- **World goals determine the direction**
  Companies increasingly set their sustainability goals ‘from the outside to the inside’. With the 2030 Sustainable Development Goals and the Climate Agreement in Paris as a guide, they determine their contribution (i.e. the part they should play to contribute to solving social challenges).

- **Ethics is back**
  Companies are increasingly being assessed using moral and ethical arguments. Using only financial ('we deserve it') or technical ('because it's') arguments to defend business thinking does not work anymore. Society expects companies to recognise their image: what cultural values and ethical standards do they have?

- **It happens in the city**
  Sustainability issues manifest themselves most clearly at local level, while at the same time spreading sustainable innovations. More and more city governments are confident to pursue sustainable forms of entrepreneurship: they temporarily relax rules to promote innovative companies.

- **Discussion groups are passé**
  Reconciliation with stakeholders is an important part of CSR, but the heyday of free sessions is over. Rather than talking about sustainability issues and solutions, the focus is now on action. The question is no longer "Do you think climate is an important topic for us?" But "if we both feel climate so important, what are we going to do together?"

- **Sustainability becomes a subject of the hairdresser**
  For years, sustainability was renounced as a left-wing lobby, but that time is now over. Packaged in accessible formats, themes like energy saving and food waste penetrate all kinds of television shows, mass events and other mainstream places and media. It might be a topic that your hairdresser begins to talk about.

- **Less bad is not good enough**
  Early adopters do not just want to limit damage but also to improve the world with their enterprise. They do not aim for climate-neutral buildings but want offices that generate energy. And they do not just focus on reducing waste, but also proactively fish the plastic out of the ocean. They do not look for half-wipes to stop the bleeding, but for real solutions.
• **Domino effect shifts markets**
  After the energy sector made a shift, a definitive shift towards sustainability also took place in the food industry. Consumers do not accept misleading marketing and eat less meat. Supermarkets are expanding their range of sustainable products and numerous initiatives in the field of food waste are arising. What sector will be the next one to turn around?

**Challenges**

The main challenges are existing obstacles to social enterprise. The SER had identified five:

1. **Problems related to impact measurement**
   Social enterprises are distinct because of their mission, but in the end they must also be accountable in their annual reports for what they have contributed towards achieving a particular social objective (i.e. their social impact). There is clearly much work ahead in that respect. Social impact measurement is a complex (and expensive) affair. Almost half of the social enterprises that responded to the McKinsey survey did not measure their social impact.

2. **Limited recognition and appreciation**
   Social enterprises feel that they do not get enough recognition and appreciation for their work compared to commercial or charitable organisations. The public is often unaware of their existence. Clients and investors must be able to rely on social enterprises to continue prioritising their social impact. The challenge lies not only in measuring that impact but also in making it transparent and accessible to the public.

3. **Financing problems**
   It is often difficult for social enterprises to obtain financing from traditional financial institutions such as banks and social funds. Compared to other SMEs, social enterprises face many additional complications in this regard. Because their social mission can raise costs and because their top priority is not to make a profit, their financial return is often lower than that of other enterprises (all other things being equal). Social enterprises and potential investors and financing bodies often move in different circles and do not speak the same language.

4. **Obstructions in the law**
   The world of entrepreneurs and the world of government are out of sync. For example, the law leaves little scope for experimentation to allow for contemporary trends, or (where there is scope) it is underutilised. In addition, social entrepreneurs must often deal with different municipal policies and, consequently, with different municipal departments whose procedures are not coordinated.

5. **Government tender problems**
   If procurement procedures encourage adoption of the lowest price offered social enterprises may suffer a competitive disadvantage, with little scope for innovative and enterprising approaches to social problems. Many municipalities work with 'social-return obligations'. This means that enterprises that take an assignment from the municipality must spend a certain percentage of the contract value on employing vulnerable unemployed people. This social-return obligation does not consider whether the company in question already employs people disadvantaged in the labour market. As a result, it works to the disadvantage of social enterprises and other businesses that – quite apart from the procurement procedure – employ people with an occupational disability.
Finally, municipalities pursue different policies, creating impediments for social enterprises looking to expand their activities.

The first two difficulties – social impact measurement and recognition/appreciation – are especially important because they have a knock-on effect on the other three problems. Only the second difficulty – recognition and appreciation – applies solely to social enterprises. The other issues also apply to businesses that aim to set themselves apart with their CSR efforts (specifically in the case of social impact measurement and public procurement) or for SMEs in general (specifically in the case of financing, public procurement, and obstructions in the law). In many cases, however, these obstacles have different causes, dimensions or consequences for social enterprises than for other types of enterprise.

What is needed for the development of the sector? Social enterprises, like other enterprises, operate within an ecosystem that is heavily influenced by governments, financial institutions and knowledge institutes. These organisations are crucial for the further growth of the social economy. To make this growth possible, adjustments are needed. Thus, social enterprises benefit from an appropriate legal position that makes their social mission more visible. Also, an adjustment of the Procurement Act, and encouraging companies to buy into social enterprises, can give the sector a strong boost. In addition, more capital providers are needed, and sector-wide reporting needs to include measures based on impact. Social entrepreneurship is a relatively new phenomenon, so there is still a lot of education and research needs to support further growth.

Opportunities

The majority of Dutch social enterprises are active in six broad sectors: biosystems, cleantech, economic development, civic engagement, health/well-being and education (see Figure 2). Based on a sample of 700 social enterprises, the McKinsey Social Enterprise Monitor 2016 found that biosystems is the largest segment consisting mostly of organic farmers. Cleantech is the second largest and highly diversified sector focused on new sources of energy and energy efficiency. Health and well-being is the least diversified sector, with many care farms where professional and voluntary carers help psychiatric patents and people with mental disabilities. In economic development we have found a broad range of fair trade organisations. Education has only a limited number of social enterprises. Smaller sectors such as housing, culture, sports, meaningfulness, and human rights were considered out of scope because they are either too small, or because their mission is too profound to be economically viable.

Examples of successful Dutch social enterprises today include: Greenchoice (provider of green energy), Fair Trade Original (Trademark for Fair trade products), Greenwheels (car sharing), Tendris (a.o. LED lighting), Triodos Bank (financier of social enterprises and socially responsible enterprises) and Ctaste (fully dark restaurant that employs visually handicapped staff). Furthermore, two examples of social enterprises have proved to be successful via replication: organic farms and care farms. Although none of these farms may be particularly well-known, aggregated they are sizable, with 811 care farms of which more than 100 are co-operatives (Association of Agriculture and Care / NCR Coopertie.nl).
We will check the need for FSLs among different stakeholders. We consider starting them together with some organisations who are already interested to develop themselves into a FS enterprise. We think we will do this at a national level. Currently we are focused on organisations in the social domain because we know this sector the best. However, we may change our view and approach depending on the outcome of stakeholder meetings.

The social domain changes and its impact on organisations in the welfare sector varies. Due to transitions and the financial crisis of 2007-9, the foundations of many social-cultural work organisation have been eroded. The flow of subsidies has dried up, more players populate the same market, job types disappear. There is a new relationship between citizens and occupational forces. Welfare organisations have a lot of knowledge and experience with vulnerable target groups but lack the necessary experience in another area: entrepreneurship. Providing an enterprising way of thinking and working will reduces dependency on subsidies, creates opportunities for quality improvements and leads to innovation. This provides a serious opportunity to survive by helping welfare organisations to work more entrepreneurially. But how?

Social entrepreneurs are used to addressing collective social issues. Due to reforms and cuts, the number of social entrepreneurs in the Netherlands has grown sharply in recent years. The government retreats. There are gaps in the social domain, while the need for facilities remains. Social entrepreneurs, such as Resto van Harte (temporary neighbourhood restaurants) and Thomashuizen (small-scale living for mentally disabled), can fill the spaces that are 'released' as the government retreats.
UK

Definitions and State of the Art

The social enterprise term has a mixed and contested heritage due to its philanthropic roots in the United States, and cooperative roots in the United Kingdom, European Union and Asia. In the US, the term is associated with 'doing charity by doing trade', rather than 'doing charity while doing trade'. In the UK, there is a much stronger emphasis on community organising and democratic control of capital and mutual principles, rather than philanthropy. In recent years, there has been a rise in the concept of social purpose businesses which pursue social responsibility directly or raise funds for charitable purposes. (Kerlin, J. (2009) Social Enterprise: A Global Comparison, University Press of New England.)

The social economy (and the social enterprise movement in the UK) is large, diverse and growing. As stated above, there are several connections in the history of UK social enterprise that go back to the co-operative movement. Specifically there are co-operative movement connections to:

- Beechwood College, Leeds (1978) where social auditing was taught in courses to worker and community co-operatives.
- ICOM and Co-operative Union within in the Social Audit Network (late 1980s);
- Social Enterprise Partnership (1994) formed by co-operative / community business practitioners
- Social Enterprise London (from 1997) formed by worker co-ops and co-operative development agencies
- The Social Enterprise Coalition (from 2001) with worked with the Co-operative Union to build regional networks as member-owned associations.

US conceptions of social entrepreneurship and more philanthropically minded social enterprise initiatives began to influence the UK in the mid/late 1990s through the attention given to it by Charles Leadbeater (1997), Ash Amin (1999) and later Alex Nicholls (2006). In the late 1990s, the community action network (CAN) was created to build on Leadbeater’s work, and from 2000 onwards a US-style support organisation for social entrepreneurs (UnLtd) utilised a government endowment to provide ongoing support to the sector.

In 2003, the UK adopted a widely quoted definition that enabled all types of social enterprise identified in IO1 (public service social enterprises, co-operative and mutual enterprises, charitable trading activities and social businesses) to find a home within the broader movement:

> A social enterprise is a business with primarily social objectives, whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners (DTI, 2002: 8).

However, this definition understates the connection to the co-operative movement and for this reason co-operative movement members have vacillated between marginalising the use of the
label social enterprise within the co-operative movement (as in Bob Cannell’s writings)\textsuperscript{10} or championing a more inclusive, participatory and democratic definition of social enterprise (as in Rory Ridley-Duff’s writing).\textsuperscript{11} Social Enterprise International Ltd (SEi Ltd) and FairShares Association Ltd both subscribe the inclusive, participatory democratic definition of social enterprise that include co-operatives and employee-owned businesses, particularly multi-stakeholder cooperatives that engage in social auditing and include socially entrepreneurial goals alongside meeting members’ needs.

The Blue Economy has conflicting meanings in the UK. For most people it refers to the marine economy. For example, WWF International declared “For some, blue economy means the use of the sea and its resources for sustainable economic development. For others, it simply refers to any economic activity in the maritime sector, whether sustainable or not.”\textsuperscript{12} The World Bank uses Blue Economy in a similar way.\textsuperscript{13} However, Gunter Pauli’s description of the Blue Economy is not confined to a marine context. His work argues for the creation of objects of long-term value so as not to burden future generations. There is also a focus on eliminating waste through knowledge of nature, rather than new industrial ‘recovery’ processes (prevention at source, rather than later in the supply chain). In the UK, the term “circular economy” could be regarded as a synonym. This describes a regenerative system in which resource inputs and waste, emissions and energy leakages are minimised by closing and narrowing the choice of materials and shortening supply chains (to save energy). This can be achieved through long-lasting design, maintenance, repair, reuse, remanufacturing, refurbishing and recycling.\textsuperscript{14}

Trends on the number of social enterprises vary by type (charitable trading, cooperatives and mutuals, social businesses) have been hard to establish in initial surveys. Following widespread criticism of the methodology used to distinguish social enterprises in previous government surveys, a new methodology was devised for 2017. Figure 1 shows the decision-tree used by two government departments for surveying social enterprises (SEs) and socially-oriented small businesses:

\textsuperscript{10} See Co-operative and Social Enterprises in Europe - \url{https://www.thenews.coop/32113/sector/retail/cooperatives-and-social-enterprise-europe/}
\textsuperscript{11} See Co-operative Social Enterprise - \url{https://www.emeraldinsight.com/doi/abs/10.1108/17508610910956408}
\textsuperscript{12} See “Principles for a Sustainable Blue Economy,” \url{http://wwf.panda.org/?247477/Principles-for-a-Sustainable-Blue-Economy}.
\textsuperscript{14} See \url{https://www.ellenmacarthurfoundation.org/circular-economy/schools-of-thought/blue-economy} for a discussion of the various approaches.
Based on the above sampling frame, the figures in the UK are shown in Table 1:

Table 1 – Social Enterprises and Socially-Oriented SMEs, 2017 Data

(N.B. this excludes co-ops, mutuals, employee-owned firms and charities with over 250 employees)

<table>
<thead>
<tr>
<th></th>
<th>All</th>
<th>Employers</th>
<th>Non-employers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of all enterprises (BPE estimates)</td>
<td>5,490,500</td>
<td>1,318,300</td>
<td>4,172,200</td>
</tr>
<tr>
<td>Social Enterprise</td>
<td>471,000</td>
<td>99,000</td>
<td>371,000</td>
</tr>
<tr>
<td>Traditional non-profits</td>
<td>152,000</td>
<td>84,000</td>
<td>68,000</td>
</tr>
<tr>
<td>SME</td>
<td>4,868,000</td>
<td>1,135,000</td>
<td>3,733,000</td>
</tr>
<tr>
<td>Commercial SME</td>
<td>3,656,000</td>
<td>891,000</td>
<td>2,765,000</td>
</tr>
<tr>
<td>Socially oriented SME</td>
<td>1,212,000</td>
<td>244,000</td>
<td>968,000</td>
</tr>
</tbody>
</table>

Note. BPE – Business Population Estimates. Due to rounding, in some instances, the figures in columns ‘employers’ and ‘non-employers’ do not add up precisely to those in the column ‘all’. Unweighted base N=1,233 (67 enterprises could not be classified due to missing data).

The figure of 152,000 for ‘non-profits’ (based on a projection) is different to the 166,100 organisations reported by the National Council for Voluntary Organisation Data Almanac based on actual registrations. The figures above indicates one of three things: dormant charities and
associations; associations and charities classed as ‘social enterprise’ due to their trading levels (over 50%), or simple under-reporting. Moreover, given historically strong links between co-operative and social enterprise movements in the UK (and the exclusion of large co-operatives and employee-owned businesses from the above figures), the above picture is incomplete. We show in Table 2 the contribution of the co-operative economy based on its 2017 report.

Table 2 – Co-operative Economy, 2017 Data

<table>
<thead>
<tr>
<th>Sub-sector</th>
<th>Number</th>
<th>Turnover (£m)</th>
<th>Average Turnover (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail</td>
<td>560</td>
<td>25,000.00</td>
<td>44,642,857</td>
</tr>
<tr>
<td>Agriculture</td>
<td>436</td>
<td>7,400.00</td>
<td>16,972,477</td>
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<tr>
<td>Sports, Leisure</td>
<td>2905</td>
<td>1,000.00</td>
<td>344,234</td>
</tr>
<tr>
<td>Arts and Culture</td>
<td>153</td>
<td>4.90</td>
<td>32,026</td>
</tr>
<tr>
<td>Digital, Media</td>
<td>139</td>
<td>22.60</td>
<td>162,590</td>
</tr>
<tr>
<td>Education</td>
<td>325</td>
<td>409.30</td>
<td>1,259,385</td>
</tr>
<tr>
<td>Energy/Env.</td>
<td>249</td>
<td>12.70</td>
<td>51,004</td>
</tr>
<tr>
<td>Finance</td>
<td>550</td>
<td>583.40</td>
<td>1,060,727</td>
</tr>
<tr>
<td>Food/Pubs</td>
<td>67</td>
<td>24.60</td>
<td>367,164</td>
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<tr>
<td>Health and Social Care</td>
<td>97</td>
<td>131.10</td>
<td>1,351,546</td>
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<tr>
<td>Housing</td>
<td>685</td>
<td>639.10</td>
<td>932,993</td>
</tr>
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<td>Manufacturing</td>
<td>74</td>
<td>264.10</td>
<td>3,568,919</td>
</tr>
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<td>Professional Services</td>
<td>151</td>
<td>101.50</td>
<td>672,185</td>
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<tr>
<td>Transport</td>
<td>28</td>
<td>7.50</td>
<td>267,857</td>
</tr>
<tr>
<td>Other</td>
<td>395</td>
<td>106.30</td>
<td>269,114</td>
</tr>
<tr>
<td>Coops in 2017</td>
<td>6814</td>
<td>35,707.10</td>
<td>5,240,255</td>
</tr>
<tr>
<td>Coops in 2007</td>
<td>4370</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>10 year increase</td>
<td>2444</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Growth / Growth per year</td>
<td>56%</td>
<td></td>
<td>5.59%</td>
</tr>
</tbody>
</table>

Source: Co-operative Economy 2017, Co-operatives UK
N.B. does not include all employee-owned businesses, only those identifying as worker co-operatives.

Estimating the relative contribution of PSSEs, CTAs, CMEs and SRBs (see IO1, Section 1) is not easy because co-operatives appear across all three classifications in the government report. Community sport organisations are either treated as ‘traditional non-profits’ or may be excluded from ‘small business’ surveys altogether. Co-operative businesses included in the small business survey may be classified as ‘social enterprises’ or ‘socially-oriented SMEs’ based on their surplus distribution practices. Furthermore, larger co-operatives (like the John Lewis Partnership, Mid-Counties Co-operative and Co-operative Group), significant mutual societies (like Nationwide Building Society) and larger employee mutuals and business (e.g. Locala, Arup and Care and Share Associates) may be excluded from the survey results.

All of these, potentially, would fall within the definition SEi Ltd recommends for SE development (as well as this project). SEi’s international definition is aligned with the five FairShares Values and Principles discussed at length in IO1. It states that social enterprises:
**Table 3 – Social Enterprise International Definition and Link to FairShares**

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Link to FairShares Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Promote socialised and democratic ownership, governance and management.</td>
<td>Principles 1 and 5</td>
</tr>
<tr>
<td>2. Specify their purpose(s) and evaluate the impact(s) of their trading activities;</td>
<td>Principle 2</td>
</tr>
<tr>
<td>3. Conduct ethical reviews of their product/service choices and production/consumption practices;</td>
<td>Principles 3 and 4</td>
</tr>
</tbody>
</table>

SEi qualifies the above by adding:

Different social enterprises may focus on one or two of these principles, but we expect all ventures that claim to be a social enterprise to be able to state and justify their policies on each of the above. Social enterprises should set their own criteria for measuring success and establish processes for each of the above. In doing so, they will seek the active participation of their primary stakeholders. Further external assessments should be through the democratic involvement of other social enterprises and partner organisations using social auditing and accounting techniques. “Not for Profit” is a misleading criterion. It is good practice for social enterprises to provide incentives to workers and social/community investors by sharing the wealth that is created with them (so long as the distribution of profits or payments to individuals is consistent with an enterprise’s value statement and/or social objectives).

Source: [http://www.socialenterpriseneurope.co.uk/what-is-social-enterprise/](http://www.socialenterpriseneurope.co.uk/what-is-social-enterprise/), accessed 23rd May 2018

In summary, we can say that there are: 152,000 potential social enterprises engaging in low level CTAs without reaching the 50% trading threshold; over 6,800 CMEs; 340,000 social enterprises and socially-oriented small businesses that offer employment though CTAs, CMEs or SRBs, and a further 1,340,000 enterprises pursuing social goals but without offering employment. SEi Director Geof Cox claims that “social enterprise is not an alternative way of doing business whereby business practice is compromised to satisfy social goals - it is simply the best way of doing business and the most successful.”

**Legal Framework**

A detailed study of the way legal structures developed to support social enterprise in the UK has been developed by Michael Bull. He links SE legal forms to three bodies of law (society, charity and company law). He also explores the hybridisation that has occurred to embed principles of one body of law in other bodies through CICs, CIOs, and recent changes to Community Benefit Society law (Bencoms). Figure 3 shows Bull’s ‘triangle’ and way this distinguishes ‘solidarity types’, ‘charitable types’ and ‘social business’ types linked to specific legal forms and bodies of law.

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15 Verbal comments to fellow directors and conference audiences.
Social enterprise has been widely written about and the range of legal frameworks available for social enterprises and the advantages and disadvantages of each have been widely discussed. SEi Director Geof Cox has devised a social structures matrix for social enterprises in the UK based on the three types identified by Bull. It suggests that legal structure acts as a bridge between the ‘organisational model’ and ‘organisational structure’ (Figure 3).

Source: [http://www.geofcox.info/Organisational_Structures_and_Restructuring_Page](http://www.geofcox.info/Organisational_Structures_and_Restructuring_Page)
This process is of interest to FSLs as research by North East Social Enterprise Partnership (NESEP) in 2015 showed that over ⅓ of 1,000 social enterprises interviewed were not happy with their legal structure and its link to their social enterprise model. Many social enterprises are open to the idea of changing their legal status.

The Social Enterprise UK Report 2015 gave a breakdown of legal structures that social enterprises used to register in the previous two years.

<table>
<thead>
<tr>
<th>Legal Structure</th>
<th>2015 (%)</th>
<th>2009 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company Limited by Guarantee</td>
<td>45%</td>
<td>Down from 59% in 2009</td>
</tr>
<tr>
<td>Community Interest Company</td>
<td>20%</td>
<td>Up from 17% in 2009</td>
</tr>
<tr>
<td>Company Limited by Shares</td>
<td>16%</td>
<td>Up from 7% in 2009</td>
</tr>
<tr>
<td>Industrial and Provident Societies (now Co-operative and Community Benefit Society Act)</td>
<td>9%</td>
<td>Down from 37% in 2009</td>
</tr>
<tr>
<td>Sole tradership</td>
<td>6%</td>
<td>Up from 2% in 2013</td>
</tr>
<tr>
<td>Partnership</td>
<td>3%</td>
<td>Up from 2% in 2013</td>
</tr>
<tr>
<td>Limited company</td>
<td>1%</td>
<td>Same in 2013</td>
</tr>
<tr>
<td>Limited Liability Partnership</td>
<td>1%</td>
<td>No previous record</td>
</tr>
<tr>
<td>PLC</td>
<td>.5%</td>
<td>Down from 1% in 2013</td>
</tr>
<tr>
<td>Don’t knows</td>
<td>5%</td>
<td>Down from 11% in 2013</td>
</tr>
</tbody>
</table>

The state of social enterprise survey in 2015 by Social Enterprise UK and commissioned by Santander found the following:16

- Nearly half (49%) of all social enterprises are five years old or less (35% are three years old or less - more than three times the proportion of SME startups). In terms of new business formation in the UK, social enterprise is where the action is.
- The proportion of social enterprises that grew their turnover over the past 12 years is 52%, compared to 40% of SMEs.
- 50% of social enterprises reported a profit, with a further 26% reporting breaking even. Almost all use the majority of their profits to further their social or environmental goals.
- 31% of social enterprises are working in the top 20% most deprived communities in the UK.
- The proportion of social enterprises that export or licence has grown to 14%. For ⅓ of these, international trade accounts for between 11% and 50% of income.
- 73% of social enterprises earn more than 75% of their income from trade.
- 27% of social enterprises have the public sector as their main source of income, an increase on 2013 and 2011. 59% of social enterprises do some business with the public sector.
- The number of social enterprises introducing a new product or service in the last 12 months has increased to 59%. Among SMEs it has fallen to 38%.

• 40% of social enterprises are led by women, 31% have black Asian minority directors, 40% have a director with a disability
• 41% of social enterprises created jobs in the past 12 months compared to 22% of SMEs
• 59% of social enterprises employ at least one person who is disadvantaged in the labour market. For 16% of social enterprises, this group forms at least half of all employees

The average pay ratio between social enterprise CEO pay and lowest paid is 3.6:1. For FTSE 100 CEOs this ratio is 150:1. Finally, the Office of National Statistics confirms the growing trend in the UK economy for private corporations to take up a greater share of business activity. In the UK, 66.8% of enterprises are incorporated, a rise from 57.4% in 2010. Partnerships and sole traders are falling generally from 38.6% in 2010 to only 29.5% in 2015.

It is interesting to note that the trends within the social enterprise field only partly reflects these general trends. The pattern of social enterprises is changing through a move away from guarantee companies (CLGs) towards share companies (CLSs). However, this conclusion is based on an SEUK Survey that is London orientated which may underestimate the contribution of co-operatives and does not include the sharing economy within its scope. Most of the companies in the sharing economy are limited by shares and although they may not necessarily identify directly with the social economy, SEi is finding that many of the companies it is working with (e.g. Studio Pop, LocoSoco, For Good Causes, Under the Doormat) have an interest in FairShares and show a willingness to accept and practice FairShares principles.

The creators of the FSM formed FairShares Association in 2013, and incorporated as a CLG in 2015. Organisations and individuals can become supporters and/or members (see www.fairshares.coop). The association offers information, training materials and model rules to support people seeking to apply the FSM to companies, cooperative societies, partnerships and non-profit (mutual) associations. The Blue Economy has no such association in the UK and so an analysis of how many organisations might be influenced or inspired by Gunter Pauli’s movement is difficult to analyse.

Trends

We identify the following trends in the UK:

• the comparative success of the social enterprise movement and the sharing economy in recent years (relative to SMEs, public bodies and private corporations).
• the perceived weakness of the capitalist economy and model, especially since the 2008 economic crisis (67% of the UK population think that the economy is ‘out of control’)\(^1\)
• Concern at the continued growth of inequality between rich and poor
• Increasing difficulties in the charity sector over fundraising
• A large number of social enterprises interested in changing their structure
• A social economy bucking the general trend whereby business is moving under the control of private corporations
• The founding of FairShares Association Ltd, and growth of interest in its social enterprise model.

\(^1\) See http://reports.uk.coop/economy2017/
Challenges

We identify the following challenges:

- The need to write up more practical examples of FairShares enterprises achieving their economic and social aims (to encourage others)
- The need to resolve issues about financing (both for scaling up and replicating) to achieve greater (social) impact
- The need to be alert to competition from mainstream capitalist organisations
- The need to manage decreasing support from government, regional development bodies and other traditional supporters
- The need to combat increased poverty

Opportunities

We identify the following opportunities:

1. The creation of FSLs will contribute to a political and economic climate whereby change is in vogue and there is “no longer business as usual”. The impact of this change will feed a social economy that is witnessing a revival in its co-operative movement (over 2 million more in membership in the UK in the last two years) and where social enterprises are increasing in number and scale.

2. SEi has identified a growing number of ex-corporate senior managers and executives who appear to be disillusioned with the lack of values in the corporate sector, who are attracted to the FSM as an alternative. In 2017, BBC business news announced that ⅓ of business start leaders were over 55, came from the corporate sector and wanted to set up a business with a strong social commitment. In 2016/2017, four new FairShares projects arose out of this trend and SEI has made contact with a fast growing website offering alternatives to corporate employees called Escape.¹⁸

3. A 2015 survey by NESEP in the North East of England discovered that ⅓ of social enterprises had the “wrong” legal status to match their business model. The identified cause was the lack of experience among those giving advice to businesses and social enterprises. As a result, NESEP carried out training (with SEi and Geof Cox Associates) for accountants and lawyers to equip them with information about the range of legal structures available to social enterprises. This focussed on how to match structures to the client's business model (See Figure 3). We expect there to be a market among advisers for the training offered by FairShares Labs on legal structure changes.

4. SEi have also identified a group of younger, affluent entrepreneurs who are concerned with the environment, the sharing economy and the circular economy. These entrepreneurs do not identify with the social enterprise movement or co-operatives per se and so their actual numbers are hidden from any statistical analysis. However, they do seem to be informally networked and attracted to the FSM because of an empathy with its values and ability to adapt to private sector share models (through Model Rules for a FairShares Company, or

¹⁸ See https://jobs.escapethecity.org/
through applied principles in social auditing). SEi have made contact with individuals and their business to gain access to their informal networks.
Methodology for Creating a FairShares Lab (Full Report)

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