

# **Social Enterprise Practices in Britain and Europe**

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foundation

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# Social Enterprise Agenda

*'Communism forgets that life is individual.  
Capitalism forgets that life is social, and the  
Kingdom of Brotherhood is found neither in the  
thesis of Communism nor the antithesis of  
Capitalism, but in a higher synthesis. It is found  
in a higher synthesis that combines the truths of  
both.'*

Dr. Martin Luther King Jr. (1967)

*Where do we go from here: Chaos or Community?*

# Social Enterprise – British Definition

Definition not precise – common characteristics:

- (i) Enterprise orientation** – directly involved in production of good or services for a market;
- (ii) Social aims** – explicit social and/or environmental aims such as job creation, recycling, training or local service provision;
- (iii) Social ownership** – stakeholder participation and profits reinvested for mission with limited return to investors.

# Types of Social Enterprises

- Community-owned enterprises
- Co-operatives and Mutuals
- Employee-owned businesses
- Housing associations
- Credit unions and community development finance organisations
- Development Trusts and community facilities
- Trading arms of charities
- Social firms (employing disabled and/or long-term unemployed, ex-offenders, etc)

# Size of the Social Enterprise Market – Assessments

- (i) Social Enterprise Unit (2004) – survey found 15,000 firms and 1.2% of UK enterprises. 84% of income from trading.
- (ii) DTI (2006) – expanded definition to include employee-owned businesses and larger market of 55,000 firms and 5% of UK enterprises.

# **Social Enterprise Legal Structures – Diverse Range**

- Companies limited by guarantee
- Industrial and Provident Societies (co-ops and mutuals traditionally)
- Companies limited by shares and PLCs
- Community interest companies (new legal form)
- Unincorporated associations
- Partnerships and sole traders

# Below the Radar Screen

Micro-social enterprises overlooked by  
British Government research:

- (i) Self-help groups
- (ii) Community initiatives
- (iii) Informal social enterprises

Size of this market: 600,000 plus ventures –  
nef research

# Middle Pathway between Charity and Commerce

## Mutuality Bridge

Charity	Social Enterprise	Co-op Enterprise	Small Business
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# Enterprise Hierarchies (UK)

<b>Private Business</b>	<b>Social Enterprise</b>
2450 on the stock exchange (0.07%)	60 building societies
12,000 plus PLCs (0.3%)	2000 housing associations
3.67m small businesses (under 100 jobs)	52,000 small social enterprises
3.5m micro-businesses (under 5 jobs – 94%)	100,000 plus micro-social ventures
2.4 million sole traders (67%)	500,000 self-help groups

# Routes into Social Enterprise

1. Bootstrap community enterprises
2. Public service contractors (care services, health services, job training, etc)
3. Trading arms of charities
4. Employee and community buy-outs
5. Fair Trade and Local Trade Links
6. Community development finance
7. Community Land Trusts and workspace

# Social Enterprise – Barriers to Growth: nef research findings

- (i) Social enterprise and charity – grant dependency syndrome
- (ii) Social financing arts and traditions lost
- (iii) Third sector competition adverse and solidarity weak: little inter-trading or market nous
- (iv) Inappropriate legal structures and lack of knowledge of equity and seed capital
- (v) Management, marketing and skill gaps
- (vi) Social dividend: lack of social impact measures (need for proxy indicators for GVA)

# European Social Economy – Past and Present

First wave: early guild period (1100 to 1350)

Second wave: Pre-modern period of Co-ops and Mutuels (1825 to 1925)

Third wave: Globalisation period (1975 onwards.....)

# Social Change Groupings

- **Social Economy:** mutuals, co-ops and associations
- **Solidarity Economy:** social justice, fairtrade and new trade union movement
- **Ecological Economy:** green decentralists, permaculture, local trade & organic

# **Socially Directed Investment**

## **Social investment: forgotten history**

- Usury laws, Just Price, Islamic banking, Co-op principle on limited return on equity. Credit unions.
- Keynes: defined public investment as social investment
- SRI movement today, micro-credit and community development finance

# Social Enterprise: The 5Ms

## Vital ingredients for success:

- Moral motivation
- Market intelligence (is there a gap in the market and a margin in the gap)
- Management
- Monies (alchemy of revenue, seed capital, equity and debt)
- Mouth (to attract members, sales and social investors)

# **Social Enterprise: Legal Structure is Critical to Growth**

- 1. Company limited by Guarantee (CLG) or Community interest company (CIC):**
  - 90% use these structures
  - Inexpensive and quick to set up
  - Impossible or difficult to raise equity – CIC a failure for securing social investor funds
- 2. Industrial and Provident Society (BenCom or Coop)**
  - 10% use this form
  - More expensive to register
  - Unique system for local ‘solidarity’ investment



# Case Study: Ethical Property Company – a PLC prospectus

1. Established in 1998 to provide good quality workspace for social enterprises
2. EPC provide facilities for social change agent in buildings with high environmental standards
3. Ethical share issue in 1999 as PLC raised £1.4 million with £88K at risk in compliance costs
4. Capital provided equity for five new workspaces from 1200 to 18,000 square feet

# **Industrial & Provident Society (IPS): Original Co-op Law (1852)**

## **Withdrawable Share Capital**

- Simple form of member share capital
- Notice period for withdrawal (set by the prospectus – should be renewed yearly)
- Maximum investment is £20,000 for individual or corporate members
- Unlimited limit on investment of an IPS in other IPS companies
- Enterprise Investment Scheme Tax Relief
- £47 million raised for new social enterprises

# Enterprise Investment Scheme

- Provides income tax relief to individual investors – encourages activity of ‘business angels’ and ‘social business angels’
- Relief available is 20% of shares purchased but shares must be held for at least three years
- Relief only available on share investments of £500 or more. No relief on dividend income.
- Maximum relief for an IPS social enterprise investor is £4000 a year (to be raised to £6000)

# ViRSA – Village Retail Services Association

1. Developed successful **social enterprise rescue model** for village shops, pubs and Post Offices
2. Industrial and Provident Society model
  - Member shares of £5 to £50
  - Interest-free or low interest bonds for community buyout
  - Other finance from community loan funds

# Case Study: The Phone Co-op

1. Established as a worker co-op in 1997 as a company limited by guarantee
2. Converted to an IPS consumer co-op in 1999 and raised £53,000 in withdrawable share capital
3. Equity injection leveraged turnover from £166,000 to over £500,000 in 2000
4. Dividend payments to members of up to 4%

# Support Models – USA and UK

## 1. Nonprofit Financial Fund (USA)

- Comprehensive Capitalisation Programme for social enterprises
- Invested over \$160 million and leverage over \$1 billion

## 2. Charity Bank (UK)

- Diverse portfolio of investment services
- Venturesome – linked risk capital fund

# Social Co-operatives: Italian Partnership Model

1. Social co-operative law in 1991
  - **Type A:** provide health, social or educational services
  - **Type B:** integrates disadvantaged people into the labour market
2. Social co-operatives are democratically controlled by staff, users and volunteers
3. Trading surplus: up to 80% can be shared with members

# Italian Social Co-operatives

- Value Added Tax lower (4% v. 20%)
- Corporation Tax lower
- Type B employees exempt from national insurance contributions (paid by the State)
- Tax relief for investors: both gift-aid providers and 'solidarity bond' lenders



# Social Co-operative Consortia

1. **Secondary co-operative** – over 70 in Italy
2. **Example: SIS in Milan**
  - 60 social co-op members
  - 1200 employees
  - 10,000 plus service users
3. **SIS consortium services**
  - Payroll, accountancy and training support
  - Joint marketing and joint tendering
  - Loan and contract guarantees
  - Rescue and intervention services

# Cigales Network - France

- (i) Innovation to support rural social enterprises to create jobs;
- (ii) Investment Clubs formed with a small number of investors who act as 'social business angels'
- (iii) Investors bring money, management and marketing expertise to the social businesses;
- (iv) Time-limited investment and tax relief

# Self-help and Mutual Aid Matrix For Member Stakeholders

<b>Input from stakeholder members</b>	<b>Output for stakeholder members</b>
Shared Responsibility	Shared Rights
Shared Risk	Shared Rewards

# Mutual Aid Fund - London

1. **Innovation by London Rebuilding Society** – social enterprise finance provider
2. **Mutual Aid Fund** – Solidarity Fund for micro-social enterprises
  - Services include: advice, training, legal guidance and peer support facilitated by LRS
  - Loans borrowed so far by 10 Apex groups – mainly African immigrant associations (1500 members) - £350,000 plus in loans
  - Loans based on a multiple of 4:1 shares in the MAF

# Closed System of Finance

**Jeff Gates (USA):** The irony is that *'Capitalism produces few capitalists'*

Sources of funding for companies yearly:

- (i) External – new equity (2%), rights issues (2%) & debt (21%)
- (ii) Internal – reinvested earnings (8%) and depreciation (67%)

Need for Ownership solutions for local economic revival: 'up-close capitalism' needed – 'targeted equity' and 'micro-equity'

# Mutuals for the Self-employed?

- Common in the nineteenth century in Britain and Canada: Co-ops and Knights of Labour
- Microfinance models: Working Women's Forum and SEWA Bank in India
- New trade unions for the self-employed in Europe (Holland, Sweden, Italy, Germany and France)
- Mondragon 'group self-employment' system

# Group Self-employment - Spain

Mondragon co-operative self-financing system:

- (i) Strong capitalisation for new co-operative businesses provided: one third from family members & personal loans from Caja Laboral Popular (CLP) and two thirds investment from the CLP;
- (ii) Internal capital accounts: retained earnings – 50% equity accounts for members, 40% for reserves and 10% for ‘community benefit’