

Brussels, 25 October 2011

## Social Business Initiative – Frequently Asked Questions

*The European Commission has adopted a Social Business Initiative action plan as part of a package of measures entitled the Responsible Business Initiative (see [IP/11/1238](#)).*

### Why is the European Commission proposing this initiative?

The growth potential of the social business model in the Single Market is not being exploited fully. Social businesses find it difficult to gain access to funding. There is a low degree of recognition for their work and the regulatory environment does not take into account their specific characteristics.

Social businesses' mission is to generate significant social, environmental and or community impacts and thus can contribute to realise the European Union's objectives under its 2020 strategy by:

- Generating sustainable jobs and facilitating social and work integration, improving the quality of social and healthcare etc (thus contributing to inclusive growth)
- Introducing efficient ways to reduce emissions and waste, and to use natural resources and energy more efficiently (thus contributing to sustainable growth)
- Focussing on innovation and the participatory use of the internet (thus contributing to smart growth).

The Commission's objective is to create an ecosystem conducive to developing social businesses and to facilitating their access to funding. The initiative also builds on the Communication on the Innovation Union (see [IP/10/1288](#) and [MEMO/10/473](#)), the Platform against poverty and social exclusion (see [IP/10/1729](#)) and on the recent Commission proposal for establishing a Programme on Social Change and Innovation (see [IP/11/1159](#)).

### What is a social business?

The Commission uses the term 'social business' to cover an enterprise:

- whose primary objective is to achieve social impact rather than generating profit for owners and shareholders;
- which operates in the market through the production of goods and services in an entrepreneurial and innovative way;
- which uses surpluses mainly to achieve these social goals and
- which is managed by social entrepreneurs in an accountable and transparent way, in particular by involving workers, customers and stakeholders affected by its business activity.

The Commission has no comparable statistics for social enterprises that would give a detailed picture on the scale and dynamics of social entrepreneurship activities in the European Union. As a proxy, the Commission often uses data on the social economy, which includes many social businesses, and which employs more than 11 million EU citizens, 6% of the total employment in the EU.

### **What is the added value of doing this at a EU level rather than national level?**

The Single Market model is based on a "highly competitive social market economy". This means an open economy which creates space for pluralism of business models to develop and grow. Public policies should not only address the business environment for businesses driven by profit, but also those driven by a social and societal mission. Public policies at European level can help ensure that there is a real Single Market with a level playing field for all economic actors, including social businesses.

Market imperfections (such as lack of transparency regarding the supply of, and demand for, social investments), an unfavourable business environment creating legal, administrative and financial obstacles, the fragmentation of the Single Market in terms of labelling the social impact of businesses or social and ethical investment funds, and the lack of mutual recognition of these certifications constitute barriers for many social entrepreneurs to scaling up their business across national boundaries and thus benefiting fully from the advantages of the Single Market. For example, current EU public procurement rules do not foresee the possibility of including selection criteria specific to social businesses.

The initiative therefore aims at reviewing and adjusting EU rules on public procurement, state aid and financial market regulation, where needed, thus contributing to providing a level playing field for social businesses.

Dedicating efforts to exploiting expertise and resources across Europe will generate significant value added, e.g. by scaling-up proven businesses and business models across the EU, establishing EU-wide platforms and networks of businesses, investors and providers of business development services.

EU level action represents a cost-effective way to collect in a structured way information on the nature, scale and dynamics of social enterprises and thus provide a basis for an unbiased political dialogue with Member States and stakeholders.

### **Is there a link with some other Commission proposals?**

The initiative has to be seen in the context of the Europe 2020 Strategy, in which the European Union has set itself ambitious targets on employment, innovation, education, social inclusion and climate/energy for the next decade. It contributes to the Union's Flagship Initiatives on innovation, fight against poverty, and job creation. More specifically, it also follows on from the various consultations, studies and initiatives in the social economy sector (since the White Paper of the Commission in 1989 and the draft European statutes of cooperatives, mutual societies and European foundations), corporate social responsibility and corporate governance.

As such, it also puts into perspective ongoing policy reforms in the field of cohesion policy and structural funds, public procurement reform and current and future amendments to state aid rules.

## **What is the initiative about?**

The Social Business Initiative provides a short-term action plan to stimulate the creation, development and growth of social businesses.

The Commission proposes 11 priority measures, split into 3 groups according to their objectives:

### ***Measures to improve the access to funding for social businesses such as:***

1. Developing a European regulatory framework for social investment funds (*December 2011*).
2. Favours the development of microcredit in Europe, in particular its legal and institutional environment (*from 2014*).
3. Setting up a European financial instrument of €90 million to improve social businesses' access to funding (*operational from 2014*).
4. Introducing an investment priority for social enterprises in the regulations ERDF (European Regional Development Fund) and ESF (European Social Fund), as proposed in the regulatory package on the Structural Funds 2014-2020.

### ***Measures to improve the visibility of social businesses that can be achieved by:***

5. Developing a comprehensive map of social enterprises in Europe in order to identify good practices and models which can be reproduced (*from 2012*).
6. Creating a public database of labels and certifications applicable to social businesses in Europe in order to improve visibility and comparison between them (*from 2012*).
7. Promoting mutual learning and capacity building of national and regional administrations for putting in place integrated strategies to support social enterprises, especially via the Structural Funds, by means of analysis, sharing of good practice, awareness raising, networking and dissemination (*from 2012*).
8. Creating a single, multilingual electronic data and exchange platform for social entrepreneurs, incubators and clusters, social investors in order to better advertise and improve access to EU programmes which can support social entrepreneurs (*from 2012*).

### ***Measures to improve the legal environment of social businesses, such as:***

9. Proposing to simplify the regulation on the Statute for a European Co-operative Society; as well as a European Foundation Statute. A study on the situation of mutual societies is also envisaged (*in 2012*).
10. Further enhancing the element of quality in awarding contracts in the context of public procurement reform especially in the case of social and health services. Another key element in here would be to ensure that the working conditions for people involved in the production of goods and services can be taken into account, provided that the Treaty principles of non-discrimination, equal treatment and transparency are fully complied with (*from 2012*).
11. Simplifying the implementation of rules concerning state aid to social and local services that would directly benefit a number of social businesses (*from 2012*).

## How will all this be financed?

The funding for the creation of the financial instrument backing the Initiative, which will provide an easier access to finance for social businesses, will be taken as allocated in the European Union programme for Social Change and Innovation from 6 October 2010 ([COM 2011/609](#)) and will amount to circa €90 million.

In addition, the support of social enterprises under national and regional cohesion policy programmes will be financed from European Social Fund (ESF) and European Regional Development Fund (ERDF) interventions in the Member States and regions.

The majority of the proposed actions do not entail substantial costs for the EU or national budgets.

## Do you have any concrete examples of social businesses?

- In **Italy**, a medical centre provides high-level specialised assistance to people in need (immigrants for example), particularly in areas poorly served by public services.
- In **Romania**, a company with five members of staff and five volunteers has been working since 1996 to provide cultural services in the Romanian language to approximately 90 000 blind people by adapting media (especially audio books and films) to their needs.
- In 2004, in **France**, a business launched an innovative concept of water-free car washing services by using biodegradable products and employing unqualified or marginalised staff in order to reintegrate them in the labour market.
- In **Hungary**, a foundation set up a restaurant employing disabled staff (40 employees) and provided them with training and childcare to ensure the transition to stable employment.
- In **The Netherlands**, a company teaches reading using innovative digital tools and a method based on playing. This method is particularly suitable for hyperactive or autistic children but can also be used for illiterate people and immigrants.
- In **Poland**, a social cooperative comprising two associations employs long-term unemployed and disabled staff. It provides a variety of services: catering and food services, small construction and handicraft jobs and employability training for disadvantaged people.

## Who will benefit and how?

Citizens, social businesses and investors into social businesses (i.e. social or impact investors), will be the main beneficiaries of the measures proposed by the Commission.

These measures are designed to boost social businesses which are social in their means, or in their ends, as they e.g.:

- produce goods or services through social and professional integration of disadvantaged people , and thus creating jobs in social inclusion businesses, or
- provide social services and/or goods and services to the local community, or to vulnerable persons (access to housing, health care, assistance for elderly or disabled persons, dependency management, access to basic banking services, child care, employment and training services, etc.).

## When will the measures take effect?

The Social Business Initiative is the first stage in the realisation of the European measures envisaged in order to develop a framework favourable to social businesses in Europe. On 6 October 2011, the Commission already worked towards this Initiative by proposing the extension of the 'Progress microfinance facility'<sup>1</sup> and the new instrument of investment for social businesses. These instruments are a part of the new European Programme for Social Change and Innovation (2014-2020), which was proposed in the framework of the reform of structural funds and cohesion policy<sup>2</sup> (see [IP/11/1159](#)).

The legislative proposal on social investment funds, which is one of the 12 key actions of the Single Market Act of April 2011 (see [IP/11/469](#)), is due to be adopted by the Commission before the end of 2011. The other initiatives, for the most part, will follow in 2012.

## Will the Social Business Initiative lead to "positive discrimination" in favour of social businesses?

The Lisbon Treaty prohibits discrimination in favour of certain businesses or services. Discrimination based on the legal status of companies or on the type of goods/services produced is thus not possible.

However, Single Market rules can and should take into account that the social market economy promotes an open economy that gives a plurality of business models latitude to develop and grow. This includes in particular those which place greater emphasis on "social capital" and long-term issues. On the contrary, a uniform approach which does not take into account the specific characteristics of social businesses would have a discriminatory effect on them.

The objective is to create a level playing field for all businesses.

## Social enterprise, social economy, social innovation, social responsibility, companies, corporate governance – what is the link?

To avoid confusion, the Communication uses the terms **social enterprise** and **social business** as synonyms, paying tribute to the variety of social business models and conceptions across Europe.

The initiative targets **social businesses**, as defined in the Communication. The key characteristic of social businesses is their primary social, environmental or community purpose, set up under a variety of legal forms, and the entrepreneurial and innovative way in which **social entrepreneurs are striving for making a significant impact on society, economy and the environment**.

Traditionally, the common thread for social enterprises had been ownership and control by the people they serve, and use of the essential surpluses in the interest of their members or in the general interest, but not distributed to investors.

These criteria are common characteristics of cooperatives, mutual societies, foundations, and associations, often termed as social economy enterprises. These therefore may also fall within the definition of a social business, and should therefore be concerned by this initiative, provided the company's purpose focuses on the social impact of the businesses, rather than merely providing a service to its members.

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<sup>1</sup> <http://ec.europa.eu/social/main.jsp?catId=987&langId=en>

<sup>2</sup> <http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=1092&furtherNews=yes>

**Social innovation** is an organised initiative of a variety of actors to tackle societal challenges when the market and public sector do not respond to these challenges in a suitable, sustainable and acceptable manner. It is about developing new forms of organisation and interactions between public, private and third sector actors and contributing to reshaping society in the direction of participation, empowerment and learning.

**Social entrepreneurs** have been pioneers in re-engineering [supply chains](#) and [distribution](#) networks, or developing, promoting and establishing business standards and norms for inclusive and sustainable development. The new financial instrument to improve social businesses' access to funding has been proposed as an action under the EU Programme on Social Change and Innovation.

### What happens next?

On 18 November 2011 there will be a conference on promoting social entrepreneurship in Europe where the following topics will be discussed<sup>3</sup>:

- the experience of banks (often public or semi-public and dedicated partly or fully to funding of social entrepreneurship)<sup>4</sup> with social investments
- the role of methods to measure and present social impact in facilitating access to capital for social enterprises
- promoting the linkages of social entrepreneurship with social innovation initiatives
- ways to recognise the value generated by social enterprises, and the role of the social entrepreneur, from education to consumer behaviour
- examining the possibility of increasing the current *de minimis* threshold for aid and including new aid categories during the review of the General Block Exemption Regulation, which is applicable until 31 December 2013
- developing the sharing of good practice between stakeholders, practitioners and public authorities in Member States and regions in developing comprehensive support strategies.

See [MEMO/11/730](#), [MEMO/11/732](#) and [MEMO/11/734](#)  
[IP/11/1238](#)

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<sup>3</sup> [http://ec.europa.eu/internal\\_market/social\\_business/index\\_en.htm](http://ec.europa.eu/internal_market/social_business/index_en.htm)

<sup>4</sup> Relevant examples include the Caisse des dépôts et consignations (France), the KfW Entwicklungsbank (Germany), the Big Society Bank project (United Kingdom) or the Triodos Bank (Belgium, Netherlands)