

# **IMPROVING SOCIAL INCLUSION AT THE LOCAL LEVEL THROUGH THE SOCIAL ECONOMY:**

## **Designing an Enabling Policy Framework**

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## IMPROVING SOCIAL INCLUSION AT THE LOCAL LEVEL THROUGH THE SOCIAL ECONOMY: DESIGNING AN ENABLING POLICY FRAMEWORK

This report provides policy recommendations that flow from the findings and recommendations of four country studies on ‘Improving social inclusion at the local level through the social economy’, conducted by members of an OECD LEED review team in 2009 and 2010. The countries participating in this study were Korea, three voivodeships in Poland (of Małopolskie, Mazowieckie and Świętokrzyskie), two regions in France, Provence-Alpes-Côte d’Azur (PACA) and Alsace, and Slovenia. Extensive background material was provided by each country, including documentation by ministries responsible for poverty reduction and social inclusion through the development and promotion of social enterprise and the social economy.<sup>1</sup> The studies included site visits hosted by ministries or departments of government engaged in the social economy and/or specifically social enterprise promotion.<sup>2</sup> The reception and availability of information provided a rich environment to conduct these studies. Site visits also included discussions with leading academics whose knowledge was invaluable for the work of the OECD Secretariat.

The report identifies key policy needs that are common to all four countries. It is divided into two parts. Part 1 provides an overview of the issues raised in the four country studies. It situates the policy environment in these countries within a growing trend to re-examine the role of government in many parts of the world, including shifting responsibilities to lower levels of government, placing greater responsibility on civil society and greater reliance on market forces. How these trends are realised in different national contexts varies. Following a general summary of the social economy, its historical roots and the current role it is assuming in many parts of the world, Part 1 provides policy recommendations for the social economy by identifying specific policy measures to enable the social economy to carry out its objectives.

Part 2 evaluates the capacity of the existing policy infrastructure to formulate enabling policy measures for the social economy. New policy tools are most effective if they are designed collaboratively (i) across silos within government (horizontally); (ii) co-ordinated across all levels of government (national, regional and municipal) and, (iii) with the participation of social economy actors (multi-stakeholder policy spaces). There is growing evidence that the *co-construction of public policy* greatly reduces information asymmetry and transactions costs for government and assures coherence between policy measures and outcomes. The four country studies confirm the need for *new approaches to policy formation*.

Proposing a more flexible regulatory environment challenges many norms and practices of public administration; more effective measures to address social exclusion and poverty require *new processes of policy design and adaptation* within government. More than a rearrangement of roles and responsibilities within government, the recommendations by LEED for improved co-ordination within government is necessary to reduce the potential incompatibility between policy measures and objectives.

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## **PART 1: DEVELOPING AND SUPPORTING THE SOCIAL ECONOMY**

### **Overview of issues and challenges raised in the four countries**

1. The OECD LEED Programme was asked by four countries to analyse the measures currently in place to support the development of the social economy - and more specifically social enterprises - and/or to propose measures if they were not yet on the policy agenda. These reviews took place within the framework of a project to analyse the capacity of the social economy to reduce social inequality and contribute to wealth generation and social inclusion. In many parts of the world, the positive impact of the social economy to meet these challenges is increasingly recognised but this is not possible without enabling policy measures tailored to the explicit needs of the social economy.

2. As the four studies reveal, the social economy is recognised for its capacity to create employment, generate economic wealth and contribute to the public interest. Policy measures have been introduced to enable these initiatives. That said, a common tendency in these countries is to limit these measures to target populations and labour market policy. While this is salutary, as social inclusion does require targeted policies, too often this limited approach reduces the potential macro-social impact of the social economy to a sectoral objective and confines its policy formation and implementation within a single ministry or department. A more comprehensive policy framework that includes labour market integration as one of many policy measures required to promote the social economy, was proposed by the review team in each of these countries. This implies a different approach that expands the current and often limited understanding of the social economy, in particular social enterprises, as an innovative organisational model with the capacity to meet complex social objectives, while generating revenue to support its activities. The current cacophony of terms and concepts describe a new hybrid business model that meets triple bottom line or social, economic and environmental objectives.<sup>3</sup> Today, this is also expressed as economic, social and governance objectives to emphasise the need for democratic governance within these new organisations.

3. Because the social economy has demonstrated positive impact in many parts of the world, the context or institutional variability between countries is often ignored, as a one size fits all, mostly top-down approach is adopted. Moreover, unlike the social economy that embeds constituent organisations and enterprises in a development strategy, social enterprise promotion in many countries focuses almost exclusively on individual initiatives represented by this new organisational form. Even where the social economy has deeper roots and its transformational capacity is understood, the arrival of social enterprises on the policy agenda generates confusion. That said, the opposite is also true in some countries where the current interest in social enterprises in many ways increases the capacity for governments to support the social economy.

4. This very short summary of common trends, which are found not only in the four countries studied, introduces some of the complex policy challenges countries are facing today, as the existing menu of policy choices is limited and narrowly defined. This constraint is present internationally as institutional barriers within governments restrict their capacity to design enabling policy tools to resolve social and economic issues. In trying to situate the findings of the four studies in a wider context of challenges facing policy makers today, it is striking to discover the commitment of many governments around the world to

policy innovation without, in many cases, the necessary institutional or political capacity to act. But it is also true that a great deal of policy innovation is occurring under the radar, so to speak, locally, regionally and nationally in many countries. Numerous government documents on policy innovation in several countries acknowledge the necessity to move out of silo approaches to address complex problems and inter-sectoral or horizontal policy sites have been established. In the case of more obvious cross-cutting or intersecting issues such as the environment or land management, for example, policy design is increasingly inter-ministerial or horizontal (Horizons, 2010). Important advances are also occurring in health policy, for example, where the recognition of health inequalities calls for hybrid, horizontal formation. This approach informs the critical work by the World Health Organisation Commission on the Social Determinants of Health.<sup>4</sup>

5. The effectiveness of working across boundaries is increasingly gaining ground among policy makers. Collaboration and institutional innovation are being proposed by policy analysts and practitioners in many countries and within several sub-committees of the European Union. These references do not necessarily speak directly to the social economy, but demonstrate how the social economy must be part of evolving institutional transformation within government and between government and civil society actors and organisations.<sup>5</sup> This is work in progress. As a cross-cutting issue, the social economy is an important case study for advocates of policy innovation; for the social economy, documenting where and how policy innovation is occurring increases its capacity to influence government to co-construct a new policy framework for the social economy. Leveraging other experiences is a strategic tool for policy innovation. The recommendations by the review team to situate its policy recommendations within a larger context that examines the policy environment itself, is an important contribution. The studies reveal that too often policy measures do not achieve their objectives because of co-ordination problems that can be significantly reduced or even eliminated.

6. The literature on governance focuses on processes within government to formulate and execute policy more effectively. It also refers to new arrangements between government and non-government actors in policy formulation. The argument that government must shift from a 'provider state' to acting as a 'strategic enabler' can be interpreted in several ways, with different outcomes (Healey, 2005; OECD LEED team report on France). For example, new public management (NPM) from the 1990's, equated innovation in the public sector with less government rather than with a new and increased capacity to address difficult issues. What the commitment to NPM did in most cases was to highlight the shortfall of a model of public administration that pivots from more to less government intervention, ceding a greater role to the market (Osborne and Gaebler, 1992). This argument is well known, as is the failure of this approach to address increasingly intractable problems of social exclusion and structural poverty. The NPM approach also questioned the institutional architecture of government and the limitations this might pose on effective policy formation and implementation, especially for more complex social problems. In evaluating the capacity of the social economy to contribute to social inclusion in the four countries studied by the OECD, *institutional barriers to effective policy design* recurred as a common theme.

7. Cultural and historical context also determine the current interest in the social economy and social enterprise, the roles they are assumed to play and the policy landscape that will shape their development. For example, an Anglo-American model of social enterprise differs from a more European perspective. This is true not only for the degree and nature of government involvement but also for the narrow or wide definitions ascribed to social enterprise. Countries influenced by a more Anglo-American approach, focus more on social enterprise than on the social economy. In these cases, social enterprises conform to an NPM strategy to reduce the role of government and lay the foundation for a new enterprise form that can meet social objectives with little assistance from government. Within Europe, such an approach does not have the same purchase, even if many governments express similar objectives. This distinction has significant heuristic value as *ideal types* even if the realities of the social economy and social enterprises within different countries are more nuanced (Mendell, 2010). Those countries where

fostering the development of the social economy and social enterprises specifically implies realigning market, government and civil society relations, will differ from those in which the commitment to government withdrawal is the context for the social economy.

8. The application of a NPM process is also path dependent. Transition economies were more open to a market driven strategy; the consequences of adopting this approach are well known. An economic development strategy applied *ex machina* did not produce hoped for results. The institutional infrastructure to develop a market economy was not present in most of these countries. Today, these countries now cope with long-term unemployment, rising income inequality and social exclusion.<sup>6</sup> That said, introducing the social economy and/or social enterprises into policy discussions in these countries is also difficult. The legacy of the past requires a better understanding of the role that the social economy can play in a development model that effectively reintegrates social and economic objectives. This requires more dialogue, knowledge mobilisation and debate.

9. The concern was raised in the country reports that a top-down programme driven strategy is driving the adoption of strategies for the social economy is true in all countries, but even more so in the transition economies. The following abridged passage from the Slovenia background report provided to the review team, demonstrates the necessity for a *process approach* to new policy initiatives that takes into consideration the need to transcend historically rooted perceptions. Even vocabulary cannot be universally applied; the metaphors are not the same. A more extensive *public dialogue and popular education about the social economy and social enterprises* is necessary. This is as true within government as it is for the society at large. Path dependency is not a barrier to change but it will shape how change is implemented.

The main problem Slovenia has been facing (similar to other transitional countries) is confusion in values and attitudes and in the use of terms related to the social economy. At the political level, the social economy is not well understood, and in particular, the specific form of social enterprises, as a new tool for social cohesion. This poor understanding is no doubt the result of years of top-down socio-economic development strategy and the confusion regarding the meaning of 'social ownership' which was always associated with state ownership and is markedly different from what democratic countries understand as a 'social ownership initiative. (Slovenia Background Report provided to the OECD, 2009)

10. The transition countries are themselves differentiated by historical experience. The social economy has more presence in the public discourse in Poland, for example, even if this is work in progress. The review team benefitted from an extensive literature on the social economy in Poland. The University of Economics in Krakow is mobilising knowledge on the social economy through courses and publications. Large conferences on the social economy have been held in Poland bringing together scholars, practitioners and government representatives from different countries. Researchers collaborate with government on the development of a social economy framework and policy tools. That said, the current policy commitment is mired in some of the same confusion noted by our Slovenian colleagues, as the policy landscape shifts in Poland, devolving responsibility for the social economy to the regions and is largely programme driven.

11. The policy regimes in the four countries studied differ significantly, even if all four are embedded in the global economy with market imperatives that have a significant impact on national policy choices. They are also embedded in cultural contexts that play an important role in openness to change and capacity for adaptation. What is similar in all countries is the bounded institutional framework within government itself. This also applies to jurisdictional divisions of power and responsibility between different levels of government. The four countries have strong central governments and while the social economy is the responsibility of regional authorities in France and Poland, for example, the fit between the national and regional governments is not homogeneous. In France, the regions determine their support for the social



economy. In Poland, while this should be the case, given the regional disparities, the application of uniform criteria imposed by external funding by the EU imposes limits on the capacity for regional differentiation. As well, in Poland, there is greater understanding of the social economy and its potential at the national level than in the regions with the responsibility for implementing social economy programmes.

12. The OECD project went beyond the important focus on policy outcomes to examine the policy environment itself – the ministries or departments in which these policy initiatives are located, the boundaries set by ministerial or departmental imperatives that, of course, target outcomes to conform with their specific mandates. This was contrasted with what might be achieved if these boundaries were permeable, permitting wider policy objectives and greater flexibility in designing the means to achieve these. Public policy architecture is not conducive to flows; it is dominated by structures and norms. The social economy requires enabling policy measures that call for *institutional flexibility and collaboration across boundaries* – both horizontal and vertical. And they call for institutionalised collaboration with social economy practitioners, a *process of co-construction* of public policy. Indeed, ministerial or departmental roles must remain, as well as the distribution of responsibilities to different levels of government, from national to local. However, spaces must be created to transform a ‘silo’ approach to public policy into more comprehensive and integrated approaches. The social economy and social enterprises are laboratories for change within government; they are forcing *inter-silo or horizontal dialogue* and *collaboration with actors*.

### **The social economy**

13. The social economy is increasingly recognised for its capacity to resolve the intractable problems of structural poverty and social exclusion. It is also an economic development strategy adopted in many regions and countries concerned with the failure of the dominant paradigm to address social justice, equity and protection of the environment. The social economy is part of a *plural economy* including the private, public and social economy sectors. These exist separately and jointly; they overlap and complement each other. The public sector is also an economic actor as well as a partner that facilitates the activities of private enterprise and the social economy with enabling policy measures.

14. The social economy imposes a broader reflection on social and economic policy given its contribution to sustainable local and regional development, job creation for marginalised and disadvantaged groups excluded from active participation in labour markets and the production of new goods and services in the public interest. It is a model of development committed to *sustainable livelihoods*. Too often, the social economy is reduced to enterprises, organisations or sectors, missing its developmental capacity. By integrating social, economic and environmental objectives, the constituent sectors and enterprises in the social economy face different constraints and opportunities. For the social economy to meet its goals, it requires tools – labour market (training), capital (financial instruments), research (partnerships with researchers), commercialisation strategies (access to markets) and enabling public policy. Locally rooted, the social economy requires both *situated and macro policy measures*. For the social economy to have impact on communities, it must be integrated into a systemic approach. This is a recommendation that applies to all the countries studied. That said, individual sectors in the social economy require customised policy measures as well.

15. The diversity of the social economy, which includes the production of goods and services in numerous sectors of activity, requires policy innovation. This implies a need for greater flexibility in government and an openness to *new processes of policy formation*. The policy universe is complex, including programme funding, fiscal tools, direct financial commitments by government, legislation, procurement provisions, and so on. Most important is the need for a different mindset that understands the overriding benefits to government for actively investing in social economy initiatives. This transforms the

logic of subsidy and spending into an expectation of return. The social or societal return on investment to government is positive. The greatest challenge perhaps is to introduce this logic into policy design.

16. A great deal of literature exists on the social economy in the North and in the South. The OECD has published extensively on the social economy (OECD, 1999, 2003, 2007) and its important constituent role in a productive economy committed to societal well-being. Indeed, it was in 1996, that the OECD publication, *Reconciling the Economy and Society: towards a plural economy*, reinforced the need to ‘re-embed’ the economy in society to achieve positive social and economic outcomes (OECD, 1996). The social economy embodies this approach by developing economic initiatives that respond to needs not met by government nor by the market. Too often viewed from the perspective of ‘market failure’ and more recently as ‘state failure’, this narrow perspective erases the long history of collective enterprises that compete effectively in the market place and provide goods and public services complementary to those offered by the state. Too often viewed as a way to conform to the objectives of NPM, namely a lesser role for government, the social economy is often used instrumentally as a locus to sub-contract or privatise previously provided public services. The new role ascribed to non-profit organisations (NPOs) in the context of social enterprise development, adds to the perception that these organisations have untapped commercial capacity that will permit self-financing of social services.

17. A historical perspective traces the social economy to the emergence of co-operatives and mutual associations in the 19<sup>th</sup> century and associations in the early 20<sup>th</sup> century. Indeed, the expanded economic role for NPOs today is perhaps ‘new’, but in many ways, it conforms with the evolving nature of collectively owned enterprises and their commitment to innovate to better meet societal goals. Much as the co-operative movement established social co-operatives in Italy (1991), solidarity co-operatives in Quebec (1997), the SCICs (*Société coopérative d'intérêt collectif*) (1982) and the CAEs (*Coopératives d'Activités et d'Emploi*) (1997) in France to include stakeholder membership in some cases and/or to broaden the objectives of co-operatives to provide opportunities for labour market integration and the production of services in the public interest today, the emergence of the social enterprises is also a conjunctural response to the need to develop the economic capacity of NPOs, while meeting their social goals. These are organisational innovations that integrate social and economic objectives. This perspective differs from one which imposes commercialisation and revenue generating strategies on NPOs to reduce their reliance on government grants and/or donations.

18. Organisational innovations within co-operatives and associations require *legislation* to regulate their hybrid nature and functions. In the case of NPOs, legislation is also required to *raise investment capital* in financial markets. While legal form is necessary to distinguish these new organisations, it can also limit their capacity if legislation is not integrated into a broader and more systemic policy framework. Rather than evaluate the role of the social economy in responding to complex social and economic problems and challenges and the need for broad based institutional support, new legislation often establishes norms that circumscribe their activities and limit their potential to contribute to economic growth and social well-being. This conclusion applies to many of the policies that have been introduced in the recent period to enable the social economy generally, and social enterprises specifically. Too often, they are narrow, sectoral and de-contextualised or ‘de-spatialised’.

19. The risks of such approaches include:

- negative impact on the organisations themselves if contingent funding restricts their activities and limits their capacity to grow;
- limited impact on poverty reduction and social exclusion that is narrowly defined; and,
- a high risk of policy failure with its associated costs, both real and political.

20. Paradoxically, today's growing support for the social economy and social enterprise in many countries, increases these risks because of insufficient policy innovation to assure that new policy measures will achieve positive outcomes.

### **Policy Recommendations**

21. This section summarises many of the policy recommendations made by the review team in the four country studies. The review team evaluated the effectiveness of policy measures in place, proposed modifications and/or the implementation of additional measures in all four countries. In fact, these recommendations are applicable to other countries as they develop policy measures to enable the social economy to meet its social and economic objectives.

22. In the four countries, the current choice of policy tools is too frequently limited to labour market measures. This is certainly true in Poland and Korea. Even in the PACA region in France, where a more integrated approach to the social economy is applied, current European Union programmes tend to narrow the focus to labour market integration. The European context is important for three of the four countries and will be addressed in more detail below. Legislation does not yet exist in Slovenia, but the concern that the social economy and social enterprise will be limited to labour market objectives was raised by the review team.

23. Legislation is increasingly recognised as necessary to distinguish new social purpose or public benefit enterprises. Laws have been adopted over time in Poland, France and Slovenia to broaden the activities and membership of co-operatives, for example. In Korea, the Social Enterprise Promotion Act, passed in 2007, has established a process of certification for social enterprises. As the following summary will confirm, regulation and specific or targeted policy measures overlap.

24. The social economy requires effective and wide ranging policy if it is to develop. These include finance, labour market strategies, policies to develop market capacity, business training, research and favourable macro policy. A *policy mix* should be embedded in an *integrated approach to policy formation*. Current government support for the social economy in the four countries is generally short-term and targeted; it does not reflect the diversity of needs nor the capacity of different sectors to become self-financing. Moreover, the focus on labour market integration increases the risk that short-term programme funding will not produce the hoped for outcomes. The cost to government of incoherence between policy measures and objectives and homogenising sectoral capacities, is high.

25. Consideration should be given to the diversity of sectors in the social economy and the corresponding variability of financial support this requires. Social economy enterprises produce goods and services in numerous sectors of activity. In some cases, financial support by government is necessary at the early stages of development and can be reduced as enterprises/organisations build scale and market capacity. In other cases, recurrent and long-term financial engagement by government is necessary in those sectors that cannot be expected to be self-financing, but reduce the cost to government through their public benefit activities. These include enterprises/organisations providing employment for the disadvantaged (disabled, long term unemployed, etc.) and essential services (day care and home care, for example). These enterprises and organisations internalise social costs otherwise borne by government. The long-term benefits to individuals and organisations supported will far exceed the immediate costs to government. Government must begin to calculate its social returns on investment to capture the large societal benefits from such engagement.

26. A *temporal approach* to programme funding to correspond with the needs and capacities of the enterprises and organisations receiving support should be adopted. In other words, financial engagement by government through programme funding should focus on the social benefit provided by these enterprises

and how to best assure their sustainability. These are *investments* by government in social and economic transformation.

27. An interesting example of such an investment by government is the early childhood centres in Quebec. The social and economic returns to government are clear. Early childcare centres in the social economy generate many externalities for government, not the least of which is the increased participation of women in the labour force. The creation of social economy day care centres in Korea and in Poland was suggested as a means to address the high level of unemployment among women. This is an excellent illustration of long term, recurrent funding with clear collateral benefit to government.

#### **Box 1. Early Childhood Centres in Quebec**

The concept of Centres de la petite enfance (early childhood centres) was proposed by the Chantier de l'économie sociale, the network of networks that represents the social economy in Quebec, based on an innovative proposal by a network of parent-controlled day care centres. An initial budget of CAD 230 million annually allowed parents to have quality educational day care at CAD 5 per day, offered by parent controlled non-profit day care. This policy has evolved and despite the introduction of support for private for-profit day care by the government in 2004, the vast majority of childcare services (200 000 places in 1 000 non-profit early childhood centres) continues to be offered but at CAD 7 per day to parents across Quebec through the social economy. These centres employ 40 000 people, making this network the third largest employer in Quebec. Over 7 000 parents participate on a volunteer basis on the Boards of Directors of these centres. The Quebec government invests over CAD 1.7 million annually in these early childhood centres covering approximately 85% of costs.

Source: Downing and Neamtan, 2005; Mendell and Neamtan, 2009

#### **Legislation**

28. Numerous laws have been passed in many countries to distinguish social economy enterprise from traditional private and public sector enterprises.<sup>7</sup> The legislative map continues to evolve as more countries adopt new legal forms. From the early passage of the Italian law on social co-operatives (1991), legislation has *institutionalised innovations* in the co-operative movement to incorporate social objectives, to include broader stakeholder membership and participation and to provide an organisational structure for the self-employed (*Coopératives d'activités et d'emploi (CAE)* in France). Today, new legislation distinguishes those non-profit organisations engaged in commercial activities as well as social purpose private enterprises. This not only identifies a new and hybrid business form, but it lifts the current legal barriers that restrict access to investment capital by non-profit organisations. The creation of the Community Interest Company (CIC) in the UK, for example, serves both objectives, establishing a new community company form with the ability to receive investment capital with limits on distribution to reflect the primary social commitment of these entities.<sup>8</sup>

### **Box 2. Community Interest Company Legislation (U.K.)**

The Community Interest Company (CIC) is a new legal form designed for socially responsible enterprises. The Companies (Audit, Investigations and Community Enterprise) Bill was enacted in July 2006. It established a new type of company, the community interest company, for use by social enterprises wishing to operate as companies. The CIC is intended to be used by non-profit-distributing enterprises providing benefit to a community. The CIC is subject to the general framework of company law, and is a new variant of existing forms of company. Many social enterprises incorporate as companies, either as a company limited by guarantee or a company limited by shares. The special characteristics of the CIC make it a particularly suitable vehicle for some types of social enterprise – essentially, those that wish to work for community benefit within the relative freedom of the non-charitable company form, but with a clear assurance of non-profit-distribution status.

Distinguishing features of the CIC are:

- in order to become a CIC, a company has to satisfy a community interest test;
- CiCs cannot have charitable status. However, a charity or any other organisation can establish a CIC subsidiary;
- CICs have asset lock. They cannot distribute profits to members;
- CICs limited by shares can issue dividend-paying 'investor shares' the amount of which is subject to a cap; and,
- when a CIC is wound up, its residual assets are transferred to another suitable organisation with restrictions on the distribution of its profits.

29. In Canada, the work to modify the law governing non-profit organisations is ongoing at the federal level; the provinces of Ontario and Quebec are in the process of amending their laws as well. In the United States, legislation to create the Low-Profit Limited Liability Company (L3C) adopted by numerous state legislatures, distinguishes social purpose enterprises that combine private and non-profit structures, creating opportunities for private foundations to transform donations into investment and attract other classes of investors from individuals to institutional investors (Mendell and Nogales, 2008). As well, B Corporations, a new type of corporation in the U.S., is obliged 'to meet comprehensive and transparent social and environmental performance standards; institutionalise stakeholder interests and build collective voice through the power of a unifying brand' (<http://www.bcorporation.net>). Although this is primarily a certification process, individual states are adopting legislation to institutionalise this new business form.

30. In some cases, these new enterprises meet their social objectives through work integration; in others, they are identified by their overall objectives, rather than by the means to achieve them. In still others, such as Italy, for example, the means and objectives underlie the legal differentiation between type A and type B co-operatives.

### **Box 3. Italian Law on Social Co-operatives 1991**

This Law recognises two different types of social co-operatives depending on whether they provide general social welfare and educational services (type-A social service co-operatives) or undertake other agricultural, manufacturing or commercial activities, with the goal to promote work integration of disadvantaged workers (type-B social co-operatives). These must constitute 30% of their employees. Italian social co-operatives involve various types of stakeholders, including volunteers. As well, type-B co-operatives are subject to a social audit. Social co-operatives in Italy have spearheaded other third sector organisations to develop entrepreneurial activities. Today these co-operatives have expanded into numerous sectors including, education, culture, environment and public utility services.

31. Although social enterprise legislation within Europe varies, the trend has been to create this new legal form to meet specific labour market integration objectives and to provide social services, principally through co-operatives. In some countries, the definition is wider and includes private sector enterprises. This is summarised below.

#### Box 4. Social Enterprise Legislation – European Trends

**1) Adaptation of the co-operative form.** This trend began in Italy in 1991 when the law N° 381 on social co-operatives provided the legislative framework to institutionalise activities which had developed spontaneously in the previous twenty years (Borzaga and lanes, 2006).

A similar legal development was followed in Portugal, Spain, France, and more recently in Poland. In Italy the law on social enterprises(2005) separates social services from work integration. In the other countries activities that can be carried out by social enterprises (co-operatives) vary, ranging from general activities (e.g. Portugal and France: social services and work integration within the same enterprise) up to specific ones, mainly limited to work integration (e.g. Poland).

**2) Adoption of a general social enterprise legal form.** A second trend provides a more general legal framework for social enterprises. In this case, any enterprise can become a social enterprise provided that they comply with a number of criteria. This trend first appeared in Belgium where the 'social purpose company' (Société à finalité sociale) was introduced in 1995. This law can apply to any commercial company, including co-operatives and private limited companies (Defourny, 2001). This trend has been adopted by the UK, Italy, Finland and more recently is being considered by Slovenia.

Source: OECD LEED Slovenia Report, 2010

32. The following table provides examples of legislation within Europe and the United States distinguishing between those social enterprises which provide social services and/or work integration opportunities and those that are social purpose enterprises more broadly.

**Table 1. Selected examples of legislation supporting social purpose business<sup>9</sup>**

Italy	Social co-operative (A & B)	1991
	Social enterprise	2005
Portugal	Solidarity co-operative (B)	1996
Spain	Social initiative co-operatives (A & B)	1999
	Training business (B)	2007
France	Co-operative society of collective interest (SCIC) (A)	1982
	Business and employment co-operatives (CAE)	1996
Lithuania	Social enterprise	2004
Poland	Social co-operatives (B)	2006 (2009)
Finland	Social enterprise (B)	2004
Belgium	Social purpose business	1996
South Korea	Social enterprise (B)	2007
United Kingdom	Community interest company	2005
United States	L3c (low profit limited liability company)	2008
	B-corporation	2010
Québec (Canada)	Training business (B)	1982
	Solidarity co-operatives	1997

Source: A= providing social services; B=work integration. Adapted from Spear 2009.

33. The review team recognises the critical importance of legal form and proposes the adoption of enabling legislation in the four countries to distinguish hybrid social economy organisations and especially to lift current limits on the access to investment capital. That said, *legislation is necessary but insufficient*. The impact of these laws will be considerably reduced without complementary enabling policies that respond to the diverse needs of the social economy and its constituent enterprises and organisations.

### ***Access to capital***

34. Today, the growing field of social finance in many parts of the world is inspiring financial innovation to meet the investment needs of social economy enterprises and to create a new social finance market for investors interested in new social investment opportunities. The literature in social finance describes the many different vehicles currently available. From the micro credit revolution in the 1990's to the growth of ethical savings and lending institutions, to socially responsible investment, the landscape of social finance has changed dramatically in recent years. The OECD has followed this trend in its publications providing a synthesis of new financial tools and instruments available for social economy enterprises (OECD 2003; Noya, 2009).

35. While numerous social financial institutions and investment products have emerged in recent years internationally, access to capital remains a critical need. In countries such as Poland, Korea and Slovenia, a social finance market does not exist. In France, this market is well developed, but largely confined to debt instruments. Throughout many countries, the overwhelming presence of debt finance available to the social economy is generating disequilibrium in this market which requires the development of a diversity of financial tools including debt, equity and quasi-equity instruments to correspond with the life-cycle of social economy enterprises and organisations (start-up, or even pre-start-up in some cases, consolidation and growth). The tendency to introduce short-term micro finance tools in many countries, for example, is necessary but insufficient for the evolving social economy.

36. The policy choices for government are numerous, including new regulations for financial institutions, legislation, credit enhancement (guarantees) and fiscal incentives for potential investors (tax credits). Government can also enter into partnerships with social finance institutions or intermediaries as an investor or partner. This not only contributes to the capitalisation of these institutions but it can leverage private investment, by reducing perceptions of risk. And government can provide base funding to social finance institutions either as start-up support or as ongoing, recurrent funding, given the objectives these institutions are meeting. In the United States, for example, ongoing support to Community Development Financial Institutions (CDFIs) by government provides loan capital for housing and small business development across the United States, meeting the provisions of the Riegle Community Development and Regulatory Improvement Act passed in 1994, to promote economic revitalisation in low income communities. (<http://www.cdfifund.gov>)

37. Today, the need for social finance is met largely by a supply side approach; public policy targets potential investors. While this is critical, it has to be co-ordinated with the demands of social economy enterprises, as they emerge in different socio-economic contexts and at different phases of development. Co-ordinating the demand and supply of social finance can best be realised within intermediaries, thereby increasing the effectiveness of the policy measures adopted. In the Malopolskie region in Poland, for example, the Malopolskie Social Economy Pact, a multi-stakeholder intermediary is proposing the development of a Social Economy Fund. For the time being, it is has been constituted as a foundation. Members include representatives of both commercial and co-operative banking institutions, a network of social economy organisations and government. This fund will provide loans and loan guarantees including much needed bridge loans for projects funded by the EU.

38. In Quebec, the need for patient capital for the social economy was identified by the *Chantier de l'économie sociale*, a network of networks in the social economy that established the *Fiducie du Chantier de l'économie sociale* in 2007. The *Fiducie* (*Chantier de l'économie sociale Trust*), a financial institution providing patient capital, is an intermediary that co-ordinates the supply of and demand for long-term finance. Because the *Fiducie* is integrated into the social economy network in Quebec, it has ready access to the 'demand side' increasing its capacity to identify good investment opportunities as well as develop capacity and investment readiness of social economy enterprises. On the supply side, the *Fiducie* pools investment capital, considerably reducing the risk for individual investors.<sup>10</sup>

39. The role of government was critical to launch this initiative. It is an interesting and useful example of *policy innovation* because it combines grant support by the federal government with an *investment* by the provincial government. The transactions costs of this policy choice by the government of Quebec are minimal and the policy outcomes are high. This approach is complementary to the need for the additional supporting policies noted earlier, such as tax credits, legislation, guarantees, and so on, to attract other investors.

#### **Box 5. La Fiducie du Chantier de l'économie sociale in Quebec**

The *Fiducie* of the *Chantier de l'économie sociale* was established in 2007. For several years, social economy enterprises expressed the need for financial products other than traditional grants and loans, and at the same time, discussed ways to retain long-term capital in their businesses. They required new financial vehicles that would take their social mission into account. As for private and institutional investors, many of them were reticent about engaging in the social economy. This, despite convincing evidence of lower loan loss ratios in social economy enterprises and a survival rate twice that of traditional private businesses. The *Fiducie* is an intermediary between the financial market and social economy enterprises. It collaborates with an impressive network of stakeholders, increasing its capacity to effectively evaluate projects in which it will invest. The *Fiducie's* initial capital came from Economic Development Canada (a grant from the Government of Canada) and a number of investors including two large labour solidarity funds, the *Fédération des Travailleurs du Québec's* *Fonds de solidarité*, and the *Confédération des syndicats nationaux's* *FondAction*, *Fonds de développement de la CSN pour la coopération et l'emploi* and the Québec government, *Investissement Québec* (a loan from the Government of Quebec). With this initial fund of CAD 52.8 million, the *Fiducie* can invest in and support the development of social economy enterprises. By attracting different investors, the *Fiducie* is able to pool risk and reduce the cost of financing for enterprises.

Since it was established in 2007, the *Fiducie* has invested CAD 17.8 million in 56 social economy enterprises in a diversity of sectors and throughout the regions in Quebec. These investments by the *Fiducie* have generated a total of CAD 146 million in investments that have created and/or consolidated more than 1,495 jobs. The leveraging capacity of the *Fiducie* is approximately 1:8, demonstrating the significant impact of its initial investments in social economy enterprises.

40. In the PACA region in France, ESIA (*Economie Solidaire et Insertion Active*) is another important illustration of partnership between all levels of government- local, regional and national and numerous stakeholders in creating several social finance tools.

#### **Box 6. Economie Solidaire et Insertion Active (ESIA)**

ESIA is a member association of France Active (finances the social and solidarity economy), It provides loan capital for the social economy (work insertion and 'solidarity' projects). ESIA is located in several regions throughout France. In the PACA region, the founding members include the national, regional and local governments, France Active ,the *Caisse des Dépôts et Consignations*.. ESIA also has a technical and financial relationship with the commercial banks. By working with clients, ESIA reduces the transactions costs for banks while partnering with them in financing various projects. ESIA also shares the risk with commercial lenders through guarantees. ESIA also provides technical support for start-ups. This an interesting example of a multi-stakeholder partnership between all levels of government, commercial financial institutions and social or solidarity finance.



41. In China, government, NGOs and the commercial banks are working together to create access to credit for poor communities. The Chinese government is funding the development of numerous micro-credit organisations. This is an example of *collaboration in policy design*, regulatory reform to engage the commercial banks in this activity and direct financial participation by government.

#### **Box 7. Microfinance in China**

Over the last decade the government of China has promoted the concept of micro finance. Recent policy changes have enabled the emergence and growth of microfinance in China. At the end of 2007, the China Banking Regulatory Commission (CBRC) lowered the threshold for financial institutions to do business in the rural areas, permitting investments in village and town level banks, loan institutions, and village co-operatives. These new regulatory measures have resulted in the establishment of 500 micro-finance institutions (MFIs) last year with the expectation of an additional 500 MFIs to emerge in the coming year (2009/2010).

According to a February 2008 Xinhua report, Chinese banks have lent over USD 131 billion in microloans to more than 77 million households, nearly 25% of all rural households.

It is now easier for social enterprises or social organisations to access credit for the first time. This also confirms the recognition by the Chinese government of the potential role played by such organisations/enterprises in providing social services.

Source: 6SIX TelePresence Series (2009)/ US-China Today (June, 2009)

42. Today, innovation in social finance includes the creation of social stock exchanges in countries such as Brazil and South Africa, for example, that have inspired the Rockefeller Foundation in the U.S. to explore the development of secondary markets and social stock exchange in other parts of the world. The regulatory challenges will have to be met as social finance continues to grow at a rapid pace. Impact investing has great purchase today, especially in the wake of the 2008 financial crisis increasing the potential pool of investment capital for the social economy. The growing number of socially responsible investors is an important source to tap. To create a social capital market, evaluation, standardisation, metrics constitute the toolkit necessary to co-ordinate this market. These will provide the necessary infrastructure for coherent regulation of this market, which, for the time being remains fragmented.

43. Government has a critical role to play in supporting this rapidly evolving social finance landscape. The policy options are numerous; they are not mutually exclusive. It is increasingly clear, however, that the returns to government are higher if policies are designed collaboratively with social economy practitioners who are best placed to identify market potential and needs.

#### ***Labour force development***

44. Labour market strategies focussing on work integration do not consider the importance of labour force development within the ensemble of enterprises that make up the social economy. Labour force development includes providing capacity building tools for employers and employees in the social economy to create sustainable 'jobs with value'. ([www.csmoesac.qc.ca](http://www.csmoesac.qc.ca)) This requires institutional support by government, best realised in multi-stakeholder intermediaries, including social economy employers, employees, the labour movement and representatives of social economy networks where they exist.

45. In Quebec, the *Comité sectoriel de main-d'oeuvre en économie sociale et action communautaire* (Sectoral Council on Labour Force Development for the Social Economy and Community Action) was established in response to the need expressed by social economy networks for such an intermediary. The government of Quebec provides financial support to this council.

**Box 8. Comité sectoriel de main-d'oeuvre en économie social et action communautaire  
(Sectoral Council on Labour Force Development for the Social Economy and Community Action)  
(CSMO-ESAC), Québec**

In Quebec, a sectoral council on labour force development for the social economy (*Comité sectoriel de main-d'oeuvre en économie sociale et action communautaire*, CSMO-ESAC), was created in 1997. The mission of CSMO-ESAC is to foster and strengthen dialogue and partnership to increase capacity for labour force development and job creation in the social economy and community action. The CSMO-ESAC provides strategic support and training for employees, managers, workers and administrators of social economy enterprises. It also collaborates with government to develop programmes of accreditation for new professions. Examples include early childhood education providers in day care, workers in recycling enterprises and homecare providers. Professionalisation of these new occupations contributes to a better understanding of the many occupational levels and career possibilities in the social economy. The Ministry for Employment and Social Solidarity provides on-going funding for the sectoral council.

46. Governments should adopt a more expanded policy approach to labour issues that distinguishes between labour market exclusion and labour force development within social economy enterprises more generally. This requires policy diversification within sectors to correspond with the different measures required. In Quebec, for example, the Ministry of Employment and Social Solidarity also has programmes to support work integration or training businesses and adapted enterprises for disabled workers. Recurrent programme funding targeting these enterprises is complemented by envelope funding to an intermediary (CSMO-ESAC) best able to address labour force development within the social economy more generally, assuring *policy coherence*.

47. The review team emphasised in all four studies that the tendency to focus on work integration reduces the potential contribution of the social economy to social and economic growth and well-being. As well, the impact of work integration policy in all countries increases with the implementation of complementary policy measures. In Korea, for example, the review team noted that the current approach to promote the development of social enterprise while addressing structural labour market issues through work integration, runs the risk of policy failure on three counts. The first, as stated earlier, is the exclusive identification of social enterprise with labour integration; the second is the requirement imposed on these enterprises to create permanent jobs and the third is the short term wage subsidy provided, with the expectation that these enterprises will become self-financing. The OECD strongly recommends that this policy measure be reviewed so that the expectations of developing market capacity can be supported with complementary policy measures for enterprises employing disadvantaged workers. Moreover, work integration in most countries is transitional employment; these are training businesses. With this in mind, government support for work integration social economy enterprises must be recurrent to support the ongoing training provided to successive workers. In the case of permanent sheltered employment for the disabled, recurrent funding is also necessary to meet the higher costs of producing goods and/or providing services associated with lower productivity.

### ***Access to markets***

48. Policy measures to promote greater access to markets must address several needs: (a) strengthening managerial capacity within social economy enterprises; (b) creating a level playing field for SMEs and social economy enterprises and (c) procurement.

#### ***(a) Strengthening managerial capacity within social economy enterprises***

49. This need has been identified as a priority. Government must invest in management training by offering vocational programmes or by instituting such training programmes in intermediary organisations

at the local level. In Poland, the Malopolskie Pact in the Malopolskie region could, for example, offers such training with government support. In Korea, there are foundations that could provide this training with adequate support from government. This would complement the support currently provided to social enterprises in Korea and contribute to their sustainability.

#### **Box 9. Foundations in Korea**

Foundations such as the Work Together Foundation or the Korean Foundation for Social Investment, have been specifically engaged in the creation of jobs and enterprises launched by and/or for the underprivileged focusing on poverty alleviation and the social inclusion of underprivileged groups. Other prominent actors include the Women Fund established in 2000 to support the development of women's potential, to assist low-income women and contribute to the financial stability of fragile women's organisations and the Beautiful Foundation, created in 2001, on the model of the community foundation in the U.S., to financially support civil organisations such as social enterprises

50. There are still other ways such a need can be addressed. In Brazil, for example, many universities across the country have established incubators to train managers in social economy enterprises. Universities must receive the support necessary to create new and innovative programmes to work directly with social economy networks to develop managerial capacity as well as introduce new programmes in management faculties with specialisation in social economy enterprises. This is occurring in some universities in the US, the UK and Canada (Mendell, 2010).

#### *(b) Creating a level playing field for SMEs and social economy enterprises*

51. Enabling policy measures for small and medium size enterprises must be made available for social economy enterprises. This needs little elaboration today when it is increasingly clear that social economy enterprises are engaged in market activity and should have access to all programmes designated to small and medium size business, whatever their juridical status.

#### *(c) Procurement*

52. Government is a major purchaser of goods and services in all countries. Normally, these purchases are made on the basis of least cost. However, low cost purchasing does not necessarily correspond with the overall well-being of communities. This is increasingly recognised in public policy debates on procurement to increase access to markets for social economy enterprises that cannot compete with private sector providers by offering more competitive prices. One means to reduce the high social costs of poverty and social exclusion to government is to create markets for social economy enterprises that employ the disabled, provide training opportunities for those excluded from the labour market, help promote the development of new sectors in the social economy such as the environment, social tourism, culture and others that work in the public interest. The productivity of some of these enterprises may be lower, as in the case of those employing the disabled or in training businesses. Higher costs, therefore, correspond with higher prices, in some cases. This should be acknowledged in response to accusations of unfair competition by the private sector.

53. Prudent governance of public resources does not mean that purchases must be primarily driven by price. This is an important example of how a new approach to welfare provision, for example, engages government differently, in a quasi-market relationship. This must, of course, be combined with other forms of ongoing public support for the general interest services provided by these enterprises. A hybrid or integrated approach that combines programme funding and a market relation, will ultimately be cost effective for government. A social assistance approach is more costly to society and to government. In

some sectors of the social economy, support can be provided to create consortia to generate economies of scale and permit more competitive pricing. This is an example of the how procurement can generate innovation within the social economy. Public procurement represents approximately 16% of GDP within the EU.

### *Working across boundaries*

54. Government should work across boundaries and adopt a more organic or systemic approach to increase the capacity of the social economy to contribute more effectively to social inclusion at the local level. In some countries, the policy infrastructure exists to bring several policy domains together. In Poland, the Inter-Ministerial Team for Systematic Solutions for the Social Economy, created by the Office of the Prime Minister, is a horizontal policy space at the national level. In Quebec, the Ministry for Municipal and Regional Affairs and Territory (MAMROT) co-ordinates inter-ministerial policy on the social economy. In Spain, the Directorate-General for the Promotion of the Social Economy and the European Social Fund, co-ordinates the government departments that promote the social economy. Other horizontal national policy spaces include:

- Ireland: Social Economy Unit;
- France: *Direction générale de la cohésion sociale* (includes numerous departments/ministries including the former DIIESES - *Délégué interministériel à l'innovation, à l'expérimentation sociale et à l'économie sociale*);
- Belgium: *Secrétariat d'état au développement durable et à l'économie sociale*;
- UK: the former Office of the Third Sector has been replaced by the Office for Civil Society.

55. Brazil is a very interesting example of policy innovation that applies a systemic approach to the development of the social economy. The Lula government established a National Secretariat for the Solidarity Economy that collaborates with the Brazilian Forum of the Solidarity Economy (FBES) in the *co-construction of public policy*. The Secretariat has organised eight working groups since 2002, focussing on the development of enabling tools for the solidarity economy including, communication, mapping, legal frameworks, public policy, production, marketing and consumption, international relations, solidarity finance and labour market training.

56. Brazil and Quebec have a formal partnership or 'community of practice' sharing experiences, knowledge and expertise to meet their common objectives to develop the capacity of social economy initiatives. A coherent policy agenda in both countries is facilitated by:

- Representative organisations or intermediaries (the FBES and the *Chantier de l'économie sociale*)
  - inter-sectoral
  - national, regional and local representation
- Co-ordinated governance
  - horizontal policy spaces
  - recombinant *linkages* – national, regional, local<sup>11</sup>
- Co-construction of public policy
  - institutionalised collaboration

57. In other countries, embedding the social economy into its policy architecture takes another form. The new constitution adopted in Ecuador in 2008 recognises the solidarity economy as constituent in and vital to a plural economy. In Mexico, a bill to pass a general law on the social solidarity economy has been tabled (Tremblay, 2010) In Spain, the Prime Minister has also announced a new Law on the Social Economy to be adopted by the end of 2010. Numerous measures including fiscal policy, procurement, innovative tools to respond to the need for capital, more diversified labour market policy including the accreditation of new professions are among the many policy tools that are found in different countries. The policy landscape is changing to meet new needs of the social economy and social enterprises. International organisations are taking a greater interest as well. While the OECD has pioneered this interest, the UNDP and most recently, the ILO are recognising the capacity of the social economy to meet the challenges of social and economic inclusion, decent jobs and new approaches to sustainable wealth generation. For example, in the third quarter of 2009, the ILO brought together 207 social economy actors from Africa, government representatives from 25 African countries, employers' and workers' organisations, social economy organisations from other parts of the world, and ILO representatives. This large multi-stakeholder gathering adopted a plan of action to mobilise the capacity of the social economy in Africa to respond to the crisis, at local, national and regional levels (Plan of Action for the Promotion of Social Economy Enterprises and Organisations in Africa, October 2009).

## PART 2: FROM EXISTING POLICY INFRASTRUCTURE TO NEW FORMATIONS

### Developing a policy framework for the social economy

58. Part 2 shifts from focussing on policy recommendations for specific measures to enable the social economy to consider the important question of *process*. These must not be separated to avoid problems of policy incoherence. How are policies for the social economy designed? Where? By whom? What processes are most effective in formulating policies that assure good outcomes? What are the barriers to effective policy formation? These questions are very important for policy makers working on new programmes and strategies to promote the development of the social economy. This is true for all countries. The country studies by the review team emphasised the need for better *co-ordination* between different divisions of government and between different jurisdictions as well as *collaboration* with non-government actors and organisations.<sup>12</sup> In this section, some of the strategies that are meeting this need in different contexts are introduced. As noted earlier, the policy approaches discussed are not exhaustive but are representative of a growing trend towards *policy co-ordination*. *Collaboration* is often a pre-condition for improved *co-ordination* within government. This is true for successful policy formation for the social economy in many countries where networks of social economy actors collaborate with government. For government, *collaboration* or institutionalised dialogue with practitioner networks reduces transactions costs and increases capacity to achieve identified goals.

### Horizontality and Place-Based Policy

59. The country studies confirmed the need for

- ‘situated’ or place-based policy;
- horizontality across government departments;
- vertical co-ordination between different levels of government; and,
- the involvement of social economy actors in designing new policy.

60. Existing policies to support the development of the social economy are insufficient or too narrowly focused. To increase policy effectiveness, it must be designed in hybrid and discursive institutional settings with the capacity to propose and develop diverse and complementary measures. Where such environments exist, the potential for policy innovation and positive policy outcomes is high, in contrast to the silo approach adopted in Korea, for example, where the Ministry of Labour has the exclusive mandate for social enterprise policy.<sup>13</sup> In Poland and Slovenia, the basis for a discursive hybrid policy environment exists at the national level but less so at the regional level, greatly reducing the capacity of regional and local governments to apply integrated place-based or situated approaches to the social economy.<sup>14</sup> An important exception to this in Poland is the Malopolskie Pact in the Malopolskie region referred to earlier, a multi-stakeholder intermediary to address the challenges that the social economy is expected to meet. But this intermediary remains embryonic and has little financial capacity to

carry out its activities. Still, it is an important initiative that recognises the need for new policy sites to debate complex issues and design new enabling policy measures.

***The Complexity of the European Union: An un-coordinated commitment to the social economy - are broad policy directives sufficient for social economy policy development?***

61. The policy landscape in Europe is, of course, more complicated because of the many layers of government and governance, including the EU with its numerous programmes and conditionalities. Without revisiting this policy puzzle that is explored in the European country profiles, it is important to raise some of the seeming contradictions between a strong commitment to integrated policy design within the EU and an inflexible approach that this support sometimes assumes within member countries. Moreover, at the supra-national level, many policy sites within the EU itself that address issues closely related to the social economy, such as territorial and/or cohesion policy, to name but two, make no direct reference to the social economy. This is equally true for strategic documents such as the recently released *Europe 2020* and its commitment to ‘smart, sustainable and inclusive growth’, the subtitle of this document (European Commission, 2010).

62. The seven ‘flagship initiatives’ prioritised in this important strategic document can be applied to the social economy. These are: innovation; integration of youth into the labour market; better access to ICT (a digital Europe); a horizontal industrial policy for SMEs, including procurement policy; labour market policy; and the creation of a ‘European platform against poverty to ensure social and territorial cohesion such that the benefits of growth and jobs are widely shared and people experiencing poverty and social exclusion are enabled to live in dignity and take an active part in society’ (European Commission, 2010). There is no explicit reference to the social economy. That said, the call for a ‘co-ordinated European response’ that includes ‘social partners and civil society’ is an important opening to work with the social economy, as is the recognition that the objectives of this long-term strategy will be met best by territorial and social partnerships. But it falls upon social economy organisations and networks to create and occupy policy space within these broad commitments. The same holds true for the welcome proposal for partnerships between different levels of government within member countries.

National, regional and local authorities should implement the partnership, closely associating parliaments, as well as social partners and representatives of civil society, contributing to the elaboration of national reform programmes as well as to its implementation. By establishing a permanent dialogue between various levels of government, the priorities of the Union are brought closer to citizens, strengthening the ownership needed to deliver the Europe 2020 strategy. (European Commission, 2010)

63. While *Europe 2020* endorses *territorially situated and inclusive policy formation*, it is surprising that the 2009 resolution by the European Parliament on the social economy which recognises the vital role that the social economy can play in achieving the priorities of Europe 2020, did not merit reference in this strategic document. And while *Europe 2020* also calls for better co-ordination between the European Economic and Social Committee (EESC) and the Committee of Regions, the commitment to provide more horizontal support for SMEs in *Europe 2020*, makes no reference to the EESC’s opinion paper on ‘diverse forms of enterprise’ submitted in October 2009. The EESC paper highlights the policy needs of co-operatives, mutuals and associations and invites them to participate in a ‘social dialogue’. Most poignant is the EESC proposal that the European Council, the Commission and Member States consider the recommendation by the European Parliament that the social economy and social enterprises compete on a level playing field ([www.socialeconomy.eu.org/spip.php?article1170](http://www.socialeconomy.eu.org/spip.php?article1170), March 2, 2010).<sup>15</sup> The absence of explicit reference to ‘diverse forms of enterprise’ in *Europe 2020* that privileges horizontal measures for SMEs, is a serious omission.

64. Prior to the release of *Europe 2020* and for the 2009 European Parliament elections, Social Economy Europe, the network of co-operatives, associations, mutual societies and foundations as well as new social purpose enterprises, urged the European Parliament to act on its 2009 resolution.

65. 'Social Economy Europe calls upon the European Parliament to:

- implement the recommendations of the European Parliament's own initiative report on social economy, adopted with a large majority on 19 February 2009 (P6\_TA(2009)0062);
- guarantee the renewal of the social economy intergroup in the new legislative term;
- ensure a secure legal framework for social economy through the adoption of three new European statutes: for foundations (a feasibility study was recently published and a public consultation launched by the European commission), for mutual societies (7 parliamentary reports call on reopening work on this issue) and for associations;
- recognise the specific model of entrepreneurship of social economy enterprises when applying competition rules as most of them are, like any enterprise, subject to European regulations; (emphasis M. Mendell)
- integrate social economy enterprises in all measures supporting entrepreneurial development and the co-operation between different economic actors such as public-private partnerships;
- foster, in all relevant EU programmes and initiatives, the establishment of sustainable institutional partnerships between social economy enterprises and local, regional and national authorities that would entail joint planning, the co-ordination of development strategies and policies and the creation of new models of good governance;
- promote the use of new economic and social indicators in order to reveal the impact of social economy enterprises on economic, social and environmental cohesion.'

(<http://www.socialeconomy.eu.org/spip.php?article904> (7 August, 2009))

66. Social Economy Europe is consulted on numerous position papers produced by EU institutions. In the spring of 2010, it responded enthusiastically to the strategy proposed in *Europe 2020* and strongly urged that social economy enterprises be considered as important stakeholders to be included in its implementation ([www.socialeconomy.eu.org](http://www.socialeconomy.eu.org)). Does this suggest that the broad framework should be considered an open invitation to propose more targeted policy for the social economy? So it appears, if Social Economy Europe received this document positively. Somehow the specific recommendations for SMEs, however, makes it difficult to see this important document as only a framework document with numerous openings for civil society and, therefore, for the social economy.

67. While many countries adopt legal forms to identify and distinguish a new social business model, the concern is that the current objectives ascribed to the social economy in countries implementing EU project and programme driven strategies, will continue to limit their greater capacity. The OECD studies demonstrate the constraints this poses on the development of the social economy and social enterprises, and the incompatibility between many EU programmes and the broader objectives of the social economy. This is very clear in the Polish study by the review team in which this incompatibility has created a 'grey zone' for social purpose businesses that are not eligible for current EU funding, for example. Nor are they eligible for national NGO programme funding because of their commercial activities. This is a stark example of policy incoherence.



68. The social economy receives funding in EU member countries through European Structural Funds, in particular, the European Social Fund. While the terms appear to be quite flexible, the implementation of ESF programmes is often the opposite, as the review team witnessed in Poland where the current ESF Programme, imposes rigid criteria and implementation norms. Likewise, in France, where current EU funding for services in the general interest imposes strict norms, the impact on social enterprises and the social economy is often negative, as objectives of these organisations are modified to comply with programme criteria. Moreover, social economy initiatives providing these critical services find themselves competing for limited funding, a perverse process that creates winners and losers, rather than provide much needed support for organisations providing these services and contributing to social and economic wealth in regions across the country.

69. It is difficult to reconcile this with reports and position papers produced by EU institutions calling for more *'place-based' policy* to adequately reflect the diversity of territories (local and regional) and for policy flexibility. Since the launch of the *Europe 2020* strategy in June of this year, the Committee of the Regions, for example, has called on European institutions and member states to increase the involvement of local and regional authorities in shaping the structural reforms necessary for this strategy. The Congress of Local and Regional Authorities of the Council of Europe likewise calls for co-ordination between local, regional and national governments by involving local authorities as 'partners for innovation'. This includes implementing 'joint economic management' by developing inter-municipal co-operation with important implications for investment opportunities by government into innovative local initiatives ([http://www.coe.int/t/congress/default\\_en.asp](http://www.coe.int/t/congress/default_en.asp)).

70. An evaluation of the effectiveness of cohesion policy within the EU, indirectly addresses the reduced capacity of the social economy to meet the objectives of socio-economic regeneration and transformation of low income communities, in the absence of policy co-ordination within government (greater horizontality) and between levels of government (vertical co-ordination) (Jouen, 2009). While not focusing on the social economy specifically, it calls for a *'place-based development policy paradigm'* in contrast to homogeneous sectoral policy measures applied uniformly to all regions and the need to realign EU policy architecture with more situated policy to meet local needs. These discussions at the level of the EU apply to this OECD study and can be applied to other countries, as well, that are not EU members.

71. While the EU is a supra-national body, this misalignment occurs in national contexts as well, as has been pointed out in the four country studies that include three EU member states and Korea. First, in the context of the EU, these discussions raise the issue of policy incoherence head on and the need for a regulatory environment that is compatible with *situated policy* to reflect the diversity of member states and their regions and localities. This certainly applies to the design of enabling policy environments for the social economy. For example, Korea's regional and local diversity is not adequately considered in the current limited focus on social enterprises as a labour market integration tool by the national government. Sectoral tools need to be integrated into an *endogenous development strategy* that reflects regional specificities, including assets and needs.

72. The review team raised the need to situate the social economy and the development of social enterprise in a territorial or 'spatial' policy agenda in all four country studies. They also emphasised the need for the *'co-construction of public policy'* by social economy actors and local, regional and national government in the development of policy instruments. To this end, the review team recommends the development of *multi-stakeholder intermediaries* such as the Malopolskie Pact in Poland, the CRESS in the PACA region in France and the *Chantier de l'économie sociale* and its regional nodes throughout the province of Quebec, each of which represent important institutional innovations that are place-based 'participatory' templates for the *co-construction of public policy*.<sup>16</sup>

### **Box 10. CRESS- PACA Region, France**

The overall mission of the CRESS is to represent the social and solidarity economy (SSE) in the region through:

- Promotion and dissemination of the objectives of the SSE;
- Advocacy on behalf of its members; provide information and co-ordinate activities among members
- Contribution to the development of projects, experience, services, social cohesion and solidarity;
- Support for the development of policies to meet the needs of SSE – territorial, partnership based and participatory;
- Helping companies and organisations of the SSE to develop strategic projects;
- Accompanying the emergence of all initiatives by actors and networks in the SSE.

The CRESS-PACA is a member of the National Committee of Regional Chambers of the Social Economy (CNCRES). It is authorised to sign agreements with local, regional and national governments and with the European Union as well as with socio-professional organisations, unions, educational institutions or any other structure, particularly those in the social and solidarity economy.

The strategic objectives of CRESS PACA are integrated into the development of the social and solidarity economy nationally. The CRESS PACA presses for recognition of the (i) contribution of all CRESS throughout France to the general interest and (ii) their public service mission within the framework of a sustainable regulatory environment.

Source: <http://www.cresspaca.org/>

### **Box 11. Chantier de l'économie sociale (Québec)**

In March 1996, a working group on the social economy was created in the context of a Summit on the Economy and Employment, convened by the Government of Québec. This group had six months to evaluate the potential of the social economy to contribute to sustainable employment and economic revitalisation. The innovative and dynamic capacity of the social economy, identified by this working group, led to the création of the Chantier, with a two year mandate to develop a strategic plan for the social economy, identifying those sectors that could contribute to job creation, economic growth and social well-being. In 1999, the Chantier became a non-profit organisation to pursue its development of the social economy independently.

The Chantier de l'économie sociale is a network of networks of collective enterprises (co-operative and non-profit), local and régional development institutions/agencies and social movements. It is an example of distributed governance and social innovation. As an intermediary that negotiates with government on behalf of numerous organisations in a diversity of sectors of activity, the Chantier participates in the co-construction of public policy with government to enable the development of the social economy in Quebec.. At the root of this structure is a deep commitment to democracy. While the Chantier certainly plays a powerful representative and political role, it is rooted in civil society, in movements and most important, in regions throughout Quebec. The establishment of 'regional poles' was a priority for the Chantier both to reinforce its commitment to distributed democratic governance by encouraging the establishment of regional 'chantiers' by local actors, and also to design tools to accommodate regional specificities.

The Chantier has had an important impact on public policy over the last decade that addresses the sectoral, territorial, generic and targeted needs of the social economy. This is the outcome of an ongoing conversation, a policy dialogue, between government and social economy actors.

Source: <http://www.chantier.qc.ca/>

73. The review team acknowledges the difficulty of implementing such an approach where formal and/or informal institutions are resistant to such changes (path dependency). Still, where national support for and understanding of the role of the social economy exists, more effort must be made to encourage dialogue with the regions. Such an intervention can only succeed with increased local involvement to avoid a simple bureaucratic and linear decentralisation and transfer of functions and roles to lower levels of government.

74. How to resolve a ‘perpetual tension between subsidiarity (more autonomy to lower-level authorities) and conditionality (obliging lower-level authorities to comply with a regulatory framework to ensure coherence)’ in the broader context of European cohesion policy, summarises the challenge within individual countries as well. Implementing a ‘strategic spatial-development framework’ implies more autonomy for territorial (regional and local) policy formation and better co-ordination between different levels of government’ (Jouen, 2009). A similar conclusion was drawn by the review team for Poland and Slovenia, for example, where such an approach is needed. In France, the link upwards to the national government is weak and despite regional strategies for the social economy, EU programmes (services in the general interest, in particular) create potential tension between ‘subsidiarity’ and ‘conditionality’, compromising the coherence of regional social economy development strategy.

75. Within the EU, broad and wide ranging proposals with potential impact for the development of the social economy need to be debated and discussed within member states and regions. They need to be captured by social economy practitioners, organisations and those currently responsible for carrying out policy measures. Since the many documents produced by EU institutions are, by and large, recommendations for action, their relevance to the social economy must be reinforced. These proposals for policy innovation are essential for the development of the social economy and should be part of an expanded dialogue at EU, national, regional and local levels.

76. The proposal for ‘multi-level governance’ in several EU documents, suggests a radical transformation in policy formation, from a silo, functional approach to a flexible and participatory strategy that includes social actors. Indeed, standards, overarching objectives and regulation remain the responsibility of higher levels of government, but design and implementation of socio-economic development strategies will vary according to the needs and capacities of regions and localities.

### ***Place-Based Innovative Policy Spaces***

77. Place based approaches are on the political agenda in many OECD countries. In the U.S., the White House issued a memorandum in August 2009 referring to a place based approach as a ‘proactive strategy to promote more economic and environmental sustainability’ emphasising that ‘change comes from the community level and often through partnership’ and that ‘complex problems require flexible, integrated solutions’ (White House, 2009). *Horizons*, a periodical published by Policy Research Initiatives that provides research support to the federal government’s Deputy Ministers’ policy committees in Canada, recently devoted an entire issue to ‘sustainable places’ to reinforce the ‘place-specific’ nature of many issues, shifting the role of government from ‘director to convener, establishing collaborative relationships among a variety of actors to address common challenges’ (Cook, 2010). ‘Spatial market failure’ captures the impact on communities that are unable to generate economic wealth and lack public goods and a social infrastructure. It is increasingly clear, however, that a misalignment of policy contributes to this outcome.

78. Over a period of 27 months, an External Advisory Committee established by the Cities Secretariat of the Privy Council Office in Canada, travelled across the country to meet with local stakeholders. Among the recommendations made by this Committee is the need for all governments to collaborate in development of integrated and sustainable strategies by providing capacity-building measures for community leaders and sharing best practices among diverse communities, and that ‘all

*orders of government should harmonise their policies and programmes to support community efforts to pursue their long-term visions for their own future'. (emphasis, M. Mendell) (External Advisory Committee on Cities and Communities, 2009)*

79. Many of the more successful initiatives in the social economy, for example, are part of an integrated territorial socio-economic development strategy that includes new governance arrangements at the local and regional levels. In France, the Vercamer Report on the social economy in April 2010, proposed more place-based policy to enable the social economy, acknowledging both its capacity to respond to local needs and the territorial specificity and diversity of the social economy. Two interesting examples demonstrate the significance of place-based strategies for the social economy. The Andalusian Pact in Spain includes scalar (local and regional), horizontal (inter-ministerial collaboration) and multi-stakeholder collaboration. The other, the City of Montreal, is an important illustration of municipal commitment to the social economy involving the collaboration of numerous social economy organisations, representatives of the municipal government and researchers. These are two examples of innovative and collaborative place-based social economy strategies.

#### **Box 12. Andalusian Pact**

The Andalusian Pact, first signed in 2002 by the regional government and social economy organisations, is an example of regional or place-based strategy promoting the SSE. The second Andalusian Pact, signed in 2006, is considered a landmark document because of the involvement of several ministries, the trade unions and the confederation of social economy enterprises. This is an interesting and extremely useful example of:

- inter-ministerial or 'horizontal' collaboration between several ministries
- multi-stakeholder participation including the labour movement, social economy organisations, the financial sector, universities
- a place-based multi-scalar approach including local and regional development organisations.

Source: Noya and Clarence (2007); CEPES, 2007.

#### **Box 13. The City of Montreal: A Social Economy Partnership for Sustainable Community Development**

The City of Montreal recently signed a new partnership agreement with social economy actors that include sectoral organisations, community economic development corporations, municipal government representatives and academic researchers. (City of Montreal, 2008) It has also created a special division within the Department of Economic Development designated for the social economy. This partnership recognises the social and economic capacity of the social economy. The following excerpt from this new partnership agreement demonstrates the city's acknowledgement of the contribution of the social economy to wealth creation, service provision and social inclusion.

Collective enterprises with co-operative, mutualist or non-profit status have contributed to the city's development by meeting residents' needs in a variety of ways. These organisations contribute to wealth creation and create job opportunities among educated workers as well as among those excluded from the labour market. They also help to improve Montreal's quality of life by providing accessible local-level services in areas such as recreation, culture, childcare, seniors' assistance, healthcare, social services, waste management and food/culinary services. Community organisations have made significant contributions to the revitalisation of troubled neighbourhoods from a sustainable development perspective. They have also provided thousands of Montrealers with access to affordable housing through the creation of co-operatives and non-profit housing associations.

Source: A Social Economy Partnership for Community Based Sustainable Development, City of Montreal, 2009.

## Coherence in Policy Design

80. Learning to collaborate is at the heart of place-based strategies, an approach that is not easily adopted in all environments, particularly in ‘governance cultures [with] deeply embedded institutional constraints against collaboration...which limits local collaborative potential, or...functional departments, which impedes spatial co-ordination’ (Healey, 2005).

81. How to ‘bring in space’ and work collaboratively on long term goals is a challenge not easily met, according to theorists of collaborative planning (Healey, 2005; Sullivan and Skelcher, 2002). The absence of clear and defined links with municipalities was a shortfall of the policy initiatives to support the social economy in Poland, Korea and Slovenia. In France, the two regions have different experiences: municipalities, departments and regions have close ties in the region of PACA. This is less so in Alsace where such coherence does not exist and policy support for the social economy, while regional, is thin. The link to a coherent national strategy is absent in both cases.

82. Policy innovations require both horizontal and vertical co-ordination and hybrid multi-stakeholder intermediary spaces that include non-government actors. Poverty, social exclusion, disadvantage arising from numerous causes including health, call for radical reforms in public administration. Joined up government (UK), horizontal management (Canada), whole of government (Australia) are some of the terms used to describe working across boundaries in many countries (Connecting Government, Australia 2004). The challenge for governments includes issues of accountability (where does responsibility lie in these hybrid arrangements?) and delivery of public services (increased use of quasi-markets, for example).<sup>17</sup>

83. The final report of a Task force on the Co-ordination of Federal Activities Across Canada, submitted in 2002, emphasised the overwhelming benefits of working across boundaries in designing enabling policy. This is one of many consultative processes in Canada over the last decade that have addressed the need for a different approach to modernising government and the need for institutional innovation in contrast to government disengagement, more frequently associated with this argument. Within Canada as well, an informal community of practice of federal officials interested in collaborative action to increase their knowledge of the capacity of ‘place-based’ approaches to contribute to well-being at the community level and how the federal government might engage with this process, established the Federal Family on Community Collaboration.<sup>18</sup> This is an interesting example of intersections across government confirming that situated policy requires horizontal strategies.

84. Situated policy objectives and goals must be harmonised both horizontally and vertically with government – across sectors and jurisdictions. This has been addressed in the previous section; this section elaborates on the structural changes required more explicitly. Harmonising place with institutional capacity is critical for policy coherence. Institutional capacity increases with the openness to sectoral and jurisdictional realignment. The challenge is to increase government capacity to meet ‘multi-faceted’ needs with ‘multi-faceted co-ordinated responses’ (Peach, 2004). The first job of government is not to administer transactions, but to solve problems. ‘The problems...are not defined or shaped in the same way that departments and agencies are.’ (Peach, 2004) While innovating within government poses challenges, not the least of which is cultural, it is occurring within many countries.

85. For the social economy, working across institutional boundaries is critical. The social economy and social enterprise must be integrated into spatial, horizontal and ‘joined up’ or vertically integrated policy design. Such a proposal is made easier by the increased recognition by scholars, policy makers and practitioners that there is no alternative to this. There is also growing evidence that broad collaborative approaches are more effective and more efficient in addressing complex or ‘wicked’ files such as poverty and social exclusion (Bradford, 2008; Community Government Collaboration on Policy, 2009) Involving

citizens is part of an ongoing commitment to a collaborative approach in many areas of public policy, including neighbourhood revitalisation in the UK, the US and Canada.<sup>19</sup>

86. Capacity to involve people in the shaping, design and delivery of public policy and service is an essential component of successfully tackling cross-cutting issues. Desired policy outcomes in these areas usually involve changes in perception and in behaviour on the part of citizens, as well as on the part of those who work in, and influence, the public policy system (Sullivan and Skelcher, 2002).

87. Australia's whole of government approach to public policy is frequently cited as a best practice illustration of policy innovation within government that has established horizontal and collaborative policy spaces including stakeholder contribution to policy debate and design. This is also a 'communities of practice' orientation, shifting policy design from government alone to a shared process of co-construction. Government has an important role as 'knowledge broker' to help fill knowledge gaps by facilitating information flows.

#### Box 14. Australia: Connecting Government

In September 1999 the Minister for Family and Community Services announced that welfare reform was to be a major reform priority for the Howard government (1996-2007).

The then Howard government's welfare reform policy proposals were developed by an interdepartmental taskforce which was chaired and supported by a Secretariat based in the Department of the Prime Minister and Cabinet. The final package of measures was announced as Australians Working Together (AWT) in the May 2001 Budget. The package focused on helping people to get jobs or become more actively engaged in the community through a balance of targeted assistance, incentives and mutual obligation requirements. A wide range of measures was to be implemented through the following departments and agencies: Department of Family and Community Services (FACS); Department of Employment and Workplace Relations (DEWR); Department of Education, Science and Training (DEST); Aboriginal and Torres Strait Islander Commission (ATSIC) now Aboriginal and Torres Strait Islander Services (ATSIS); Centrelink.

Policy and service delivery complexities meant that governance and co-ordination of the AWT package was necessarily multi-layered. (emphasis M. Mendell) Peak community organisations, academia and the private sector were included in consultative mechanisms used to develop the measures, as well as key government agencies. AWT built strategically on other countries' experiences in welfare reform (e.g. The UK New Deal programme; reform of income support programmes in the US, Sweden and the Netherlands) to address policy and social priorities important for Australia. AWT was a complex policy and programme development and service delivery exercise involving a wide range of external stakeholders. All had high expectations about the level of influence they would be able to exert over the final form of the package. It was important to manage these expectations carefully, share information and provide feedback over an extended period of time. Role clarity of all government agencies and organisations involved was essential at the policy, programme and delivery levels, especially when people were working together for the first time or in a new way. This highlighted the need to be explicit about roles/responsibilities rather than assuming people knew and understood not only their own roles but the roles of other participants. Submissions for funding can be complex when more than one agency is involved. It is important to get expert assistance-for example, from specialists in the Department of Finance and Administration (finance) to ensure all issues are addressed. Differences in agency cultures can threaten whole of government work. ***They need to be taken seriously and addressed quickly and decisively using a range of methods.*** (emphasis M. Mendell) Lack of continuity of representation can be a significant issue in complex, long-running whole of government processes. The need to constantly bring new members up to speed can cause critical disruptions and delays and should be minimised.

Source: <http://www.apsc.gov.au/mac/connectinggovernmenta2awt.htm>

88. Another illustration of policy co-ordination within government and collaboration with stakeholders is the Compact on Relations between Government and the Voluntary and Community Sector in England.

### **Box 15. The Compact on Relations between Government and the Voluntary and Community Sectors (England)**

It is worth noting the importance of the 'compact' in developing good relations between the state and third sector in the England. The 'compact' specified the broad outline of an agreement to develop good relations with the third sector; it led to a range of policies aimed at increasing the capacity of the third sector, without losing its distinctive civil society values and practices. The Compact was first introduced in 1998. It provides the framework agreement on how the government and the sector should work together, in order to improve their relationship for mutual advantage and community gain. It is underpinned by codes of good practice on:

- funding and procurement
- consultation and policy appraisal
- ethnic minority voluntary and community organisations
- volunteering
- community groups

The Compact and codes establish a shared vision and principles, together with undertakings for both sides of the relationship. It applies at a range of government levels, and to a range of organisations in the voluntary and community sector. Thus Local Compacts, informed by the Compact and Codes, are local level agreements for partnership working between voluntary and community sector organisations and public sector bodies at the local level. All local authority areas in England have, or are developing, a Local Compact. Progress of the Compact is regularly reviewed, and since 2007, an independent Commission for the Compact has been responsible for overseeing the operation of the Compact. Similar documents have also been developed in Wales, Scotland and Northern Ireland.

Source: <http://www.thecomcompact.org.uk/>

89. In Canada, an attempt to create a hybrid policy space designating the social economy in 2004 was short-lived due to the loss of the federal election in early 2006 by the Liberal Party, the architect of this initiative. The process of policy design included a cross-country multi-stakeholder dialogue on the social economy conducted by the Department of Human Resources and Skills Development (HRSDC) over several months in 2005-2006. The conclusion of this dialogue is most interesting in the context of this OECD study and its recommendations for policy innovation: 'From the perspective of government, the social economy provides a truly horizontal vehicle for carrying out community-based policies, programmes and initiatives' (HRSDC, 2006).

90. The social economy is a template for horizontal or *distributed governance*. It is inherently a horizontal file and cannot be squeezed into a narrow silo framework. The capacity of the social economy to integrate social and economic objectives, to work across sectoral boundaries, to develop enabling tools that are described in the country studies undertaken by the review team, provides sufficient evidence to support a strong recommendation that where the social economy, and social enterprises, are on the policy agenda, they must not be reduced to sectoral strategies. Presenting these many examples of 'working across boundaries' in several countries, confirms the need to abandon narrow solutions to complex problems. That the social economy is rooted in communities is too often ignored in the current adoption of policy measures to support its development. This was clear in the four country studies. With the exception of the PACA region in France, the policy landscape was quite similar. Although a better understanding of the potential of the social economy exists in Poland and Slovenia at the national level, the current policy framework does not reflect this. In Slovenia, the policy architecture for the social economy at the national level is not yet in place.

## Co-construction of Public Policy

91. Partnering with government is critical to the ability of the social economy and social enterprise to meet its objectives. Salamon refers to this as ‘third party government’, a system ‘in which crucial elements of public authority are shared with a host of non-governmental or other-governmental actors’, noting that while indeed, this poses accountability risks for government, it simply calls for new accommodating tools (Salamon, 2005 quoted in Elson, Struthers and Carlson, 2007). Salamon adds that community organisations contribute the knowledge necessary for government to develop effective policy and that this can be best achieved in ‘new third party governance’ or through what the review team has referred to as *processes of co-construction*. The benefits to government are clear, not the least of which is reduced transactions costs. (Salamon 2005 quoted in Elson, Struthers and Carlson, 2007) Information asymmetry is reduced through improved access to knowledge. While government’s role as knowledge broker is clear, as noted earlier, the proposal for *co-construction* is more dynamic; the roles of participants in this process is not bounded. Indeed, policies ultimately flow from government and are applied within communities and/or organisations, but the process challenges both top-down and bottom-up linear approaches. *Co-construction* is a dynamic and circular process.

92. The following adaptation of Coston’s typology of government-NGO relations places these relations on a continuum of resistance to openness to institutional change. In the context of this report and the findings of the OECD reports, this continuum helps to situate the possibility for adaptation within government and while resistance must certainly be taken into account, this is not a barrier to change, but rather a reality that has to be acknowledged in proposing change.

<b>Resistance to institutional change</b>	<b>Openness to institutional change</b>	
Inflexible/Silo	Contractual /Co-operation	Collaboration/Co-construction
<i>Bounded relations</i>	<i>Unbounded relations</i>	

Source: Adaption of typology of Coston’s government–third sector relationships (Bourque, Proulx and Savard, 2007)

93. Coston’s continuum is more detailed and includes eight types of relations (Proulx, Bourque and Savard, 2007). The following quote by Lindquist confirms that circumstances/need will drive this process.

The key demands for horizontal management are ‘increasingly demanding citizens, new information and communications technologies, continuing pressure on public sector budgets, experimentation with new ways to deliver services, and greater recognition of the complexity of social problems and the range of expertise from different institutions and sectors required to tackle them. (EA Lindquist cited in Commonwealth of Australia, 2004)

94. The literature on horizontality and collaborative policy identifies the need for a ‘lead department’ or ministry to co-ordinate and monitor the process. This is clear. But there is a difference between a leadership or ‘convening’ role and a ministerial mandate that only consults with other departments or ministries. Moreover, *co-construction* is necessary but insufficient if the policy instrument is narrow or sectoral. For example, while the broad based participation engaged in the formulation and implementation of the Social Enterprise Promotion Act in Korea is an excellent example of horizontality and co-construction in practice, the participating members are appointed by the Ministry of Labour and the policy measure itself limits the tasks of this multi-sectoral group to the certification of social enterprises. By applying a clientelist approach to emergent social enterprises with inflexible eligibility criteria, the innovative potential of this horizontal space for policy implementation is lost. Indeed, this is a new programme and the hope is a broader approach to social enterprises will be forthcoming. ‘The current



Social Enterprise Promotion Act and its certification process must be part of an *iterative process of policy design*, and not an end in and of itself.’ (OECD Korea Team Report, 2009)

95. A contrasting example of a lead ministry is in Quebec, Canada, where the Ministry for Municipal and Regional Affairs and Territory co-ordinates eight additional ministries to support the social economy. In this case, the lead ministry is itself multi-sectoral; the government partners represent numerous ministries with mandates relevant to the social economy in Quebec. Moreover, this is closer to a systemic approach necessary for the social economy and social enterprises to have the desired impact. Limiting social enterprises to labour market integration and short-term subsidies runs the risk of policy failure, as underscored in the Korean study and emphasised again in this report.

#### **Box 16. Quebec Government Action Plan for Collective Entrepreneurship**

In 2008, the Ministry of Municipal and Regional Affairs and Territory (MAMROT) launched an action plan to develop the social economy across the province. This five year plan will provide concrete and adapted measures to actors in the social economy to respond to the needs of communities in a sustainable manner. The following are among the actions proposed by government:

- Annual support of CAD 650,000 for the *Chantier de l'économie sociale*, representing an increase of approximately 45% in the support given to this network.
- Creation of a fund to promote initiatives in the social economy by committing CAD 100,000 for knowledge mobilisation on the social economy.
- A fund of CAD 850,000 to support innovative projects in the social economy on the Island of Montreal (urban)
- Modification of the law on associations and non-profit organisations
- Measures to facilitate the inclusion of youth, aboriginal communities and new immigrants into the social economy.
- Support for social and solidarity economy enterprises in the cultural and community media sectors.

To assure the implementation and follow-up of these measures, the ministry emphasises its commitment to horizontal collaboration and 'concertation' between government representatives at all levels and regional and local actors. To achieve this, the government has created an inter-ministerial committee and a technical support group that brings together those engaged in the social economy.

Source: [http://www.mamrot.gouv.qc.ca/regions/regi\\_econ\\_plan\\_acti.asp](http://www.mamrot.gouv.qc.ca/regions/regi_econ_plan_acti.asp)

96. This Action Plan *institutionalises the co-construction of public policy*. It has significant heuristic value as an example of horizontal co-ordination within government and collaboration with social economy actors, essential for *policy coherence*. The *Chantier de l'économie sociale*, the network of networks representing the social economy in Quebec, is a partner in policy design.

97. Another important example of policy innovation and the establishment of institutional spaces for co-construction, is in the PACA region in France. The firm commitment of the current regional government to the social economy has enabled the creation of innovative development tools for the social economy. That said, the difficulties raised earlier about competitive bids for EU programme funding for services in the general interest compromises the ability to fully realise the potential of the support by the regional government to create an innovative process of policy formation for the social economy.

98. In the PACA region in France, the regional government supports the social economy through PROGRESS, (*le Programme régional de développement de l'économie sociale et solidaire*), a regional development plan for the social economy with enabling tools including an social economy observatory, a permanent multi-stakeholder committee to oversee development plans for the social economy in the region, the development of evaluation tools that include social and qualitative indicators and the development of sectoral clusters PRIDES (*Pôles régionaux d'innovation et de développement économique solidaire*).

**Box 17. PROGRESS (Regional Programme to Develop the Social and Solidarity Economy – PACA)**

Through PROGRESS, the PACA region supports the social and solidarity economy and its capacity to create social cohesion. The policy of the *Conseil Régional* to support the social and solidarity economy in PACA engages social and economic actors in the region. The *Conseil Régional* collaborates with the CRESS to implement and continuously evaluate PROGRESS.

The PROGRESS programme to support the SSE in the PACA region includes:

- development of an SSE observatory
- creation of a Standing Committee for consultation and monitoring the SSE
- development of assessment tools and qualitative indicators to assess the impact of SSE beyond its contribution to GDP; and,
- creation of sectoral clusters (PRIDES)

Source: OECD review team Report, France 2010.

## Conclusion

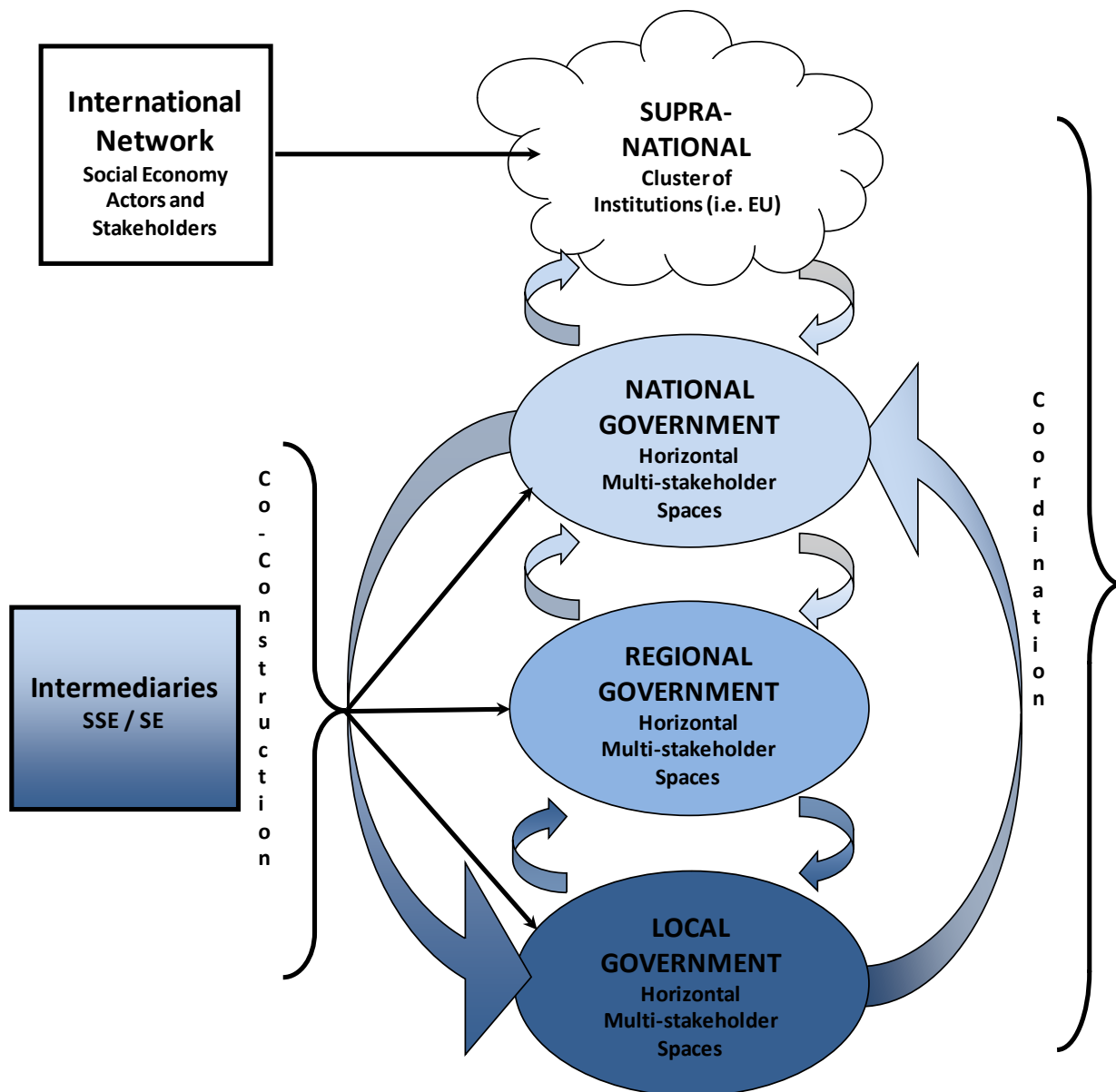
99. The four country studies conducted by the OECD LEED Programme underlie the policy analysis and recommendations in this report. They have raised reservations regarding the capacity of current policy measures to reach their objectives, in some cases. It is clear that a narrowly focussed policy framework will not exploit the potential of the social economy. It is also clear that programme driven initiatives in the social economy limit the capacity of the social economy to compliance with programme criteria. While a number of specific policy recommendations provided by the review team are generic, so to speak, it is understood that these will be most effective if they are integrated into a policy mix that meet the diverse needs of the social economy.

The social economy represents an ongoing process of innovation originating in communities actively engaged in processes of 'learning by doing'. New approaches to economic development, new forms of partnership and new social initiatives are being tested on a continuing basis; this underlies the invention and expansion of exemplary practices. Innovation exerts considerable pressure on both government and social economy actors, who must be able to ensure proper accountability for the use of public funds, while encouraging the emergence of innovative practice. Unlike traditional public policy, which discourages experimentation and change, social innovation and the social economy necessitate the ongoing creation of precedents in public policy. (Mendell and Neamtan, 2010)

100. As this report has pointed out, adopting a policy mix requires institutional innovation. In exploring the limitations on the social economy and social enterprises imposed by institutional constraints, the review team increasingly proposed a closer examination of the *process or processes of policy*

formation. Co-construction, involving non-government actors, horizontality within government including stakeholder participation and a dynamic or 'recombinant' concept of co-ordination across jurisdictions, provide a framework for policy coherence. Indeed, this becomes more complex with the added participation of supra-national institutions of governance, but the process is the same.

Figure 1. A coherent policy framework for the social and solidarity economy



101. The preceding figure attempts to capture the proposal for a coherent policy framework for the social economy. This diagram describes flows and movement. The underlying logic is not about structure and hierarchy. Indeed, the structures are present and necessary, but there is a great deal of movement within and between these structures. This report provided examples of these flows that exist in different national and regional contexts. The recognition of the necessity to expand the reach of government to include greater civil society participation was also raised throughout this report and in the four country studies that inform this analysis and conclusions.

102. In a recent article by the eminent scholar, Thomas Homer-Dixon, he concludes that government has to shift from a 'culture of compliance' that is largely driven by the imperatives of measurement and accountability (Complexity Science and Public Policy, 2010). But innovation is not at odds with either of these imperatives. Quite the contrary; tools are created to accommodate new processes. This is occurring. The hope is that the growing number of iterations in public policy innovation will shake up this 'culture of compliance'. For the social economy, this is fundamental.

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## NOTES

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- <sup>1</sup> Social enterprise has become a policy tool in many countries to reduce poverty and promote social inclusion. In countries such as Poland and France, the link with the social economy is made. This is less so in Korea and Slovenia. We discuss this in detail in the four OECD LEED reports. This chapter will situate social enterprise within the social economy. In so doing, it will provide the link between organisational and institutional development and innovation.
- <sup>2</sup> The social economy includes associations, co-operatives, mutual organisations, foundations and social enterprises. There are a range of terms used, including ‘third sector’ and also ‘social and solidarity economy’.
- <sup>3</sup> There are numerous terms that are used to describe these hybrid business activities that serve broad objectives. Among these are social enterprise, social purpose business, the social economy, the solidarity economy, sustainable business, to name a few. To this we can now add the fourth sector, a term used in the United States to break through this confusion and capture these various organisational forms under one common umbrella. The expressed need to increase the commercial capacity of non-profit organisations (NPOs) is driving this agenda and while this is important as it challenges the notion that there are only two types of enterprises – private-for-profit or public – caution needs to be raised to ensure that this is not a means to impose commercialisation strategies on NPOs or NGOs. In the transition economies, this can have perverse effects if the important work of capacity building does not precede the promotion of social enterprises, for example. This concern is raised particularly in the context of transition economies but also in other countries faced with support for a business form that can potentially reduce public sector involvement in social provisioning and poverty reduction.
- <sup>4</sup> ‘Determinants of health’ is multi-sectoral or cross-cutting programme requiring an integrated policy framework. Closing the gap in a generation: Health equity through action on the social determinants of health. (WHO, 2008) [http://www.who.int/social\\_determinants/thecommission/finalreport/en/index.html](http://www.who.int/social_determinants/thecommission/finalreport/en/index.html).
- <sup>5</sup> The references to EU experience are important for two reasons. The first and most obvious reason is that three of the four countries studied by the review team are part of the EU and benefit from an array of programmes targeting the social economy, both directly and indirectly. The second is that the dialogue within the EU on the need for integrated approaches to address many issues is extensive and occurs within several divisions that have potential for a more integrated approach to the social economy by the EU. But it must also be noted that the capacity for inter-organisational dialogue is limited. This is made evident by the absence of proposals for social economy support in strategic EU documents such as Europe 2020 despite such proposals from sub-committees. This will be raised in more detail in this chapter.
- <sup>6</sup> Analysts continue to write enthusiastically about Russia’s capacity to weather the economic crisis because of sound fiscal policy. That this is a jobless recovery, with an increase in long-term unemployment from 27% to 33% over the last year, does not change the positive tone of a recent *World Bank Russian Economic Report* (No. 21, 2010). This example is noted because of the contrast between this reality and the inclusion of Russia among the BRIC countries.
- <sup>7</sup> The lexicon of terms to describe this activity, previously noted, still permits a common distinction with the private and public sectors.
- <sup>8</sup> On 20 October, 2010, the British Columbia (Canada) Ministry of Finance announced that it is ‘considering amendments to the Business Corporations Act to allow for the incorporation of a new hybrid type of



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company – the Community Interest Company (CIC) – which would both benefit the larger community and allow limited investor returns within the context of a traditional for-profit company’. This is an important example of leveraging international experiences. In this case, the ‘model’ can be transposed easily with new legislation. In other cases, international examples provide a framework that then has to accommodate the specificities of countries and/or regions.

9 Social purpose business is used in this case as an umbrella term to distinguish enterprises with a social mission. Social purpose businesses trade in the market but meet broader societal objectives. These include work integration social enterprises.

10 The same approach is applied by the *Réseau d’investissement sociale du Québec* (RISQ), also created by the *Chantier*, that provides loans to social economy enterprises. RISQ was created by the *Chantier de l’économie sociale* in 1997. It provides loans to social economy enterprises from CAD 5000 to CAD 50,000. It also provides technical assistance grants. The original funding for RISQ came from the province of Quebec and several private enterprises. Recently, the province of Quebec allocated CAD 5 million to provide pre-start up financing for social economy enterprises.

11 Wright and Fung refer to the need for ‘recombinant linkages’ in their important work on participatory deliberative governance to underscore the need for a dynamic flow between local, regional and national political spaces (Fung and Wright, 2003).

12 Co-ordination implies structured well defined relationships; collaboration suggests informality. But in fact, both co-ordination and collaboration can be institutionalised in different forms. Within government, *co-ordination* refers to innovative horizontal sites for policy formation that are distinct from *ad hoc* consultations or inter-departmental advisory committees. Institutionalised *collaboration* is more fluid but becomes normalised through practice. For example, community-led initiatives, partnerships, contracts, networks, strategic alliances are among some of the collaborative forms noted (Sullivan and Skelcher, 2002). This list can be extended to include innovative collaborations that are not formalised but are intrinsic to policy making. The social economy in Quebec is an example of such collaboration. However, it must also be noted that for collaboration to have impact, strong networks and leadership within the social economy is a *sine qua non*.

13 This is true even if a multi-stakeholder committee exists that was appointed by the Ministry of Labour (Korea).

14 An Inter-Ministerial Team for Systematic Solutions for the Social Economy was established by the Prime Minister in Poland to develop a policy framework for the social economy.

15 The ‘Social Economy Intergroup’ within the European Parliament permits dialogue between social economy actors and members of the European Parliament.

16 The *Work Together Foundation* (WTF) in Korea could certainly be added to this list but more as an intermediary with this potential. While the legacy of the WTF is rooted in community movements and action for poverty reduction, today it is focused more explicitly on the capacity of social enterprises to integrate the disadvantaged through labour market insertion. That said, many of the initiatives that are classified as social enterprises in Korea play a wider role. These are described in detail in the Korea country study. All this to say that the WTF is not a hybrid inter-sectoral space as yet that negotiates with different levels and/or departments of government, but it has the potential to do so.

17 In the US, the Single Audit Act addresses the problem of accountability through a reporting system that filters the non-governmental organisations receiving funding from different government departments. This does not mean that the process is easy for grant recipients; however, it is an important illustration of government capacity to work both horizontally and vertically overcoming accountability barriers. (Single Audit Act of 1984 with Amendments. [http://findarticles.com/p/articles/mi\\_gx5209/is\\_1999/ai\\_](http://findarticles.com/p/articles/mi_gx5209/is_1999/ai_)

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n19125866/). Today, in the US, several 'one stop' e-government programmes respond to the challenge posed by accountability. (Elson, Struthers, Carlson, 2007)

18 *Collaboration on Policy: A Manual Developed by the Government-Community collaboration on Policy.* 2009. This 'collaboration on policy' was a 'community of practice' that included government (HRSDC) and several organizations and groups affected by poverty and social exclusion. It also brought together the architects of several cross-cutting collaborative initiatives. It is for this reason that the participants in this work refer to it as a collaboration on collaboration.

19 In Canada, the Public Policy Forum and Policy Research Initiatives convened a roundtable with leaders from the voluntary sector, academia and the federal government on collaborative initiatives. The recommendation was that the federal government learns to work more flexibly, in an ad hoc manner and establish more organic relationships driven by common goals. The focus should be on common goals and 'outcomes, creating a new 'catalytic leadership role' for the public sector in a new framework of 'purposeful governance' (Ellsworth and Jones-Walters, 2005) cited in Government of Canada 2010).



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