



Reflections and Recommendations on Social Economy by SAMARITAN INTERNATIONAL

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I. Introductory note

The economic relevance of the area of social and health services has been underestimated on member state and European levels for a long time and the social economy sector mostly has not been neglected in many member states budgets.

It can be observed that the number of civil society organisations¹ addressing social needs and societal necessities is increasing worldwide. Even though they are often fulfilling governmental responsibilities or providing services which are not available on the open market but valuable and essential for the society as a whole and the people who receive them, there is often a lack of legislative or financial appreciation. Especially in times of financial crisis and a precarious labour market situation the influence of civil society organisations on economic growth and social development is not sufficiently reflected in regulations on European and member state level.

Also in member states with a traditional co-operation model between governmental bodies and welfare organisations e.g. in Germany, Austria and Italy, there is a tendency of financial cuts. Reforms of some social laws or a lack of these have increasingly brought market-oriented mechanisms into the provision of social services.

In addition to their societal added value welfare organisations create employment.

In 2009 over 21.5 million people worked in the health and social work sectors in the EU27. The health and social care sector is an important employer, whose significance is likely to grow in the context of demographic change. Health care employers are not only affected by trends towards an ageing population in terms of the rising demand this places on service delivery, but also in the context of emerging labour market shortages resulting from declining birth rates.² In Germany e.g. not for profit organisations employ more than a third of all employees in the healthcare sector and in the area of social services even more than 60 %.³

In the EU member states there are different legislative situations on the work of welfare organisations and even the term *social economy* has different meanings.

On the EU level there are different approaches to harmonize social policies with the official aim to promote employment, improve living and working conditions, combat poverty and social exclusion and to provide an appropriate level of social protection⁴.

However, at the same time decision makers in the member states and on the EU level tend to apply the market principle. One example of this is the ever recurring changes to EU public procurement rules affecting the work of welfare organisations by increasingly treating them as private enterprises according to the EU primary law.⁵

The current developments lead to a sacrifice in quality and sustainability of the provision of services of general interest for an obligation towards the lowest bidder.

With this in mind, SAMARITAN INTERNATIONAL recommends implementing a “Charity Law” – a European-wide established directive with fundamental rules recognizing the

¹ For the purpose of this paper, the following terms are used synonymously: welfare organization, not-for-profit organisation, non-governmental organisation (NGO), civil society organisation (CSO), social entrepreneurship, social enterprises

² European Foundation for the Improvement of Living and Working Conditions, 2011 Source: Eurostat, Labour Force Survey

³ Anheier 1997

⁴ http://europa.eu/legislation_summaries/employment_and_social_policy

http://www.welfare.ie/en/Pages/EU-Social-Inclusion-Policy_holder.aspx

⁵ Control of direct and indirect aid given by Member States of the European Union to companies. Covered under EU primary law: AIDS GRANTED BY STATES Article 107

particularities of charitable corporations. Not-for-profit services of general interest should be specially recognized, protected legislatively and supported financially on the national and European levels. As a first step the definition of the Commission on social enterprises has to be extended by the added value characterizing a wide range of CSOs and differentiating them from other social enterprises. This should lead to a European Status for non-profit organisations which ensures an enabling legislative framework and facilitates access to financial instruments.

II. Social entrepreneurship in the European Union

The Commission has stated its intend to contribute to the creation of an enabling environment for the development of social business in Europe, and of the social economy at large. Funding programs have been established accordingly and general elements of social enterprises have been defined. The European Commission defines social enterprises as:

“positioned between the traditional private and public sector. Although there is no universally accepted definition of a social enterprise, their key distinguishing characteristics are the social and societal purpose combined with an entrepreneurial spirit of the private sector. Social enterprises devote their activities and reinvest their surpluses to achieving a wider social or community objective either in their members' or a wider interest.”

”Social enterprises exist in all Member States. However, there is no single legal model for these enterprises. Many social enterprises are registered as private companies, others are in the form of social co-operatives, associations, voluntary organisations, charities or mutuals, and some organisations are unincorporated.”⁶

According to the EU social enterprises operate mainly in the fields of *Work integration* (training and integration of unemployed persons); *Personal services* (e.g. childcare services, services for elderly people, 'proximity' services, aid for disadvantaged people) and *Local development of disadvantaged areas* (e.g. social enterprises in remote rural areas, neighbourhood development/rehabilitations schemes in urban areas).⁷

Given that in mostly all European countries two forms of legal entities exist, the public and private ones, the Commission's definition is a first step for showing the difference between social and private enterprises. In many countries there is no official or legal definition which distinguishes between private enterprises and not-for-profit organisations.

However in some countries a big difference among “social enterprises” can be seen. The Commission's definition does not consider the broad range of social enterprises by failing to take into account the structure, organizational form, variety of services or the commitment of volunteers.

The definition of social enterprises by the European Commission is comparable to existing national legal definitions of what constitutes a non-profit enterprise. On the member state level this is often related to concessions in tax regulations⁸.

This special recognition of the societal value of social enterprises on national level is in conflict with Article 107 TFEU.

⁶ <http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/social-economy/social-enterprises/>

⁷ <http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/social-economy/social-enterprises/>

⁸ Artikel 52 of the German Regulation of Taxation (AO)

“Save as otherwise provided in the Treaties, any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Member States, be incompatible with the internal market.”

In addition the EU is monitoring the socioeconomic development in terms of Economic development, Innovation; Competitiveness; Eco-efficiency and Employment. This data is researched only differentiated by private and public sector not taking into account the social economy as a third sector in its own right.⁹

III. Particularities of charitable corporations – The societal added value of welfare and aid organisations

SAMARITAN INTERNATIONAL - a European network of social enterprises

SAMARITAN INTERNATIONAL (SAM.I.) is a network of 16 Samaritan organisations from all over Europe. Over 3 million members, 130.000 volunteers and 35.000 full time employees form the basis of its members.

Samaritan organisations provide services, activities and training in the fields of first-aid and paramedical services, civil protection, disaster prevention and relief, humanitarian aid, institutional and ambulant elderly care, child and youth work, volunteer work, care and transport for disabled persons, social work with disadvantaged people, support for families, mobile care service for the victims of National Socialism and other social and innovative initiatives supporting the integration of the groups furthest away from the labour market and of the population groups hit most severely by the economic and financial crisis.

The network is also especially dedicated to support the establishment and the daily work of young social initiatives in recent and prospective EU members e.g. in Central and Eastern Europe and the Balkans, for example in Poland, Serbia, Ukraine and Bosnia and Herzegovina. For example in Serbia SAM.I. member IDC leads the only local network of social enterprises – Social Economy Network Serbia, which currently has 30 member organizations providing different capacity building activities (trainings, start-up grants, promotion, etc.).

The members of SAM.I. define social economy as a process based on entrepreneurship but with the main goal to contribute to achieve social change. Enterprises of the social economy do not distribute their profit to shareholders or any other private entity. All the surpluses are re-invested in the creation of new services and products and for increasing social impact.

The term social economy or social entrepreneurship as defined by the Commission describes a type of service and activity sector which distinguishes non-profit from profit oriented enterprises. Nevertheless a next step is necessary that also has to take into account that social service providers are differing in their organizational structure and in the types of services they are providing. The main distinction is the expansion of the societal added value of the provided services because of their character, target group and place. Apart from the not-for-profit and non-governmental character especially the democratic structure of an organization

⁹ <http://epp.eurostat.ec.europa.eu/portal/page/portal/sdi/indicators/theme1>
http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Sustainable_development_-_socioeconomic_development
<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tsdec210>

has to be considered. The enhancement of civic commitment and the additional support by volunteers have to be recognized for exploring the different types of social enterprises. The vision and mission of an organization should be taken into account as well as their input concerning social progress and innovation.

The holistic approach to providing social added value

Characterized by a democratic structure the members of SAM.I. are often providing services which are neither available on the open market nor is the state able to provide them.

Embedded in a holistic approach the services are dedicated to the long term sustainable positive effects on the people they are helping.

The wide range of services of general interest is of big societal value and importance. They demonstrate social responsibility by:

- being embedded in democratic structures fostering volunteer and civic commitment
- being frequently not available on the open market and not being carried out by the state but responding to societal demands, obstacles and needs
- not looking towards quarterly numbers but focusing on areas with less accessibility (e.g. rural areas)
- being for all generations, social or religious backgrounds as well as socially and physically handicapped people and addressing disadvantaged people who cannot afford services¹⁰
- having a multilateral and holistic approach by addressing several needs and providing cross-activity services

Accordingly welfare organisations have

- a great potential of reflected knowledge in the dialogue with public institutions. They advocate for social rights from a first-hand perspective.
- Furthermore they enhance civil society capacities and contribute to social capital by having a special focus on capacity building for people furthest away from the labour market.

The added value of volunteer work

Volunteer work is a distinguishing element of the work of SAM.I. and greatly contributes to society, on the respective national levels as well as in Europe.

Samaritan organisations are supported by 130,000 volunteers. SAM.I. advocates for an infrastructure that increases the appreciation, value and quality of volunteering.

There is a wide range of possibilities of involvement for volunteers within Samaritan organisations. In addition to not institutionalized / informal volunteer activities e.g. in nursery homes and day care centres there are also strategic volunteer activities in the field of first aid, paramedical services and civil protection. Additionally some members are providing formal / government subsidised volunteer services as for example federal voluntary service or voluntary service of the ministry of development.

¹⁰ without paying any financial compensation

In some fields volunteer service is not only playing a complementary role (as for example visitation services for elderly). In e.g. Austria, Germany and Italy civil protection activities would not work without the exemplary commitment of thousands of voluntary helpers in the various disaster relief and emergency units.

In addition to the added value which volunteer commitment brings to society in general through the provided services, volunteering also means fostering civic commitment, active citizenship and inclusion.

The added value due enhancement of civic commitment and labour market reintegration

In addition to the mentioned types of volunteer services Samaritan organisations are supporting citizens in managing their daily affairs with preparatory measures or reintegration activities for vulnerable groups such as those furthest away from the labour market.

Volunteer activities provide informal learning and education and are strongly connected to paving the way for potential employment. There is a lot of potential to reintegrate the people furthest from the labour market by activating them through civil society activities. SAMARITAN INTERNATIONAL promotes civil commitment activities as an instrument to enhance active inclusion of people excluded from society. Due to innovative approaches in solving local challenges the network is creating both a wide range of new employment opportunities and complementary voluntary activities.

Samaritan organisations situated in different national settings

As the Commission highlights the social enterprises including welfare and volunteer organisations are embedded in different structures and systems in the European member states which range from co-operative models to state monopolies.

In a lot of countries services of general interest are organized mostly by the department of healthcare and social affairs of the local government. Many services are done by public institutions and municipalities. Other services are subcontracted to volunteer-based associations like the Samaritan organisations Arbeiter-Samariter-Bund Österreichs, Landesrettungsverein Weißes Kreuz in Italy and Arbeiter-Samariter-Bund in Germany.

In Germany for example, social economy is marked by cooperative partnerships of different institutions and organisations of public welfare ("Freie Wohlfahrtspflege").

The provision of services through FW institutions on behalf of the government is specified in the German social law (SGB inter alia legislative framework for health, long-term care, pension and unemployment insurance) and not bound by the same procurement rules as the private sector, thus recognizing the added value setting them apart from private enterprises. It is regulated with regard to usage of resources, definition of quantity and quality of personnel costs, allocation and appropriation of funds / payment for provided service (e.g. regulated fees for care services). More than half of social institutions in Germany are under FW administration (hospitals, kindergartens, nursing homes etc.).

In these cases financing of the welfare organisations is done through public grants and reimbursements besides the organisations own resources through donations, member fees etc. This includes public funds from the federal government, the state government, municipalities and social security. Furthermore, associations in co-operative settings that serve charitable or religious purposes are often granted tax breaks. The state offers them tax exemption regarding corporate income taxes, business taxes and value added tax (VAT). In addition in some countries regular tax payers offer a percentage (e.g. 1 %) of their personal tax for not-for-

profit organisations without public debt. Furthermore in some settings there are special rules on donations and for profit companies are granted special tax benefits if they support non-profit organisations in their work of public utility.

Besides those countries with a traditional distinctive co-operative structure between welfare and public institutions a tendency of increasing co-operation can be observed in a range of more recent European countries as for example in Hungary. Even though at present "it does not exist institutionally" the government has already issued new tenders with the aim of setting up and developing social cooperatives within the framework of the New Széchenyi Plan. In addition to tax exemptions more than one billion forints were awarded (about 3.500.000 Euro) for the assessment of tenders. Social cooperatives will play an important role in connecting the national public working programs with the civil sphere and the profit sector. Through this integration significant employment programs may be realized.¹¹

In contrast there is a state monopoly over the social market and social economy does not exist at all in a lot of recent or prospective EU countries as for example in Ukraine. In various EU member states there is simply no such thing as a legislative definition or governmental support for welfare organisations. Neither there are regulations or legislative instruments enhancing volunteer commitment.

But even in countries with traditional or developing co-operation models between governmental bodies and welfare organisations there is a decreasing tendency in financial and legislative co-operation. Financial cuts and reforms of some social laws have increasingly brought market-oriented mechanisms into the provision of social services.

VI. Pressing issues concerning legislation on and financing of social entrepreneurship on national levels

No legislative framework for welfare and aid organisations

Both charitable service providers in traditional co-operation models and young social enterprises are facing a lack of legislative support.

In a range of settings there is no clear legislation on social enterprises and public procurement issues. Also, there is no clear distinction among the different types of social enterprises as elaborated under III.

There are no charity laws in any European country. Although the charitable character of an organization is in some cases recognized by the regulations of taxation (e.g. article 52 of the German Regulation of Taxation, AO) the lack of charity regulations provoke a range of obstacles.

In Austria for example tax audits going seven years back can retrospectively award non-profit status. 25% percent of activities are allowed to be profit services but the interpretation highly depends on the auditor.

It could be also observed a lack of regulation for volunteer commitment. In some national settings there is neither access to adequate social protection (health, accident and liability insurance) nor reimbursement of expenses incurred in relation to volunteering.

Shift of social political responsibility to social service providers while there are less financial resources and an increasing imperative of economic efficiency

¹¹ Survey on social entrepreneurship by SAMARITAN INTERNATIONAL /Assessment by USB Hungary

An increasing privatisation of public services and shift of social political responsibility to social service providers causes a high level of competition both between private enterprises and non-profit-organizations as well as among charitable service providers. At the same time welfare organisations throughout Europe are facing financial cuts of up to 60 % and a loss of sovereignty through a rising number of rules for due diligence & documentation duties.

The public sector is converted. Instead of regulating the financial markets the state guarantees the financial system and has no money for the welfare state.

At the same time it can be observed that there is a tax deficit in the budgets and increasing tax evasions in Europe (3% -15% of GDP estimated tax evasion in Europe).¹²

Cuts in financial support caused for instance that the principle of covering the original costs has been replaced by the imperative of economic efficiency. There is a tendency toward public payment in flat fees instead of actual costs which threatens quality of services and causes that some services cannot be offered any more.

For instance the field of rescue service, which is e.g. in Germany, Austria and Italy highly depended on the commitment of volunteers, is consistently underfinanced.

At the same time volunteer organisations are facing obstacles in the recruitment of volunteers because of demographic, social and socio-political changes. The increasing pressure on persons in the labour market gives them less freedom and time to spend as a volunteer.

In other sectors, as for example in elderly care, the fees for a service are increasingly related to the quantity and not to the quality of personnel costs. That means that a lesser amount of working hours for the same or an increasing number of tasks and services is available.

The CSOs are facing a lack of consideration of their rising expenditures in the reimbursement of their personnel costs and expenses. An even stronger tendency is observed as for example in Denmark where non-profit organisations now have to calculate 9.000 hours with the same fee for previous 8.000 home care working hours.

Furthermore a short-term shortage of skilled professionals can be observed because of lacking attractiveness of careers, e.g. in the care-giving sector in Germany (reduced wages through temporary work, lack of funds for vocational training in the past), and high levels of skilled labour migration ('Brain drain'). The economic crisis and the crisis of the welfare economy have greatly contributed to the fact that in recent years more people from Eastern Europe have emigrated to Western Europe. The migration of skilled professionals threatens to become a short-term measure that replaces long-term public efforts. There are also difficulties with skilled labour migration related to conditions and regulations for working conditions, wage, quality of services and recognition of foreign vocational training certificates.

VII. Pressing issues concerning legislation on and financing of social entrepreneurship on the European level

At a time when welfare organisations meet growing competition they have to deal with the fact that privileges are being discussed on a European level as of private service providers are pushing a European debate on whether the non-profits are distorting competition. The argument is that welfare associations receive tax privileges for services that are also offered by private companies. This debate fails to take into account the above mentioned added value of the special services provided by the civil society organisations.

¹²<http://www.europarl.europa.eu/document/activities/cont/201304/20130425ATT65086/20130425ATT65086EN.pdf>

The privileges of welfare associations are also put into question because some national public procurement law stands in conflict with European public procurement law.

On the EU level there is no clear political stance on the social enterprises and public procurement procedures. The rules on public procurement do not include regulations on how to deal with items under non-profit law. Consequently, there is no exception for charitable service providers and the EU procurement rules threaten the special position of not-for-profit welfare organisations.

This is underlined by the Commission's definition of social enterprises.

Even though volunteer associations are recognized for their major contribution by Declaration 38 attached to the Treaty of Amsterdam which affirms the need to encourage such associations at European level they are, as previously indicated, also considered as social enterprises.

In accordance, a private company providing social services and reinvesting their surpluses to achieving a "wider social or community objective either in their members' or a wider interest" is treated under the same definition as a charitable organization providing social services with the support of volunteer commitment not looking toward 'short-term economic gains' but toward the long term sustainable positive effects of their service.

Effects of not taking into account the special position of welfare organisations can also be seen in relation to the so called *European Semester*.

Each year the European Commission undertakes a detailed analysis of EU Member States programmes for economic and structural reforms and provides them with recommendations for the next 12 to 18 months. In this way the Semester aims to ensure sound public finances, foster economic growth and prevent excessive macroeconomic imbalances in the EU.

For the evaluation the Commission sets up benchmarks and gives recommendations to the member states.

One example for such a recommendation to *improve access to healthcare and social services*:

The efficiency of health care could be improved by

- a) stimulating competition in health service provision
- b) ensuring that care delivery and reimbursement systems are focused more on the needs of patients and less on the supply of services¹³

It is of primary importance that the EU should examine whether the recommendation has a negative impact on the social economy. The recommendation a) *to stimulate competition in health service provision* doesn't take into account the quality or added value of a service. Related to recommendation b) there is no explanation on the term *needs of patients*.

Is a need to deliver a simple service or should the social impact also be taken into account? What about the social responsibility of a service provider also taking into account social inclusion?

¹³ The Economic and Legal Effectiveness of Anti-Money Laundering and Combating Terrorist Financing Policy in the 27 EU Member States – ECOLEF JLS/2009/ISEC/AG/087
http://ec.europa.eu/europe2020/pdf/nd/swd2013_germany_en.pdf

VI. Requirements and recommendations to politicians and decision-makers on national and European levels

The activities of general interest listed under III. have a big societal impact and social added value and affect significantly social development, economic growth and job creation. The maintenance of the quality of these services cannot be ensured through economic and competition-centred views. The added value of CSOs as explained above have to be ensured in terms of a clear definition, fiscal guidelines, political and legal concessions.

Bearing this in mind SAM.I. recommends to European Institutions and EU Member States:

- To extend the Commission's existing definition on social enterprises to highlight the added value characterizing a wide range of CSOs and differentiating them from other social enterprises (welfare organisations). This should lead to a European status and a European legal framework for welfare organisations.
- A clear distinction between welfare organisations and profit-oriented companies also means that the welfare aspect merits greater reference in national and European laws. To accelerate the activation and promotion of non-profits, there should be established a "Charity Law" - a European-wide established directive with fundamental rules recognizing the particularities of charitable corporations. This includes not only tax breaks, but will also affect the cross-cutting aspects of national legislation related to social economy, public procurement law, labor law etc. (eg. ASVG, SGB).
- To support the establishment and daily work of non-profit organisations providing services of general interest (especially in recent or pending EU countries in Eastern and South Eastern Europe). The Accessibility of financial instruments should be enhanced and institutional funding increased. Furthermore, exemptions on advance payment or interim finance should be agreed on financially strapped CSOs. The provision of financial resources should recognize the added value and societal benefit of social initiatives. Making this value clear should also improve access to public and private finance. For social enterprises, this cannot be the promise of high revenues, as is the case for the regular economy.
- The current European economic crisis increases the need to intensify the cooperation between welfare organizations, national and European politicians and institutions. Regarding the implementation of legal and financial framework conditions and measures related to social economy, CSOs should be increasingly involved and consulted in decision-making-processes on member state- and EU-levels.
- Ensure the provision of a range of funding opportunities for volunteer-involving organisations including facilitating the start-up of initiatives. Possibilities should go beyond major contracts and project based funding to include core funding or smaller grants and contract packages, allowing for full cost recovery (including overheads). Volunteering as a contribution in-kind for co-funding should be permitted and should be mandatory for small and very small grants. Being in receipt of direct private donations or tax assignments should not be a reason to cut other forms of support. In this way the access to EU funds increases for grass roots organisations. On national levels volunteers should be recognised as an added value in public procurement procedures in the health and social sector. Related to further financial and legislative support the P.A.V.E. document should be considered.¹⁴

¹⁴ P.A.V.E. - Policy Agenda for Volunteering in Europe

VII. INNOVEST -

New approaches of SAMARITAN INTERNATIONAL to empower CSOs

Financial instruments for the social economy are in most cases still restricted to the national level and financial crises always have social consequences for well-established Europe's welfare organisations. In some cases, there might not even be any special instruments reserved for the social economy and (young) social initiatives are increasingly facing a lack of governmental and private financial support and favorable structures for their establishment and daily work. Even where financial instruments exist, these do not always fit the needs of social enterprises.

Furthermore, knowledge about finance mechanisms and their usage and combined application is often limited. This is even the case for social enterprises' national financial landscape, let alone for the European perspective. In addition social enterprises often lack the capacity to make the best of new and existing financial options. The reason for this is that their expertise often lies with their societal cause instead of the financial (management) basis required to advance it.

In some cases, the problems for social enterprise finance are not solely between the finance providers and their beneficiaries but also on a political level. For instance, the capacities of some social enterprises are not appropriately utilised in some states, as the government does not recognise the potential benefits.

With **INNOVEST, Innovative Funding Model to Empower Social Enterprises**, the members of SAM.I. are recently started to strengthen their co-operation in the establishment of a complementary finance model to empower social enterprises. The project is supported by the *Bank für Sozialwirtschaft*, specialising in social economy, and the ASB foundation - *Stiftung Zukunft*, which accompany the project partners as consultants.

The project objectives are to:

- I. conduct research to assess and improve existing finance models. Both the demand and supply side are involved in the process of assessing financial instruments, obstacles in their application and how well they fit the needs of the social economy.
- II. give an overview about the partners practices, capacities, needs and possibilities by compiling and assessing existing financial instruments and co-operation structures.
- III. identify new approaches for social investment in all partner countries by aiding young organisations in capacity building and in turn profiting from their new approaches to address social needs.
- IV. develop an efficient mix of at least four sources of finance on the supply side (loans, foundation endowment, donation, member fees etc.). It consist of conventional as well as innovative (social media donation campaigns / crowdfunding) approaches and could be adapted in different political and social frameworks. Capacities and needs of the social partners as well as financial feasibility and all relevant stakeholders are taking into account.

At the same time, with the support of the SOLIDAR office, the consortium is lobbying for an enabling environment for (young) social enterprises, investing in social needs and providing social impact by defining political recommendations for both the national and the European level.