

# What future for the social economy?

## SUMMARY

Traditionally the social economy is considered to be an ever-growing set of private, formally organised enterprises and networks that build on multiple types of resources and cooperation, with local anchorage and democratic and participatory decision-making processes. Its primary aim is not to make profit but to meet the needs of its members and that of the wider society. The social economy is active in an increasing number of sectors, and while some of its actors are small non-profit organisations, others are large organisations with international outreach. It generates 6 to 8 % of the European Union's gross domestic product (GDP). However, it is a driver not only of economic activity but also of normative values, such as solidarity and inclusion. Since its conception in the 19th century, it has taken on board innovation in social relations and in societal and community spheres, human development targets and socio-political empowerment.

In the first two decades of the 21st century, with new risks and opportunities arising owing to the twin digital and green transformations there is an emerging debate, rethinking economic growth theories with more focus on inclusion and combatting inequality, and exploring the relevance of traditional welfare state models. This debate has intensified in the wake of the 2008 crisis, and now also as a result of the coronavirus pandemic and crisis. The social economy can play a central role in this context. While it has been badly affected by these crises, it also has the potential to mitigate some of the negative impacts. The social economy's values-based approach to the economy can enable it to generate new elements in the ecosystems in which it exists and be an important 'engine' in the immediate recovery and the longer-term possible restructuring of the economy towards more resilience, fairness and sustainability.

For the social economy to be able to reach its full potential across the Member States and help to achieve green and inclusive growth with renewed welfare state models, it needs to be supported simultaneously at all levels. EU action can contribute to this. The main areas of EU intervention are: facilitating access to finance and markets, including the digital single market; creating better framework conditions, including for cooperation and cross-border activity; supporting innovation, including new business models; and developing international relations. The Commission action plan on the social economy expected in 2021 might address many of these issues.



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## What is the social economy?

The social economy is a blurred concept, with no consensus on its definition. A 2016 comprehensive study [defines](#) it as: 'private, formally organised enterprises and networks that operate on the basis of democratic and participatory decision-making processes, producing market and nonmarket goods and services. In social economy initiatives, the distribution of profits or surpluses amongst members is not directly linked to the capital or the fee contributed by each member, but is directed towards meeting the members' needs, through the production of goods and the provision of services, insurance and finance'. As the social economy fosters solidarity, the [International Labour Organization](#) (ILO) calls it the social and solidarity economy. The social economy has long been an important 'provider' in education, healthcare, the energy transition, housing and the delivery of social services, and also in an increasing number of other sectors, such as banking. It can also be an important player in moving towards a greener economy and society. It can for example pioneer local green deals by forging local alliances between citizens and enterprises to address climate transition. The existence of the social economy is therefore strongly linked not only to the economy at large, but also to a well-functioning welfare state and the growing circular economy. The typical actors in the social economy are cooperatives, mutual societies, non-profit associations, foundations and social enterprises.<sup>1</sup> Some are small non-profit organisations, but others are large organisations with international outreach. Their common features include: multiple types of resource, sustainable practices, inclusive governance, local anchorage and cooperation.

[Historically](#), the social economy arose from the idea of a need to compensate for 'the failings of the dominant economy'. It also has links with a class culture that was dispossessed but also mutually supportive. This associative world then formed various types of organisation, such as trade unions, workers' political parties, mutual societies, cooperatives and voluntary organisations. The idea of social change is therefore woven into the identity and ethos of the social economy. The modern-day social economy still testifies to a growing collective awareness of certain challenges, such as social exclusion, and a commitment to find solutions to them.

The fact that there is no consensus on the definition of the social economy makes it difficult to estimate its contribution to the economy.<sup>2</sup> In 2105, it was [estimated](#) to employ the equivalent of approximately 6.3 % of the working population in the EU-28, and to generate 6 to 8 % of the Union's GDP, with the highest shares in Sweden, Belgium and the Netherlands, and the lowest shares in some southern and eastern European Member States. It also has huge potential for [social innovation](#) and [digital social innovation](#).

## European Union policies on the social economy

### Policy context

The [Single Market Act I](#), adopted in April 2011 put forward 12 projects to deepen the single market. The aim was to re-launch Europe's growth and social progress by promoting free movement for the benefit of businesses, citizens, consumers and workers. It also announced the [Social Business Initiative](#) (SBI), which was adopted by the Commission later that year. The SBI aimed to create a favourable environment for the development of social business<sup>3</sup> in Europe and the social economy at large. The initiative proposed three priority measures: improving the access of social businesses to funding, improving their visibility, and simplifying their regulatory environment. In addition, the European Commission's [Small Business Act for Europe](#) (SBA) is the overarching framework for the EU's small and medium-sized enterprises (SMEs). It covers all types of SMEs, including craft businesses, micro-enterprises, family-owned firms, social economy organisations and social enterprises. The 2020 [SME strategy](#) that was published as part of the [new industrial strategy](#) builds on the SBA, the 2016 [Start-up and Scale-up Initiative](#), and on the various funding programmes, such as the [Competitiveness for Small and Medium-sized Enterprises](#) (COSME) programme, and SME support actions funded under the [Horizon 2020 programme](#) and the [European structural and](#)

[investment \(ESI\) funds](#).<sup>4</sup> The new strategy sees SMEs as key to implementing inter alia the [European Green Deal](#), the [circular economy action plan](#), the [European strategy for data](#), and the [European Pillar of Social Rights](#). It will serve two of the six main [political priorities](#) of Ursula von der Leyen's Commission: an 'economy that works for people' and a 'Europe fit for the digital age'. Given the cross-cutting nature of the social economy, the European Commission has established an informal taskforce on the social economy and social entrepreneurship, gathering more than 20 directorates-general under the leadership of the Directorate General for Employment and the Directorate General for Growth. A recent communication '[A strong Social Europe for Just Transitions](#)' envisages a European action plan for the social economy. Calls for such a plan have multiplied in recent years from the social economy sector, the European Parliament (and its Social Economy Intergroup), the Council of the EU and the European Economic and Social Committee.

Finally, in the Commission [staff working document](#) accompanying the communication '[Europe's moment: Repair and Prepare for the Next Generation](#)', the social economy features among the 14 ecosystems to be supported by the recovery plan (under the heading 'proximity and social economy').

## Main areas of intervention

EU work on the social economy is organised around five pillars: access to finance; access to markets to encourage cooperation between traditional and social economy players; provision of framework conditions (i.e. mapping of the state of play of the social economy); innovation and new business models; and international relations.

### Access to finance

The social economy has [two main revenue streams](#). First, public funding through competitive tenders, direct contracting or grants and subsidies. Second, private funding through trading activity, rental income through assets, fees including membership fees, as well as sponsorship, donations or voluntary and in-kind donations, etc. In order to facilitate the expansion of this field around Europe there is a need for better funding of the social economy, which also means the development and implementation of innovative financial models capable of adapting to the new funding landscape. In recent years, a wide range of new funding mechanisms, from both the public and private sectors have emerged, with the specific aim of expanding innovative solutions. On the one hand, the public sector has increased funding for innovative solutions to respond to pressing social problems at a time of shrinking budgets. On the other, private investors and the banking sector are increasingly interested in the field of [social impact investment](#), which is the provision of finance to organisations with the explicit expectation of a measurable social as well as financial return. In this context, the EU has a crucial role to play in improving access to finance for those innovative solutions that meet social needs and address societal challenges. Increasingly, in recent years, EU funding programmes have given priority to social economy actors in different ways, ranging from the ESI funds managed in partnership with Member States to smaller and more specific funds that support social entrepreneurship. In doing so, the EU has been establishing a comprehensive financial ecosystem capable of supporting the social economy.

The social economy has been an [investment priority](#) under the (2014-20) [ESI funds](#), including the [European Regional Development Fund](#) (ERDF), the [European Social Fund](#) (ESF) and the [European Agricultural Fund for Rural Development](#) (EAFRD). Action under the ESF focuses on areas such as: healthy aging; sustainable inclusion in the labour market of young people who are not in employment or education (NEETs); access to employment for job seekers and inactive people and support for mobility; and improving the integration of migrants. Under the ERDF investment supports businesses by financing business advice, planning, providing premises, etc. Social investment<sup>5</sup> (primarily promoting investment in human capital) is further promoted through the [Youth Employment Initiative](#) (YEI), exclusively addressing NEETs. The [Fund for European Aid to the most Deprived](#) (FEAD) offers a way to tackle the most severe forms of material deprivation by

providing non-financial assistance, such as food, clothing, etc. The European [Globalisation Adjustment Fund](#) (EGF) is designed to support workers made redundant because of major structural changes due to globalisation. Financial support from the [Cohesion Fund](#) (CF), whose objective is the strengthening of economic, social and territorial cohesion throughout the EU, has been an important tool during the 2014-2020 programming period. Likewise, the [Health programme](#) has made special provisions in relation to the social economy.

Lastly, social economy entities can apply for funding directly under European Commission programmes available for SMEs, such as [InnovFin](#) under Horizon 2020 (research and innovation investments for enterprises) and [COSME](#).

As for innovative funding solutions, the [Employment and Social Innovation](#) (EaSI) programme supports experimentation to address social challenges. Its [microfinance and social entrepreneurship](#) axis supports the development of the European market for social enterprise financing by providing microcredit providers with risk-sharing guarantees in order to allow them to increase their lending. It also supports the building of microcredit providers' institutional capacity. In addition, the European Investment Fund (EIF) engages in activities aimed at increasing the availability of and access to finance for social entrepreneurs. It manages two financial instruments under EaSI: The [EaSI Guarantee Instrument](#) and the [EaSI Capacity Building Investments Window](#). Furthermore, the EIF helps [microcredit](#) institutions to expand their capacity to lend to micro-enterprises. These micro-loans (up to €25 000) are tailored to micro-enterprises and can be used by social entrepreneurs. In 2015, the EIB Group (European Investment Bank and EIF) created the [Social Impact Accelerator](#) as a fund-of-funds, strategically targeting social enterprises.

Meanwhile, the [European Fund for Strategic Investments](#) (EFSI), an equity instrument based on a strategic partnership between the European Commission and the EIB, also supports social enterprises through pilot equity investments made via funds linked to incubators and accelerators, as well as co-investments with social business angels. Since 2017, EFSI has also been encouraging the EIB Group to help national promotional banks set up investment platforms to bundle several small-sized projects by theme or by region in order to attract investors.

The [European Venture Capital Funds](#) (EuVECA) and the [European Social Entrepreneurship Funds](#) (EuSEF) are collective investment schemes that have been harmonised at European level since 2011. The latter, for example, is a label that does not provide direct EU-level funding but that sets out a label so that private investors can easily identify funds that focus on investing in social businesses across the EU. To qualify as a EuSEF, a fund has to prove that at least 70 % of the capital received from investors is invested in social businesses. In its 2016 [review](#) the Commission noted that these funds remain small and concentrated in a few Member States. To overcome the obstacles it has proposed some measures: to remove limitations on larger fund managers, decrease costs, and broaden the range of eligible assets in which EuVECA funds can invest.

Finally, [crowdfunding](#) is a relatively 'young' form of financing – especially for SMEs and start-ups, but also for not-for-profit projects – that is developing fast in Europe. It can be [defined](#) as an open call for 'the collecting of resources (funds, money, tangible goods, time) from the population at large through an internet platform. In return for their contributions, the crowd can receive a number of tangibles or intangibles, which depend on the type of crowdfunding'. While researchers point out its benefits, among them the fact that project owners have greater control, and financial risk is spread among a larger number of people, they also note its drawbacks. The latter include a high cost of capital, occasional displays of 'herd mentality', capable of depriving potentially worthier projects of adequate funding, and risks for investors from incompetence or fraud on the part of the project owners, and unclear regulations. Under the [new regulation](#) from 2020 crowdfunding platforms operating in more than one EU country will have to comply with a single set of basic rules – the new regulation – instead of different rules in each country. The accompanying [directive aims](#) to broaden access to finance for small companies. The rules will apply to EU crowdfunding service providers that raise up to €5 million per project per year.



The new [multiannual financial framework](#) (MFF) proposal still under negotiation, combined with the Next Generation EU (NGEU) recovery plan, might carry some new funding opportunities for the social economy. The 2018 [Commission proposal](#) aimed to achieve a more strategic approach to the above discussed funds, and consequently more synergy between them, by: creating the [European Social Fund +](#) (incorporating the ESF, the YEI, the FEAD, the EaSI and Health); establishing a stronger link between the [European Semester](#) and the ESI funds; changing the allocation principle under the [Common Provisions Regulation](#); and simplifying the rules for accessing the ESI funds. At least 25 % of the ESF+ is earmarked for promoting social inclusion and tackling poverty, at least 2 % for material support for the most deprived and 10 % for tackling youth unemployment.

Moreover, Next Generation EU has some new instruments, including a [Recovery and Resilience Facility](#); [Recovery Assistance for Cohesion and the Territories of Europe](#) (REACT-EU); a [Solvency Support Instrument](#) (under the EFSI); and the Strategic Investment Facility (under InvestEU) that are relevant for the social economy. In addition, the already planned MFF will be topped up in certain key areas for the social economy. These include the EAFRD, the Neighbourhood, Development and International Cooperation Instrument (NDICI) and Horizon Europe for research and innovation (with proposals for amendments in an [omnibus regulation](#) covering all of them); the [Just Transition Fund](#); an already planned component of [InvestEU](#), will replace the original scheme<sup>6</sup> in the 2018 proposal. In addition, [EU4 Health](#), previously part of the proposal for the broader ESF+, would become a specific and standalone programme, receiving more than 80 % of its resources from NGEU and the remainder from the standard MFF.

Finally, the financing of the EU's green recovery should be based on the [EU taxonomy](#) that classifies economic activities according to their contribution to environmental objectives. The aim is to redirect private capital flows towards green and social responsible investments. A renewed sustainable finance strategy and a new proposal on sustainable corporate governance have been announced for the end of 2020.

## Access to markets

The main thrust of the EU's activities in this domain is to promote socially responsible public procurement,<sup>7</sup> foster cooperation between traditional enterprises and social economy enterprises, and stimulate the cross-border activities of social economy enterprises.

Public procurement mechanisms can trigger competition based on cost minimisation criteria. Thus, they [were shown](#) to discourage innovation and push social enterprises into adopting practices that typically characterise either public welfare providers or traditional mainstream enterprises. Moreover, by inducing budget cuts, competitive tendering weakened the ability of social enterprises to detect unmet needs, with detrimental effects for the most vulnerable beneficiaries. The 2014 [EU public procurement](#) rules that were to be transposed in the Member States by 2016 marked a significant step forward. They gave more opportunities to launch more socially oriented initiatives, more possibilities for SMEs, and simpler and more flexible rules. They also introduced a new procedure for the purchase of innovative products and services (innovation partnerships). These new rules have offered new opportunities to social enterprises and have encouraged the evaluation of bids, in particular those concerning social and health services, on the basis of the best price to quality ratio. Furthermore, the EU public procurement rules have provided more opportunities for reserved contracts, which restrict the tendering process for certain goods and services, and the use of social clauses, whose adoption is however still decided at national level. However, the 2020 [study on the eco-systems on social enterprises](#) still reported on the controversial effects of these rules. In some contexts they were reported to have opened the provision of services to new, more innovative and more efficient providers, and to have helped to stabilise relationships between social enterprises and public agencies; while in others they were said to sometimes hamper the exploitation of this opportunity.

As part of its efforts to facilitate the uptake of socially-responsible criteria in public procurement and promote their use across the EU, the European Commission has been organising a series of

workshops on the use of social clauses, [collecting good practices](#) and updating the '[buying social](#)' [guide](#). Efforts in this field are also closely linked to [green and sustainable public procurement](#).

The [European Social Economy Regions pilot](#) (ESER) launched in February 2018 was designed to raise awareness about the social economy at regional and local level. In practice, 32 EU regions and local authorities from 14 Member States organised events around the social economy and invited stakeholders to build active networks. The Commission's services contributed to regional events by providing the ESER with a visual identity and sending an expert to present EU policies and initiatives in the field of social economy. The programme is already in its third edition. In addition, the new '[social economy missions](#)' initiative is aimed at creating partnerships between social economy enterprises and stakeholders, SMEs and public authorities from different EU regions, and provides an opportunity to share good practices in relation to shared societal challenges.

## Improving framework conditions

The social economy as a whole contributes to the development of the economic system embraced by the EU Treaties (Article 3 of the Treaty on European Union, TEU); it represents an instrument that realises participatory democracy in Europe (Article 11 TEU). So far, the rather limited scope of the policies deployed by the EU to promote the social economy does not seem to take into account the multidimensional nature of the social economy and the subsequent need to develop a cross-sectorial policy framework capable of fully capitalising on the overall social economy potential. There has been no consensus among Member States on the usefulness of a European legal framework or similar to improve the situation.

Since the 1980s, attempts have been made to develop commonly accepted statutes for traditional social economy entities ([cooperatives](#), foundations, associations and mutual societies). However, as Member States have not been able to agree, only one [statute for a European cooperative society](#) has been adopted. Debates on the usefulness of legislation on [associations](#) are also ongoing. In 2018, Parliament proposed the introduction of a [social economy label](#) based on Article 50 TFEU. This would apply to all social and solidarity-based enterprises regardless of the legal form they decided to adopt in accordance with national legislation. The European Commission [stressed](#) that the results of existing national labelling systems had been mixed. The wisdom and feasibility of creating a Europe-wide label should therefore be further examined and discussed with stakeholders.

As a follow-up to the Social Business Initiative, the European Commission has been [mapping the state of play of social enterprises](#) across the Member States. The study, encompassing 36 countries including EU, European Free Trade Association and accession countries, emphasises the ever growing but still very diverse ecosystem of social enterprises; this growth reflecting in part the gradually changing general mind-set in which social responsibility and sustainability are becoming more important. Finally, the online tool '[Better Entrepreneurship Policy](#)', developed by the Commission with the OECD, enables policy makers to assess the policy eco-system in which their social enterprises operate and learn from international case studies and guidance material.

## New technologies, new business models

The combination of social and technological innovation has great potential in the social economy. Moreover, fruitful interaction between social and traditional economy players can bring about new business models. A survey carried out in the framework of the [Social Good Accelerator](#) looking into the interaction between social and technological innovators found that interaction with tech brought 78 % greater social impact for social utility structures. The interaction generally happens in a cross-sector environment and takes many forms, including co-creation, the incubation of social start-ups, social 'extrapreneurship',<sup>8</sup> etc. A [recent study](#) dug into the details of this across countries and showed the potential wealth of such cooperation, both for the traditional economy, which can learn how to be socially responsible, and for the social economy, which can become more tech-savvy. However, very often the social economy has difficulties accessing and developing digital solutions, owing mainly to a lack of financial resources. The [2020 Digital Economy and Society Index](#)

showed just before the pandemic that enterprises were becoming more and more digitised. However, while 8.5 % of large companies already relied on advanced cloud services and 32.7 % were using big data analytics, the vast majority of SMEs (in many ways similar to social economy entities) reported that they were not yet using these technologies, with only 17 % of them using cloud services and only 12 % big data analytics. A broader issue is the fact that the digital market strategy makes [no direct mention](#) of the social economy; this does not make participation of these entities in the digital single market easier.

At the same time, the EU does provide the possibility for social economy actors to be innovative by organising competitions and setting up platforms – a utility celebrated by social economy actors – to address societal challenges. Since 2013, the [European Social Innovation Competition](#) has addressed a wide array of issues ranging from new forms of work to problems of waste. The [Collective Awareness Platforms for Sustainability and Social Innovation](#) (CAPS), launched in 2012, have pioneered new models aimed at raising awareness of emerging sustainability challenges and of the role of the individual in facing them through collective action. They place great emphasis on leveraging open data, knowledge networks, open hardware, and the internet of things with broad public participation.

## International dimension

Finally, in the European Commission, the directorate-general responsible for neighbourhood policies (DG NEAR) places a major emphasis in its programmes on supporting private-sector development, with a view to achieving socioeconomic impact – including social inclusion – in the targeted countries. Moreover, it stresses that to achieve these objectives it is important to develop social economy policies, and to help civil society organisations to become financially sustainable. The European Commission works closely with the [European External Action Service](#), taking part in international development fora (the Agenda 2030 sustainable development goals, the [G20 inclusive business platform](#) and the [G7 global social impact investment steering group](#)) to raise the profile of the social and solidarity economy (SSE) and secure its place on the global political agenda. The [UN Inter-Agency Task Force on SSE](#) and the [international leading group on SSE \(ILGSSE\)](#) are already observers in the [Commission's expert group on social entrepreneurship \(GECES\)](#), and the Commission is developing a constructive relationship with these two entities.

## Impact of the coronavirus pandemic and EU support

Although the social economy has been seriously affected by the outbreak and lockdown measures, it has also played an important role in supporting under-served groups and building solidarity. In a [survey](#) carried out in May of 274 social economy actors across Europe, 88 % of the respondents claimed that the pandemic and lockdown had had a major impact on their activity, while 71 % said that the coronavirus crisis had seriously affected employment within their enterprises or organisations. The three sectors most hard hit according to the survey were social services, education and training, and cleaning, security and other personal services. In terms of employment, 31.5 % of those surveyed were covered by temporary unemployment schemes, and 18 % had suffered reduced or suspended activities. In connection with this, 14 % of those surveyed mentioned reduced working hours, and 12 % of the respondents had had to let staff go (in some cases the entire workforce), with non-renewal of contracts among the measures adopted.

Already during the 2008 economic crisis, the social economy played a key buffer role, mainly on account of the rules governing social economy entities relating to profit distribution and ownership. These make social economy actors more grounded locally, while making their long-term approach less vulnerable to short-term financial difficulties. This pattern has been repeated during the pandemic. The social economy helped to [mitigate the crisis](#) immediately in several ways: providing health and social services; responding to immediate need by working with local and regional authorities to support at-risk-groups, such as the elderly, with grocery shopping and the collection of medication; and helping governments with bottom-up solutions. The short-term goals of these

[informal community projects](#) have been to meet an urgent need, but their long-term effect has been to help build community. Some platforms have grown into [national networks](#), others into [global movements](#). In economic terms, the social economy can help to fix market failures, as it favours social purposes. It can help to fix state failures as it is more flexible, faces lower production costs and is able to mobilise additional resources through donations, sponsorship, etc. It can also mitigate negative externalities, by helping to generate more preventive approaches and save future costs.

Supportive measures for the social economy in response to the coronavirus pandemic have included financial support, deferral schemes for taxes, social security contributions and rent of public space, job retention and unemployment schemes. The Commission's immediate [coordinated response](#) in support of Member States also included several initiatives that could support the social economy.

- **Framework for temporary State aid measures:** This allowed Member States to apply full flexibility in supporting their economies hit by the pandemic. Initially the framework focused on measures to ensure liquidity. From April onwards, it has been widened to include measures to support the economy and coronavirus-related medical investment, research and production, as well as measures to ease the social and tax liabilities of companies and the self-employed and measures to subsidise workers' wages.
- **SURE initiative:** The temporary Support to Mitigate Unemployment Risks in an Emergency (SURE) initiative was designed to protect jobs, mainly through short-time work schemes.
- **Coronavirus Response Investment Initiatives (CRII and CRII+):** As a response to the most urgent needs, the Commission proposed an initiative made up of two packages, CRII and CRII+, to make €37 billion available from the EU structural funds to mitigate the impact of the crisis on the most vulnerable sectors, including labour markets. As ESF funding is already used to ensure access to quality services, including healthcare, it can be used to pay for healthcare equipment and protective equipment for healthcare workers, to recruit additional healthcare staff and to deliver community-based services for the most vulnerable. It can also be used to support new forms of working arrangements, including telework, and ensure workers and the self-employed reintegrate into the labour market.
- **Fund for European Aid to the Most Deprived (FEAD):** The FEAD provides assistance for the supply of food and other basic needs to the most deprived groups. To meet their needs during the pandemic and complementing the CRII.
- **European Globalisation Adjustment Fund (EGF):** This solidarity fund finances active labour market measures (such as training, job searches and business start-ups), supporting people who have lost their jobs as a result of major changes linked to globalisation or the global economic and financial crisis.
- **Liquidity measures to help hard-hit SMEs:** The EIB Group aims to invest an additional €20 billion in small and medium-sized businesses, partly using its own capital and partly backed by the EU budget. The European Commission has also unlocked €1 billion in an EU budget guarantee for the European Investment Fund, so that it can provide businesses with liquidity, mobilising €8 billion in all to help at least 100 000 companies. Finally, the Commission launched the [ESCALAR programme](#), proposed under the [new SME strategy](#): a new investment approach providing €300 million to increase venture capital and private equity investment, aiming at triggering funding support up to €1.2 billion to grow high-potential companies.



## Social economy welfare state reform and the 'new economy'

The social economy is an important engine for restructuring the economy and also for achieving greater resilience, fairness and sustainability in society and in the economy. Since the end of 2019, the [social economy canvas](#) project has been exploring the complex ecosystem of the social economy. The current prototype of the canvas, created using a bottom-up approach involving desk-research and co-design workshops, involving policy-makers, practitioners, academics and designers, visualises the complexity of the social economy's social, economic and environmental implications. It also helps social economy players to design and develop social economy activities. In addition, the canvas should help policy-makers to design policies for the social economy by looking at it not as a niche in the traditional economy but rather as different way of carrying out economic activity based on normative values, such as solidarity and inclusion.

New trends in thinking about the economy and the welfare state make the case for a stronger social economy. [New economic thinking](#) that particularly gained ground following the 2008 financial crisis has been putting more emphasis on society's ills than on economic orthodoxy, and paving a way for alternative, more human-centric models of progress. Economic thinkers, such as [Esther Duflo](#) and [Marianna Mazzucato](#), for example, focus in their modelling on how to combat inequality, and how to achieve a sustainable and inclusive economy. During this pandemic Mazzucato has reiterated and reinforced her idea of using these challenging times of [triple crisis](#) (i.e. economic, public health and environmental) as an opportunity to make a systemic shift towards an innovative entrepreneurial state where a strong (not reduced) public sector works together with the private sector to address the emerging challenges with innovative solutions. Duflo also makes the case for stronger government based on the latest evidence in the coronavirus crisis, for intelligent forms of intervention based on sound research into real-life situations, and for a society and policy based on compassion and respect.

These times could be said to resemble those referred to in [Karl Polanyi's Great Transformation](#), in the second half of the 19th century, when – in his view – the growth of capitalism threatened core social relations that had welded human society together for many thousands of years. [New risks and opportunities are arising](#), including rapid aging, low growth rates, shrinking tax bases putting fiscal pressure on social security systems, a shift in gender roles and family structures, and structural changes in the labour market. Territories, social groups, families, and individuals face situations of unforeseen need and insecurity. The pandemic has served to emphasise these trends still further.

In this context there has been much discussion around the challenges of traditional welfare state models and their legitimacy, particularly after the 2008 financial crisis. Recent studies have challenged the relevance of the traditional models described by Esping Andersen:<sup>9</sup> liberal, conservative corporatist and social democratic; and also the later-defined southern European and central and eastern European or post-socialist regime. These recent studies emphasise that there has been convergence<sup>10</sup> in responses to challenges in certain policy areas: reduced generosity towards the unemployed and people with disabilities, greater protection for older people, more social investment in family policies and childcare, and a trend towards the privatisation and individualisation of policies, as well as pre-distributive policies, such as the introduction or strengthening of the minimum wage. There has been also convergence in the financing models of the welfare state. The digital transformation of the labour market makes a purely insurance-based mechanism (Bismarckian model) no longer feasible. At the same time, the digital transformation has also led to a [fall in middle-skilled routine jobs](#), that has in turn led to the decline of the middle class. This then also puts into question a financing mechanism based on tax revenues (Beveridge model), as the main source of this revenue – the middle class – is squeezed. All in all, in the first two decades of the 21st century, people have had to take increasing responsibility for their economic outcomes. This has brought positive developments for some, but also growing pessimism and a loss of trust in institutions for many. Now, new adjustments, a new 'social contract' may be necessary to address the [shifting balance](#) between individuals and institutions.

The social economy has taken on board innovation in social relations, in societal and community spheres, human development targets, socio-political empowerment, etc. Social innovation that is part and parcel of the social economy allows new forms of social learning oriented towards the production of knowledge and collective problem solving. The social economy, grounded in social movements and concerned with empowering the poor, deprived and underprivileged, can address some of the problems, such as urban regeneration (e.g. social housing, insulation, and energy savings) while also helping to generate local demand, and reskill the long-term unemployed, reintegrating them into an expanded labour market.

As for the future of the welfare regime, [several scenarios](#) can be imagined. In one of them social economy players can play an active role, by helping to move towards a multi-layered welfare system with a high level of engagement from many players from the public and private sectors and with a redefined role for government. In this scenario, governments have responsibility for the governance of the supply side of the new multi-layer welfare system. There is a greater chance of achieving the ideal scenario if policies are directed towards supporting 'social effervescence'. In practical terms, this means making boosting solidarity their goal.

Certain characteristics of the social economy can contribute to its role in driving the transformation of the economy and the welfare state:

- It is [human-centric and generates measurable social outcomes](#) as well as values and can bring about social change. The social economy even has the potential to be a complementary force in the labour market and at the same time [secure the basic rights](#) of the most vulnerable.
- In practice it can generate a [more holistic approach to innovation](#) – combining the social and the technological. Social economy actors have great potential for innovation because they are rooted in the territory and are born in response to communities' needs or opportunities. They are also part of the sustainable production systems rooted in local and regional economies. Their recent exponential growth has led to the creation of both new platforms for direct producer-consumer sales, but also of some corporate solutions. Consequently, they are also important players in the growing circular economy.
- It can also help to [channel jobs and emerging sectors](#), such as the silver economy, that are at risk of non-standard forms of work. This will be particularly important in the coming years, as a larger share of employment will come from the service sector (including, in particular, personal care and social services), and will be much less structured than in the past, owing to the rise of the gig economy. In addition, the social economy can be particularly [helpful in the recovery](#). This includes building renewable energy communities and moving from centralised energy markets to decentralised energy markets in which citizens produce and consume their own energy. This can also strengthen territorial cohesion by providing jobs in depopulated areas.
- It can promote new investment models based on public and private partnerships.
- It can reinforce participatory practices of governance. The special relationship between political authorities and civil society brings more inclusion and transformation. [For this to succeed](#), local initiatives need to be supported at trans- and supra-local levels to enable an equitable and ecologically sustainable social order.

All in all, the social economy can help with finding the [right direction](#) out of the crisis, by helping to address the root causes of the current triple-crisis in a multidisciplinary way. On an even deeper level, it can also contribute to the debate on the issue at the core of the current systemic change: the [relationship](#) between knowledge, technology, society and policy-making.

## Outlook for future EU action

There are a number of ways in which the EU can help the social economy not only to recover from the current crisis but also to play a transformational part in moving towards a more sustainable, fair and resilient society and economy.

When it comes to financing, it is the [Commission's intention](#) that the new MFF, reinforced by Next Generation EU, should not only favour an economic rebound but also ensure that the recovery path incorporates green and digital objectives, with a view to making the EU and national economies more sustainable and resilient. The Commission is trying to prevent that the proposed fiscal stimulus package supports unsustainable patterns and locks them into a longer timeframe. The Social Economy Platform has [suggested](#) involving social economy players in the process, and creating a separate fund within NGEU by means of co-financing – a Social Economy Support Fund. A 2020 report on [microfinance](#) – an essential financing tool for the social economy – highlights a growing financing gap, implying a need for increased supply of microfinance products for micro-enterprises and vulnerable members of the population. It suggests that as the EU is the biggest microfinance provider in the Member States, it must adjust its existing microfinance instruments to the changing needs of the market; do more to harmonise the legislative frameworks for microfinance across Member States; and develop new EU financial instruments, such as an inclusive guarantee instrument for social bonds.

As far as accessing markets and favourable framework conditions are concerned, the governance of the funds will be key. Some argue that NGEU will be only successful if it is [accompanied by structural reform](#). Others emphasise the importance of the [extended collaboration](#) of national governments with regional and local authorities while designing their recovery plans. There is also emphasis on the importance of [establishing sustainable supply chains](#), not only from the point of view of corporates but also in the interest of small producers, workers and future generations. These include a smart mix of legal and bottom-up initiatives to transform supply chains. In this context the EU has the capacity to establish transversal institutional and normative links to unlock social economy potential so as to shape a more efficient and participatory model of goods and services provision. This would help sustain economic growth while providing innovative responses to social needs. For the right transformations to happen some important elements include: public policies that include business support for producer organisations in accessing new markets; well-functioning responsible public procurement mechanisms; legislation that improves respect for human, labour and environmental rights; and the transformation of businesses from profit primacy to mission primacy. Finally, the EU policy space (including the [GECES working group](#)) also enables the development of tools to help organisations evaluate their [impact](#) and share data and best practice.

As for new technologies and business models, it is vital that social economy players be empowered (in terms of both infrastructure and human capacity) and have [full access](#) to the digital single market. Through their participation in the digital single market, social economy actors could help both users and service providers to become collective owners, rather than just consumers or workers. The interlinkage between digital technologies and the social economy could help balance creative freedom and social protection objectives.

The forthcoming action plan on the social economy provides a good opportunity not only to raise the visibility and importance of the social economy but also to introduce tools that can equip it to play its driving role in the current transformations.

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## ENDNOTES

- <sup>1</sup> There is currently no consensus within the EU on the definition of 'social enterprise', but most definitions would emphasise its entrepreneurial, social and participatory governance nature.
- <sup>2</sup> One current project is measuring the contribution to the economy by establishing [satellite accounts](#).
- <sup>3</sup> [Social business](#) covers an enterprise whose primary objective is to achieve social impact rather than generate profit for owners and shareholders. It operates in the market through the production of goods and services in an entrepreneurial and innovative way, using surpluses mainly to achieve these social goals. It is managed by social entrepreneurs in an accountable and transparent way, in particular by involving workers, customers and stakeholders affected by its business activity.
- <sup>4</sup> The European Regional Development Fund (ERDF) and European Social Fund (ESF) reached out to over 900 000 and 500 000 SMEs in Europe respectively.
- <sup>5</sup> [Social investment](#) emphasises public policies that 'prepare' individuals, families and societies to adapt to challenges, such as changing career patterns and working conditions, new social risks, population ageing and climate change.
- <sup>6</sup> In addition, in 2016, [social investment](#) in the EFSI was modest: less than 4 % was used for social infrastructure and 1 % for social services. Partly in response to this, the new proposal for the 2021-2027 period, [InvestEU](#) is dedicating a €4 billion budget (expected to yield a €50 billion investment) to 'social investment and skills'.
- <sup>7</sup> [Public procurement](#) refers to the process by which public authorities, such as government departments or local authorities, purchase work, goods or services from companies. Examples include the building of a state school, purchasing furniture for a public prosecutor's office and contracting cleaning services for a public university. In the EU an average of €2 trillion is spent on public procurement each year, which is about 14 % of EU GDP.
- <sup>8</sup> [Originally](#) the concept was used to explain activity leading to corporate spin-outs as distinct from intrapreneurship (creating new opportunities within an organisation) and entrepreneurship (creating new ventures outside existing organisations). In the contemporary context it captures the idea of extra-organisational action that facilitates creative combinations of ideas, people, places and resources for impact. In the social context it is a concept that complements social entrepreneurship and social intrapreneurship.
- <sup>9</sup> G. Esping-Andersen, *The three worlds of welfare capitalism*, 1990.
- <sup>10</sup> P. Taylor-Gooby, B. Leruth and H. Chung, (eds.), *After austerity: welfare state transformation in Europe after the great recession*, Oxford University Press, August 2017.

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