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Social Enterprise: an Overlooked Approach to Promoting Sustainable Economic Regeneration

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Social Enterprise – An overlooked approach to promoting sustainable economic regeneration

By Gerard Doyle and
Tanya Lalor

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SOCIAL ENTERPRISE

- An overlooked approach to promoting sustainable economic regeneration

By Gerard Doyle and Tanya Lalor

Introduction to Social Enterprise

Across Europe, social enterprises are making a significant impact on communities, particularly those blighted by high levels of unemployment, poverty and disadvantage. According to the European Commission, they represent 2 million enterprises (i.e. 10 per cent of all European businesses) and employ over 11 million paid employees (the equivalent of 6 per cent of the working population of the EU). Social enterprises are present in almost every sector of the economy, such as banking, insurance, agriculture, craft, various commercial services, and health and social services. The benefits of social enterprises are many, but in economic terms, they can support the Irish economy on its road to recovery in a number of ways. Not only can they reduce and prevent long-term unemployment, they can provide training and re-skilling, and they can provide important services in marginalised communities. The benefits to the State are obvious - social enterprises will reduce State expenditure on social welfare payments and will provide services in a cost effective way.

A social enterprise is a business which is formed to provide employment, services or to create income for community benefit.

Social enterprises share the following features:

- Provision of services or products on a traded basis, for example, childcare, security, training, food. In this respect, they are unlike traditional community and voluntary organisations which are either engaged in advocacy or charity.
- Autonomy: they are formed by groups of citizens who then govern them. State agencies or private companies do not have any direct or indirect control over how they are run.
- Community initiative: they are formed in response to an unmet community need. Groups of individuals form them as opposed to one person.
- Democratic decision-making: their decisions are based on one member one vote.
- Participatory character: the users of social enterprise services are represented and participants at all levels of decision-making structures.

- Limited distribution of profit: some social enterprises do not distribute any of the profits to their members. While others, most notably cooperatives, distribute a limited amount of profits. By doing this, they ensure that the primary aim of responding to community needs is prioritised.

In Ireland, recent research on the sector estimated social enterprises in disadvantaged areas to be worth €240 million in revenue, to employ over 9,300 people directly, and support a further 5,100 indirectly.¹

Social enterprises are present in most communities in Ireland and include services such as community childcare projects, rural transport, energy efficiency services, community cafés, and training projects. However, social enterprises could have a greater impact on the renewal of the Irish economy if the State provided more supports for social enterprises.

Currently the State provides very limited financial support to the development of social enterprises and there is no clear policy framework or strategy for development of the sector. Compare this to the emphasis given, and number of agencies established, to indigenous private sector enterprise development.²

This policy vacuum makes it very difficult for communities to establish social enterprises. This is particularly the case in economically marginalised communities which have limited access to financial capital and the essential business expertise. In particular, there is no State funding programmes that provide capital for social enterprises to grow. When the State does invest in the promotion of social enterprise development, it is restricted to taking the form providing grant finance to small social enterprises in disadvantaged communities to cover the costs of employing people who have been unemployed. Indeed, it has been argued that the State's primary motive in providing this support is to reduce the number of people on the live register.

By affording social enterprise a low priority and limited investment, the sector is consigned to playing a marginal and peripheral role in the development of the Irish economy. The rest of the article will highlight what could be possible if this was reversed.

¹ Clarke, A. And Eustace, A. (2009): *Exploring Social Enterprise in nine areas in Ireland*. Research undertaken on behalf of PLANET.

² In addition to circa. €3.3billion for private enterprise support throughout the lifetime of the current National Development Plan

Social Enterprise and community urban regeneration

There are a number of examples where social enterprises have played a lead role in the regeneration of disadvantaged communities. Predominately these arise in the United Kingdom, where the approach is based on the belief that when communities have a major influence over the physical, social and economic development of their localities, then the outcomes for residents is far superior than those delivered by Public Private Partnerships.

Coin Street Community Builders is a social enterprise in the South Bank area of London. It has acquired assets and property and is providing social and affordable housing, leisure and recreational amenities, as well as employment opportunities for the local community. The property and assets are community-owned and the income generated from them is used to develop and support community services and facilities. However, achieving this was not easy. Coin Street Community Builders campaigned hard for community-led regeneration because the prevailing policy favoured private-developer-led regeneration.

The Coin Street experience demonstrates the possible benefits for urban disadvantaged communities, particularly those communities that are located close to a city centre. This is 'participatory democracy' in action and it demonstrates that residents collectively can have a real influence over how their community develops in terms of the local economy and the physical environment.

Local services can be delivered by social enterprises that employ local residents. This contributes to residents taking greater ownership of the upkeep of their estates. In addition, jobs are kept within an area, and in turn this can provide the impetus for additional economy activity, in the form of new social enterprises or inward investment. The risk of neighbourhood urban decay can therefore be significantly reduced and the need for the State to repeatedly invest in capital regeneration programmes is lessened.

Although pursuing social enterprise-led regeneration programmes may be challenging to State agencies, they can lead to far more sustainable outcomes for the State, because these social and economic benefits are not the drivers for the private sector, but are the sole focus of social enterprises.

However, in Ireland for this to become a reality would require both policy initiatives to be implemented and a 'buy-in' from central and local government towards social enterprise. In

particular, it would necessitate many policy makers starting to believe that social enterprise is a valid mechanism to promote economic activity and generate wealth.

Social Enterprise at a regional level

There can be an assumption that social enterprises are small scale. However, recent research has highlighted the importance of a number of communities collectively collaborating to form large-scale social enterprises that have the critical mass to provide services or produce products on a regional basis.³

Social enterprises organised on a regional basis can serve two functions: they can provide an independent source of funding for communities to improve their quality of life, and they can also demonstrate to Irish society that there is an alternative way of engaging in significant economic activity that produces services that people need and promotes democratic working environments.

Moreover, the existence of cooperatives (one form of social enterprise) on a regional basis has shown to positively impact on the quality of life of the population. For instance, research undertaken by David Erdal indicates that health, education, crime and social participation were all better in the towns with a large proportion of the population employed in cooperatives.⁴

Moreover, few would dispute the positive impacts that the credit union movement or the G.A.A have had, in social and economic terms, on a regional and national basis.

Social enterprises, in particular cooperatives organised on a large scale, have the capacity to make a real contribution to reducing income inequality which is rife in Irish society. This is achieved because the scale of income differentials is placed under democratic control.

Social Enterprise and public procurement

Public Procurement, the purchase of goods and services and the ordering of works by a public authority, accounts for approximately 16 per cent of the GDP of the whole of the European

³ Doyle, Gerard (2009): *What difference does it make: the Current and Potential Contribution of Social Enterprise to the Regeneration of Urban Disadvantaged Communities in the Republic of Ireland*. Available online: <http://www.tsa.ie/assets/Uploads/What-difference-does-it-make.pdf>

⁴ Cited in Wilkinson, D. and Pickett, K. (2009): *The Spirit Level: Why More Equal Societies Almost Always Do Better*. London: Allen Lane

Union⁵. The power of public procurement in relation to economic development cannot be overstated. In 2007, public procurement in Ireland accounted for over €8billion.

This purchasing power presents massive opportunity for the revitalisation of disadvantaged communities, and one which could be a significant stimulus to the social enterprise sector. This would be in the direct interest not only of social enterprises but of the State, by contributing to the achievement of the State's objectives for social inclusion, labour market participation, local economic development and social and economic regeneration.

EU Public Procurement Directives

The EU public procurement process is overseen by the EU Procurement Directives (2004) which set out the legal framework, detailed procedures and criteria for specification, selection and award of contracts above certain thresholds. The principles of procurement are transparency, equal treatment and non-discrimination, proportionality, mutual recognition.

While best value for money is the primary objective of procurement policy, the definition of value for money allows for the inclusion of social, economic and environmental goals, as long as these goals are specific to the contract (Article 26).⁶

Strategies - selected European examples

Preferential purchasing has been a key element in the growth of social co-operatives in Italy, and has enabled them to play a central role in the delivery of services. Italian law 381/91 laid the foundations for the preferential relationships. These were initially contested by the EU on the basis that it was in breach of competition policy. However, legislation that followed clarified this issue by implementing European law, but also allowing municipalities to only accept tenders for some contracts from organisations meeting a minimum requirement on the employment of disadvantaged people - a condition which only social co-operatives will normally meet. As a result, the revised preferential system was approved by the EU, provided that each contract falls under set thresholds.

In the UK, the *National Procurement Strategy for Local Authorities* sets out a challenge for all local authorities to develop 'mixed service provision' including purchasing from social

⁵ European Commission, DG Internal Market.

⁶ Moreover, European legislation does not apply to all contracting and procurement activities - it comes into force once certain thresholds are exceeded (for supplies and services, the current threshold is €125,000 for the government departments and offices, and €193,000 for local and regional authorities and public bodies outside of the utilities sector). For such contracts, the principles governing the rules of public procurement under the EC Treaty apply, and competitive tendering should always be used, except in exceptional circumstances.

enterprises and provides for social clauses⁷ in procurement procedures. In France, social clauses providing for recruitment of local unemployed people is in place in some city councils' procurement practice.

Social Enterprises in this country believe procurement policies to be a major constraint for social enterprise development, as articulated in recent research.⁸ They emphasise the importance of State agencies following the lead of other European countries, by employing a wider set of criteria for awarding contracts, to include addressing poverty, employment of disadvantaged groups in deprived communities, and mechanisms to add value to urban regeneration programmes.

Social Enterprise and the green economy

It has been estimated that green enterprise could account for 80,000 jobs in Ireland, or 4 per cent of total employment, by 2020.⁹

Social enterprise has both the potential to contribute to the achievement of green economy objectives¹⁰ as well as to benefit from the opportunities arising from the sector. This is because many social enterprises have environmental concerns as part of their core social values, and are therefore well-placed to add value to environmental and green economy objectives.

CASE EXAMPLES

Dublin's Sunflower recycling has been at the forefront of cardboard, can and paper recycling in the inner city for almost twenty years. As a social enterprise, it has combined its environmental objectives and social objectives, and currently provides training and employment opportunities for 47 individuals. It has recently diversified into furniture recycling, and operates three 'BusyBees' furniture shops.

There are in excess of 22 social enterprises upgrading heating and insulation systems in low income households through the Sustainable Energy Ireland warmer homes programmes. This

⁷ Social clauses or community benefit clauses can be inserted into contracts to achieve wider social, economic or environmental objectives. Social clauses could relate to provisions such as employment and training issues workforce skills including adult basic skills, equality – disability, gender and ethnicity, community benefits, core labour standards, environmental standards.

⁸ Doyle, Gerard (2009): *What difference does it make: the Current and Potential Contribution of Social Enterprise to the Regeneration of Urban Disadvantaged Communities in the Republic of Ireland*

⁹ According to 'Developing the Green Economy', The report of the High Level Action Group on Green Enterprise, November 2009

¹⁰ Which includes movement away from fossil fuel-based energy production through investment in renewable energy and to promote the green enterprise sector, and the creation of 'green collar' jobs.

programme arose from the work of social enterprises such as Energy Action¹¹ which was the driver for policy responses to fuel poverty and energy efficiency in the home.

Just how big the potential for social enterprise and the green economy can be seen from the example of Denmark, which has the biggest proportion of renewable energy in Europe (already 20 per cent of the electricity supply), and where over half the onshore wind farms are owned and managed by social enterprises. Denmark demonstrates that social enterprise does not have to be small scale in the renewable energy sector.

However, there is a risk that social enterprises in Ireland may not be in a position to avail of future opportunities that the 'green economy' presents. Many of the barriers to participating in this sector are similar to those that arise with regard to public procurement. They include barriers to undertake large scale contracts or operations, due to high entry costs to the sector.

Social Enterprise and the state – the way forward

In Ireland, the State has no defined policy or strategy for social enterprise development. Indeed, it views social enterprise primarily as a labour market mechanism - whereby those who cannot secure employment in the private sector are taken off the live register. This misses the point of social enterprises and misses an opportunity - the State needs to value social enterprise as a mechanism to create more sustainable urban and rural communities and to improve the quality of life of communities.

However, social enterprises, community and voluntary organisations, and the trade union movement all need to lobby the State to embrace social enterprise to a greater extent so that the sector can play its role in the creation of a more equal Ireland.

How the State can support social enterprise

If social enterprises are to play a more significant role in transforming local disadvantaged communities, it will be necessary for central Government to develop a strategic policy framework which will enable communities to be empowered to develop their economies. This should include the following components:

- A grant finance fund which would allow social enterprises to be established and to grow.

¹¹ A Dublin based social enterprise that addresses the thermal needs of the elderly and needy, and provides training and employment opportunities for long-term unemployed.

- Mechanisms to ensure that procurement policies and practices enable social enterprise participation, as is the case in Italy, the UK, and France.
- A strategy for the transfer of the State's obsolete assets, such as buildings, to recognised community trusts which would assist communities to generate income.
- A social enterprise innovation fund to enable social enterprises to conduct market research and bring social enterprises from concept to trading stage.
- An instruction from central Government to State agencies to view social enterprises as important stakeholders in regenerating local economies.
- The definition and measurement of social enterprises' sustainability to extend beyond financial terms, and to include measurement of the extent to which a social enterprise achieves social sustainability, financial and environmental sustainability.

Underlying all these measures is the need to view sustainability of enterprises in broader terms than simply financial performance. For example, the effectiveness of a social enterprise should be measured in terms of financial, social and environmental sustainability. The components of social sustainability include: a clearly identified social mission; dialogue with social groups to identify needs that social enterprises should address, and meaningful involvement of social groups in the management and governance of social enterprises. Regarding financial sustainability, the components include: access to seed, working, and loan finance; business and technical expertise; a robust business and marketing strategy.

If these measures are put in place, then a vibrant social enterprise sector can complement and strengthen the capacity of the State to address poverty, unemployment, regeneration of urban disadvantaged communities, and contribute to a more equal and democratic Ireland.

About the authors

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