ΠΑΡΑΤΗΡΗΤΗΡΙΟ ΓΙΑ ΤΗΝ ΚΡΙΣΗ
CRISIS OBSERVATORY
Πρωτοβουλία: Initiated by: ΕΛΙΑΜΕΠ ELIAMEP
Υποστήριξη: Supported by: ΙΣΝ/SNF ΙΔΡΥΜΑ ΣΤΑΥΡΟΣ ΝΙΑΡΧΟΣ STAVROS NIARCHOS FOUNDATION

Policy Paper

No 26_January 2015

Social Economy: A Viable Alternative?

Dr. Ioannis Nasioulas
Director, Social Economy Institute

Hellenic Foundation for European and Foreign Policy (ELIAMEP)
49, Vas. Sofias Avenue, 106 76 Athens Greece
Tel.: +30 210 7257 110 | Fax: +30 210 7257 114 | www.eliamep.gr | eliamep@eliamep.gr
CRISIS OBSERVATORY | www.crisisobs.eu | info@crisisobs.gr

Social Economy: A Viable Alternative?

Dr. Ioannis Nasioulas

Ioannis Nasioulas is Scientific Director of the Social Economy Institute, located in Thessaloniki, GREECE. He obtained his Doctorate Diploma in Sociology (University of the Aegean, Greece), under Scholarship of the Propondis Charitable Foundation, with research focus on Social Economy, Social Enterprises and Social Impact Measurement. He is member of the European Commission's Group of Experts on Social Entrepreneurship (GECES) and Sub Group on "Social Impact Measurement", forming part of the "Social Business Initiative" for the development of Social Economy and Social Enterprises in the EU. Ioannis Nasioulas is also Expert to DG "Enlargement" TAIEX, facilitating the transfer of aquis communautaire to EU candidate and connected countries. He is Evaluator for research and development projects funded by the European Union's "HORIZON 2020" programme and by international and Greek public and private authorities. He is research associate to Academic Laboratories and associations in Greece and abroad. Dr. Nasioulas has founded Social Economy Action Group, a civil society, voluntary organization for the development of Social Economy in Greece. He has published various books, reports and articles regarding social economy, social enterprises, active labour-market policies, innovative vocational training regimes, legislation, national-accounting, evaluation and European Union policies and governance.

Table of Contents

Social Economy: A Viable Alternative?

Dr. Ioannis Nasioulas

Abstract

Social investments could be an antidote to the crisis. By organizing a context of public, private and direct foreign investments, which would bind them to measurable externalities of enhancing quality employment and reconstituting social cohesion, Greece can step into an environment of sustainable social development and rise of family incomes. In the sector of social economy, there exist investment opportunities which can produce social value added. In this paper, we inquire into a multifaceted and representative palette of proposals with emphasis on social innovation.

Key Words:

Social Investment; Social Economy; Social Entrepreneurship; Social Impact Measurement

INTRODUCTION

Crisis, the priority given to macro-economic stabilization and the chronic deficiencies of the social state have gravely undermined social cohesion in Greece, with expanding inequalities, disinvestment, unemployment, brain drain and poverty reaching new heights. Public administration and the social partners have not yet presented a solid social policy context that could provide a sustainable and convincing way out of the underdevelopment spiral.

Investing into the Social Economy could be a viable alternative. The Social Economy is the sum of economic activities which involve private means and pursue social, collective or public goals, thus being a third economic sector between the public and the private. Its most visible constituent parts present either business or non-profit activity, and in some cases combine both. Traditional Social Economy organizations are associations, foundations, cooperatives and mutual insurance funds. The most intriguing addition to this rich palette is social enterprises, which are corporations that are set up to pursue social goals, provide goods and services to the market in economically significant prices and present measurable positive social externalities.

We already know that Social Economy organizations are good employers, are quite resilient to the crisis and provide ground for business and development experimentation. This alternative economic sector links investments to employment and cohesion. And this is the competitive advantage of Social Economy.

We should recognize that the pre-crisis welfare system is now facing systemic disinvestment (e.g. austerity, privatization, isomorphism of public institutions to private ones, withdrawal of the state out of thematic fields of service provision). The distribution of responsibilities between private actors, public authorities and the Social Economy sector is shifting and being reorganized affecting the accessibility, affordability, quality and impact of general interest services' provision. Public funding of organizations active in social service-provision and cut-downs in public budgets are leaving considerable segments of the population underserved. At the same time, a growing demand for individualized services of general interest, owing to the re-profiling of personal needs and the evolution of social needs and social risks is taking place. Thus market maturity, failures or repletion are directly expressed as Social Economy potentials.

This agenda is of vital importance for the Greek people and the Greek economy. Through an unprecedented effort, Greeks have managed to defend the European aquis and are now committed to lead their economy towards a meaningful development path. Of course there exist macro-level conditionalities in light of the current fiscal consolidation context. The recent rise of debt to GDP ratio implies a rising ratio of interest payments to GDP. This in turn raises the income tax ratio. A higher income tax rate undermines economic dynamics and hence narrows the opportunities for social policy innovation. Thus, the linkages between economic dynamics and investment capital availability should not be neglected.

The value of Social Economy could be demonstrated in rendering optimal return on investment when it comes to keeping society in one piece. In times of capital drain and systemic social crisis, we ought to consider investing in the Social Economy.

A. INVESTMENTS

A.1. Direct Foreign Investments and Social Bonds

Direct foreign investments in Greece are suboptimal. A substantial part of the existing direct foreign investments is not delivering sustainable jobs, for highly skilled employees and brain drain is persistent. Additionally, much of the existing investment produces value added that is credited to the mother companies abroad. There is need for quality investment that stays and delivers here.

We should urgently consider opening-up credit lines for social investments, i.e. investments in which the social benefit is measurable and sustainable. Available capital exists in the international market and in emerging financial sectors, like in the impact investment industry, which focuses on delivering ethical, social or environmental benefits. This also includes the USA-based actors. By issuing social bonds, Greek institutions could access this capital pool and social investors from abroad could be facilitated in entering the domestic market, bound by social conditionalities.

A.2. Public Investments Programme and the Social Clause

The public investments' programme has for a long time been not adequately financed. The current fiscal mix is subordinated to the restrictions of balanced budgets. Additionally, Greece is obliged to systematically produce primary surpluses.

Existing investment flows are heavily oriented towards infrastructures, and human capital development is not equally pronounced. Also, the national public investments' programme is in a single-way bound to the straight-jacket of EU funds and their availability. As a result programmes with a genuinely local context are not always delivered in their original conception.

Given the scarcity of capital, we need elevated social turnover of the existing investments financed by the national budget. This could be achieved by presenting a context of social reinvestment hand-in-hand with a set of conditionalities based on the social clause. Already, Directive 2014/24 introduces new social conditionalities for innovative public procurement in favor of social enterprises and socially sensitive corporations. Forming part of the work done by the European Commission's "Group of Experts on Social Entrepreneurship" (GECES) an innovative methodology for the measurement of social impacts was produced and published, taking into account public investments and banking financing as well. And Law 4019/2011 on Social Economy and Social Entrepreneurship has incorporated the "Social

Clause" in our legislation. Nevertheless, this provision is not valid erga-omnes and throughout all kinds of publicly funded projects. So we need an all-inclusive regulatory context that introduces social conditionalities for all contractors and investees.

We did not have an efficient reporting system by social stakeholders, end-users or beneficiaries that would inform the social policy mainframe. And this evaluation failure has been directly mirrored in the persistent skepticism on the actual impact, pay-off or economic return yielded by social investments in the Social Economy sector. Latent private economic capital is still underinvested in the Greek Social Economy and social enterprises are underserved by the Greek banking system. Social banking criteria are missing. Social finance by private sources sounds exotic and the political discourse revolves around the necessity to establish new state banks that could finance the unbankables: small and medium enterprises, social organizations or individuals which strive to get access to seed-capital so as to flee the underdevelopment spiral. Nevertheless, no serious discussion is taking place on how to introduce binding social conditionalities in (a) public procurement (b) and private banking.

A.3. Liquidity and Social Banking

There is urgent need for credit lines and especially for investment capital targeting social externalities – if we want the Greek society to surpass the crisis intact. European Social Entrepreneurship Funds (EUSEFs) is a version of well-organized ethical banks, active in the Single Market and aiming at financing the part of the private economy which is committed to public, social or collective goals. It is time to provide the ground for EUSEFs to be established or at least undertake action in Greece in a pilot context. The recent EU-wide auditing and stress-test task of over a hundred systemic banks is now completed and the four systemic Greek banks seem to have the solid capacity of overcoming the most adverse scenarios. Since re-capitalization is now over and the systemic banks can benefit from a more solid ground, it is time for diversification in favor of social investments.

By opening-up the banking sector to social investments, social finance and social policy will eventually meet. This agenda should be carefully constructed. To this point, social investments were more or less in the domain of the public sector which also retained the know-how and expertise. With the cooperation of the private sector and in relation to EU funding lines visible budgets provided by the European Social Fund or the European Regional Development Fund could be twinned. This could set out to link social policy with Social Economy in deed. Along, the emerging Social Economy Single Market in the EU could as well turn its investment interest in Greece, where demand is urgent.

B. EMPLOYMENT

B.1. EU funding

Gradually acknowledging the pressing need for a paradigm shift, the European Commission launched the SOCIAL BUSINESS INITIATIVE in 2011 and the SOCIAL INVESTMENT PACKAGE in 2013. HORIZON 2020 funding programme is expected to act as a key mechanism for the financing of social innovation mobilizing up to 80 billion euro. Along, the newly established European Fund for Strategic Investments will leverage up to 315 billion of public-private investments in a series of promising sectors.

In the current funding period of 2014-2020 Greek Regions are asked to administer a visible part of the EU co funded budget. There is much skepticism about their actual operational capacity. Absorbability in times of intense crisis is a political and technical bet.

Previous EU funding has not delivered optimal and sustainable results in Greece. Investments were transformed into family budgets and inflationary money. There is still much work to be done so as to have better targeted flows and more credible documentation and auditing.

B.2. Open Universities and Students Cooperatives

University knowledge, research experimentation and their applications should be open to all. Linking academic activity to the market should be an agenda already there in the university curricula. An idea is to promote the establishment of students' cooperatives, which could provide ground for proof of concepts and practices at an early stage. Business experimentation and targeted social reinvestment should be in balance. Insurance coverage by the state and a context of financial intermediation by private banks could contribute to their sustainability.

We should aim at quality finance provided for example by the European Commission's funding programme HORIZON 2020, facilitating the link between universities, research centers and innovative scientific enterprises.

B. 3. Social Economy Governance

There exists no integrated and all-inclusive policy framework for social innovation. We discourage practices of social responsibility by corporations, NGOs and public institutions, with only scarce non-commercial examples of CSR. Either way, it's already very difficult to acknowledge the link between such diverse types of economic and social activity: cooperatives, foundations, associations, mutuals and social enterprises, along with conventional corporations with a visible social mark.

It could be meaningful to establish an Independent Authority for Social Economy and Corporate Social Responsibility. Its mandate could include the formation of a regulatory context of incentives and evaluation criteria in favor of ethical, social and environmental externalities. The standardization process could expand in groundbreaking modalities such as the utilization of Innovation Management Systems, the implementation of EU Directive 1025/2012 and Quality Management Systems. Standardisation and innovation are often perceived as conflicting processes. Whereas innovation strives for excellence and exclusivity, standardisation strives for predictability and a level playing field, and standards are in many aspects a public good. However, in an apparent paradox, standardisation can make an important contribution to innovation. Standards thus play a role in facilitating interoperability, safety and trust, whilst leaving ample room to innovators for capturing the market on the basis of novelties in other aspects of the product, service or process.

This standardization process is expected to enhance the fundability and creditworthiness of the corporate section of Social Economy and ensure accountability and transparency for its non-profit part.

C. COHESION

C.1. Business Empowerment and Micro Credit

The social policy deficit, as expressed by low early-stage investments, inadequate support through the whole life-cycle of individuals, support to the construction of collective capabilities and the absence of a serious minimum-income security net, is expected to reproduce the vicious effects of the crisis long after fiscal stability has been achieved. Active local employment development strategies are needed.

We should focus on building a microcredit strategy with innovative banking that provide for business empowerment. Such products could be allocated both by systemic and other banks, along with the cooperative ones. Also, of critical importance is to conclude to a variety of business empowerment bank accounts, where capital is allocated to individuals that have proven capable of saving money earned by business activity, mobilization and experimentation.

Instead of undertaking the risk of creating a new vehicle –even worse: a public one- we should provide a context of conditionalities regarding the optimal utilization of existing assets, with market criteria. Still, we are short of a synchronization process that could establish compatibility paths with the emerging methodological orientations as set by the European Commission's Sub Group of Experts on Social Impact Measurement and its recent Report: "Proposed Approaches to Social Impact Measurement in European Commission legislation and in practice relating to: EuSEFs and the EaSI".

C.2. Comparative Advantages and Thematic Cooperatives

Greece has a visible venture philanthropy capacity yet it's only latent when it comes to investments in impact and social entrepreneurship. No networking mechanisms are there to twin demand with supply of quality capital. Along, there is high expectation for thematic markets with visible potential such as energy or maritime cooperatives. We need an investment policy that recognizes the comparative advantages of these industries and makes latent capital available for investment.

C.3. Sustainable Insurance and Mutual Funds

Zero deficit clauses for pension funds create intense pressure to the insurance system. Many structural perils are now intensifying taking account the rise of unemployment and the collapse of insurance contributions. This peril could result in consecutive eventual bail-ins by tax payers in the years to come.

There exist few but quite solid mutuals in Greece and this is due to their preferential treatment by legislators throughout a rather inglorious corporatist historical path. This is unfair. We should strive to facilitate the establishment of all-inclusive mutuals in the third pillar of the insurance system.

Epilogue

In order to have a viable Social Economy agenda, we need both the regulatory and financial framework ambitiously reformed. Capital allocated for Social Economy is social investment and not fiscal cost. Would it be of value considering the exemption of such flows out of the national-accounting estimation of the annual deficit? On what grounds would the European Commission enter such a debate?

49, Vas. Sofias Ave. 10676 Athens, Greece | Tel. +30 210 7257 110 | Fax +30 210 7257 114 | E-mail eliamep@eliamep.gr