Work Integration Social Enterprises (WISEs): Their Potential Contribution to Labour Market (Re-)Integration of At Risk Populations

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Table of Contents

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Section 1: Introduction

Canada's nonprofit sector contributes significantly to the (re-) integration of economically at risk individuals into the workforce by providing employment related and social services. Over the last decade, more non-profit organizations (and a few for-profit organizations) have turned to a creative new strategy to help (re-)integrate highly disadvantaged populations into the workforce— the creation of social enterprise businesses that provide jobs for disadvantaged workers as well as training, placement and other supports. These jobs can be transitional, stops on the way to integration into the mainstream labour market, or stable, long-term alternatives to existing mainstream jobs. Restaurants, retail stores, courier services, cottage industries, and construction companies are common social enterprise businesses employing vulnerable populations in Canada (e.g. Elson & Hall, 2010). Recent surveys suggest that these organizations, known in Europe as WISEs (Work Integration Social Enterprises), are among the most common social enterprises in Canada's emergent social enterprise sector (e.g. Elson & Hall, 2010; O'Connor et al, 2012; Flatt et al 2013).

While WISEs have become popular in Canada only relatively recently, they are well-established in Europe, where in many countries they now have their own legal, institutional and policy frameworks (Hulgard & Spear 2006; Spear & Bidet 2005). WISEs are also a growing presence in the UK (e.g. Aiken 2007) and U.S. (Kelley, 2009; Cooney 2009, 2011). Substantial research has been completed on EU WISEs (for example, by the EMES International Research Network and several European Community organizations), including the UK (e.g. Aiken & Spear 2005; Spear 2005), and some research has been conducted on US WISEs (e.g. Kelley, 2009; Cooney 2009, 2011; BTW 2005). But relatively little is known yet about Canadian or Ontario WISEs (Bridge, 2010). The consensus among experts is that the WISE sub-sector is growing, it growth driven partly by the potential for these organizations to be at least partially self-supporting amid government funding cut-backs, and partly by its potential to be more effective than traditional labour market programs in reaching and (re-)integrating at risk individuals, including very low-income individuals, low literacy individuals, street-involved youth, psychiatric survivors, individuals with disabilities, the homeless, vulnerable and marginalized women, and very recent newcomers.

1.1 What is a Social Enterprise?

WISEs are a type of social enterprise. Broadly defined, social enterprises are organizations that operate in the marketplace as a business, but pursue social, cultural, environmental or societal goals (e.g. Alter 2004; Dees, 1998, 2003; Dees & Anderson, 2002; Kerlin, 2006; OTS 2006;

Teasdale 2010; DeFourny & Nyssens 2008; UNDP 2008). Since the idea of 'social enterprise' first emerged some 30 years ago (DeFourny & Nyssens 2010), the term has come to be applied to a group of widely heterogenous organizations. Some Canadian organizations now called social enterprises are far from new – Canadian Goodwill Industries, for example. Increasingly, however, the group of new and old organizations that blend business with social goals are being seen as a distinct new "identifiable and viable organizational form" (Elson & Hall 2010).

The boundaries of this new organizational form are still fluid, with most current social enterprise literature still focused on definitional debates (Short, Moss & Lumpkin 2009). One on-going point of contention is whether social enterprises, and therefore WISEs, must be not-for-profits – or organizations generating profits exclusively for not-for-profits – or whether some profits are permissible within a primary context of pursuing social ends (Teasdale 2010; OECD 1999; OTS 2006; BMG 2013; UNDP 2008). Increasingly in Canada, social enterprises making some degree of profit are called *social purposes businesses,* with the term *social enterprise* reserved for non-profit and charity social enterprises (e.g.Malhotra et al 2010). This study will discuss both types of enterprises as social enterprises. European researchers usually exclude enterprises with a significant for-profit motive as social enterprises (e.g. DeFourny & Nyssens 2008).

Another point of difference, largely between Europe and Anglo-American jurisdictions, especially North American, is whether a social enterprise can be a business run along conventional lines by an individual social entrepreneur owner/manager, or whether social enterprises must be organizations initiated by groups of citizens, and grounded in the community, and be democratically run (one member, one vote). Anglo-American researchers and policy-makers, especially North American, emphatically include the former, while European researchers use the latter criteria[1] (e.g. DeFourny & Nyssens 2008).

What distinguishes social enterprises from other not-for-profits – in Canada, nonprofits and charities – is that social enterprises operate businesses from which they earn significant revenues (EC 2013). An often-used benchmark of a social enterprise is that they earn at least 50% of their income from trading, compared to grants or donations (EC 2013); sometimes the benchmark is 25% (BMG 2013).

1.2 What is a WISE?

WISEs are an important sub-set of social enterprises in many jurisdictions (e.g. Nyssens 2006; REF), and were a driving force in the emergence of social enterprises in Europe (e.g. Defourny & Nyssens 2008). In some European countries, they appear to be so dominant as to be seen as synonymous with social enterprises, although this may simply indicate lack of familiarity

[1]EMES network's definition of social enterprise: "organizations with an explicit aim to benefit the community, initiated by a group of citizens and in which the material interest of capital investors is subject to limits (PERSE 2005).

with the term ‘social enterprise’ in these countries (DeFourny & Nyssens 2008). For example, Finland’s *Finnish Act on Social Enterprise* (2003) explicitly equates WISEs with social enterprises, and in Sweden the term “social cooperative’ has become synonymous with work integration social enterprise (DeFourny &Nyssens 2008; Davister et al 2004; Spear & Bidet 2003). Over the last decade, however, other forms of social enterprise have proliferated, especially social services social enterprises providing social, health and personal services (UNDP 2008; DeFourny & Nyssens 2008). Law and public policy have followed, with the development of more general legal frameworks for social enterprises, such as the UK’s Community Interest Company (CIC).

WISEs’ defining purpose is to help disadvantaged individuals who are at risk of permanent exclusion from the labour market, to integrate into work and society through productive activity, mainly through jobs (DeFourny & Nyssens 2008; Spear&Bidet 2008; PERSE 2005). They do this by operating businesses that produce and sell goods and services, and that employ these individuals in the production and sales of these goods and services (Spear & Bidet 2003; DeFourny & Nyssens 2008; PERSE 2005). Not all WISEs hire disadvantaged populations exclusively, and many provide part-time rather than full-time work, or even ‘productive activity’. For some WISEs, funding for these jobs comes mostly from government, while for others, the business largely finances the organization. Most WISEs also provide training and social supports, the holistic long-term nature of which is seen as part of the WISEs’ distinctive approach to labour market (re)integration of vulnerable populations. What distinguishes them from other social purpose organizations serving highly disadvantaged workers is that WISEs integrate these workers into the job market through (usually) paid work experience. They are also usually embedded in communities, and the work they do is aimed to benefit those communities as well as individual workers. WISEs may provide permanent employment within the organization, as in the case of Italy’s social cooperatives, or they may act as stepping-stones for workers to move into other social enterprises or the mainstream labour market (Spear & Bidet 2003).

1.3 This Project

This project aims to increase Ontario policy-makers’ awareness of the work that WISEs do; of the legal, policy and financial frameworks in which WISEs operate and of their supportiveness to WISEs; of WISEs’ effectiveness in reaching the highly disadvantaged, and in (re) integrating them into the (not necessarily mainstream) labour market; and finally, of the potential that WISEs may offer as a strategy for successfully (re-)integrating highly disadvantaged individuals into the labour market.

Given the apparent ad hoc and emergent nature of WISEs in Canada, the study looks primarily to other jurisdictions with longer experience of WISEs for information on these issues. Specifically, it investigates the European Union (Section 3), and the UK (Section 2), as many western EU countries have had extensive experience with WISEs, and have developed extensive institutional, legal and policy frameworks for these organizations. The UK is presented separately as it exhibits a less institutionalized, somewhat more laissez fair approach to these organizations and the type of work they do. The research method for this investigation is a literature review of grey literature and refereed journal articles.

Using the same method, the study also describes WISEs in Ontario and the current Ontario legal, policy and financial frameworks under which they presently operate (Section 4), outlining the local context for WISEs in Ontario against which potential for their growth can be measured.[i]

Section 2: WISEs in the UK

2.1 A Descriptive Overview

WISEs are a significant presence among UK social enterprises. One recent survey estimates that about 17% of UK social enterprises provide employment and training (SELUSI 2010), compared to almost 15% in the rest of Europe (EC 2013). The total number of UK social enterprises is estimated at between 20,000 and 70,000; the huge range among estimates largely reflects the different definitions of 'social enterprise' used by different surveys (Teasdale , Lyon & Baldock 2013; BMG 2013). In any case, the number of UK WISEs is substantial.

UK WISEs are a very heterogenous group. However, several distinct types of WISEs have been identified largely on the basis of whether they provide long or short-term transitional employment, and on how the jobs are financed. UK WISEs share many similarities with other UK social enterprises, for example in their sources of income and the importance of public sector trade to their survival. This section describes the distinct types of UK WISEs, the people they serve, their activities, their organizational structure, and their sources of income.

2.1.1 TYPES OF ORGANIZATIONS

In contrast to mainland Europe, where WISEs have well-developed institutional forms and strongly patterned institutional relations, the different types of UK WISEs are largely self-labelled, operate in self-created networks and institutional forms, and have developed their own patterned access to different types of resources (Hulgard & Spear 2006). UK WISEs' institutional development can be seen as somewhere between the well-developed institutional infrastructure of some mainland EU WISEs, and the more ad hoc arrangements of countries such as Canada and Denmark, where WISEs are less developed and create themselves ad hoc out of existing institutional forms, mixing and matching elements of these forms to suit their individual needs (Hulgard & Spear 2006)).

Still, UK WISEs remain diverse and difficult to categorize (Spear 2002). One major classification developed for an EU-wide study, the PERSE project, identified six main types of WISEs in the UK (Spear 2002; Aiken 2007; Aiken & Spear 2005). This classification is presented here.

a) Worker cooperatives (social cooperatives)[2]

Worker cooperatives typically offer full-time or part-time work plus informal training (Davister et al 2004; Aiken 2007; Spear 2002). They are usually small, and operate in commercial markets from which they derive most of their revenue (Davister et al 2004). Since these WISEs compete in commercial markets, their workers tend not to be highly disadvantaged. However, the cooperative may also receive permanent state subsidies for employing workers with disabilities (Spear 2002). Wages in these enterprises for workers with disabilities tend to be very low (Spear 2002).

In addition to creating jobs, worker cooperatives usually also aim to meet specific social or environmental needs in communities, or to market skills in a collective way (Aiken 2007). They are most often found in child care, where they train and employ mothers to work part-time caring for children, in whole food and recycling, in cleaning and small scale catering businesses (Aiken 2007).

Worker cooperatives serve primarily vulnerable women, disadvantaged minorities, and the hard-to-place or long-term unemployed (Davister et al 2004). Worker cooperatives flourished in the 1980s, and then declined, but have rebounded recently. Some 8% of UK cooperatives (some 500 cooperatives) were worker cooperatives in 2013 (not all of them WISEs)[3](CUK 2013). So their number is small. But the number of UK cooperatives (including worker cooperatives)has grown by more than 20% since the 2008 financial crash (CUK 2013).

b) Social Firms

Similar to Canada's *social businesses*, UK social firms provide long term full-time and part-time jobs at market wages for individuals with disabilities (Aiken 2007; Davister et al 2004). As required by their federation,[4] (Aiken & Spear 2005), at least 25% of social firms' workers must have disabilities (Aiken 2007), although some social firms also hire individuals with social problems such as drug abuse or homelessness (Davister et al 2004;Aiken 2007; SFUK 2010). In addition, social firms must generate at least 50% of the firm's income, (contract income to train and provide work experience is excluded) (Aiken 2007).

Social firms differ from traditional sheltered workshops in relying less on public subsidies and more on commercially earned income (Aiken 2007; Davister et al 2004; SFUK 2010), although

[2] Worker cooperatives engaged in work integration are often called social cooperatives, although in mainland Europe the term social cooperative is also often used to refer to cooperatives that focus on social integration (which includes productive employment) rather than providing conventional jobs for workers (See discussion in Section 3).

[3] Worker cooperatives that are not WISEs would employ workers who are not disadvantaged, and would not have as their mission, or as part of it, the integration of disadvantaged workers into the labour market.

[4] See Social Firms UK at www.socialfirmsuk.co.uk. See also CEFEC 1997 European Confederation of Co-operative and Social Businesses, for broader EU-wide criteria for social firms.

many social firms also rely on permanent government subsidies to some degree. They are concentrated in catering, recycling, construction and horticulture, like many Ontario social businesses (Aiken 2007; SFUK 2014). Many social firms are embedded in charities and other Third Sector organizations, or community businesses, or operate as arms-length subsidiaries of these organizations (Spear 2002; Aiken & Spear 2005). The number of social firms that are charities has declined since 2006 (SFUK 2014). A small number are for-profit corporations (Spear 2002). A 2010 mapping of the social firms sector found the sector had grown by 32% since 2006, to 99 social firms and 82 emerging social firms employing 1064 workers with disabilities (58% of the sector's workforce) (SFUK 2010). Employment had grown by an estimated 62% since 2006 (SFUK 2010). Some 74% of the firms earned 75% or more of their income from trade in 2010 (SFUK 2010).

Failure rates among social firms are significant, although about the same as for other small and medium businesses (SFUK 2010). Failing social firms may cease to operate or be absorbed into other organizations, or many reduce the proportion of workers that are disabled to below the 25% minimum (SFUK 2010).

c) Community businesses (CBs)

Community businesses are businesses owned through a holding structure by the local community (Spear 2002), and are generally to be found in economically depressed rural and inner city areas (Spear 2002). The usually small enterprises provide full-time or part-time jobs for disadvantaged workers, usually on open-ended contracts (Spear 2002; Davister et al 2004), but they may hire other types of workers as well, since few have specific hiring targets for disadvantaged workers (Aiken 2007). The disadvantaged employees tend to be individuals with social problems such as drug abuse, the hard-to-place or long-term unemployed, disadvantaged minorities, and vulnerable women (Davister et al 2004; Spear 2002). However community businesses may also include more employable workers living in disadvantaged rural or other areas where jobs are scarce.[5] CBs tend not to hire the most highly disadvantaged workers, since they compete in commercial markets.

CBs are usually incorporated companies – often also charities – and many survive solely on market income (Aiken 2007). Some also receive grants or engage in public sector trade, and many rely significantly on volunteers (Spear 2002). CB profits are usually re-invested in the community to create more jobs or otherwise benefit the community (Spear 2002).

CBs usually do not provide training or additional supports to workers (Aiken 2007), although they may sometimes also provide state-funded training (Spear 2002). CBs range from community farms to community transport – for example, Hackney Community Transport. As

[5] For example, *Village SOS* is an initiative funded by the UK's Big Lottery Fund, and designed to help rural individuals to start community businesses that develop their communities and create local jobs. See: http://www.villagesos.org.uk/

regular commercial businesses, most CBs are subject to the same economic stresses and opportunities as other small and medium sized businesses.

d) Intermediate Labour Market Organizations (ILMOs)

ILMOs usually provide part-time or full-time jobs with the aim of moving trainees into jobs in the mainstream labour market (Aiken & Spear 2005). ILMOs differ from other organizations providing transitional or 'bridging' employment in their local embeddedness, both geographically and in terms of partnerships and networks, and in the fact that their jobs also aim to directly benefit the local community, and so provide meaningful work (Finn & Simmonds 2003). Successful ILMOs' jobs also tend to resemble regular labour market jobs rather than 'make-work' jobs (Finn & Simmonds 2003), and they hire workers on secure fixed-term contracts (Davister et al 2004). ILMOs primary goal is also to improve individuals' employability rather than simply create short-term work for disadvantaged workers (Finn & Simmonds 2003), so workers usually receive a range of additional employment and social supports.

ILMOs typically provide vocational or basic skills training that is extensive, structured and professionally delivered (Aiken 2007; Davister et al 2004). The jobs they create serve community needs and include recycling IT, landscape gardening, and childcare (Spear 2002; Aiken 2007). They primarily serve young, low-qualified people (70% of places are for 18-25 year olds) and the hard-to-place or long-term unemployed who have been without jobs for at least two years (Davister et al 2004; Spear 2002; Finn & Simmonds 2003).

ILMOs usually rely on multiple funding streams (Aiken 2007; Finn & Simmonds 2003). ILMOs' funding has come largely from UK government training and employment programs and European structural funds (60% in 2002), as well as from community regeneration funds (20%), contract income or grants for the work done (10%), and sales (10%) (Spear 2002). Some 80% of ILMOs receive EU funding (Finn & Simmonds 2003). ILMOs are the WISEs most integrated into government policy (Spear 2002; Aiken 2007), with local authorities in many disadvantaged areas viewing ILMOs as part of their local economic development strategy. Many ILMOs are large-scale and the largest operate nationally or even internationally (Aiken 2007).[6] ILMOs may have community business or voluntary organization structures (Aiken & Spear 2005); about 60% of ILMOs were run by charities, and 23% by local authorities, in 2003 (Finn & Simmonds 2003).

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[6] ILMOs tend to take one of two organizational forms:
(a) the management, administrative and supervisory staff employ the ILM workers and carry out the work (e.g. the Wise Group);
(b) a central organisation develops the programme, accesses the funding, employs some core staff, and then contracts out the delivery (and employment of the ILM workers) to a range of other organisations in the community (e.g. Glasgow Worlds).

e) Charities, community organizations, and local authorities with embedded or arms-length employment initiatives

As in Ontario, many charities and community organizations in the UK operate training and employment businesses as a core part of their work, or as a complementary activity that meets their core mission, or as part of their wide social inclusion work in the neighbourhood. (Since these businesses often take the form of one of the types of WISEs already described, there is some overlap between this and other categories of WISEs.) Examples range from the hiring and training of unemployed women by child care organizations, to hiring newcomers to provide translation services in the neighbourhood. Or a housing estate might contract out cleaning and maintenance to an employment and training project for disadvantaged workers. These WISEs are often very important in disadvantaged areas, where multi-purpose community anchors such as Development Trusts generate hundreds of jobs – a mix of core, program funded and trainee/part-time jobs.[7] The types of jobs offered and their pay rates vary by organization, as does the amount and type of training provided (Spear 2002; Aiken 2007).

Typically, these WISEs generate at least some of their income from their sale of goods and services (Spear 2002). Most or many of these WISEs also receive at least some state funding from employment programs, or make use of state benefits for individuals with disabilities (Spear 2002). About 70% of the funding for charities offering employment and training services comes from the state (NCVO in Davies, 2010).

Local authorities often operate WISEs. For example, Bristol's local authority undertook a pilot to use its own organizational employment potential by taking on a New Deal program for certain categories of entry-level jobs. Some have also set up arms-length subsidiaries to undertake regeneration work, and include employment and training elements (Aiken 2007).

f) Remploy

The quasi-state enterprise Remploy is the UK's largest employer of people with disabilities, providing full-time jobs and extensive job training in its own factories (Aiken 2007; Spear 2002; Davister et al 2004). Until recently, about three-fifths of its income came from market sales of products such as library and print services, contract manufacturing and packaging textiles (Spear 2002). The remainder came from state funding through employment programs (Davister et al 2004). Remploy was created in 1946 (Spear 2002). Following several years of losses Remploy was recently restructured and quasi-privatized (Jones 2012). The government closed or sold off

[7] Development trusts are community-led, independent organization whose mission is local development in depressed UK communities. These trusts run and develop businesses ranging from local post offices to windmill farms. Development trust is not a distinct legal form, and trusts usually incorporate as companies limited by guarantee, community interest companies, or industrial and provident societies. They may also be registered charities.

dozens of the more commercially viable factories to the private sector but committed to continuing to subsidize the wages of workers with disabilities in those factories (Jones 2012). Its stated aim was to use its money 'more effectively to get more disabled people into mainstream jobs – the same as everyone else" (Jones 2012).

Comparisons

One feature common to UK and other EU WISEs is the high level of integration of many WISEs into national labour market strategies. One distinctive feature of the UK WISEs is the relative dearth of WISEs offering productive activity as an entry-point to work integration for the most highly disadvantaged individuals. Many UK WISEs provide holistic services to the populations they serve, which may include housing support, counselling, etc (Buckingham & Teasdale 2013), but relatively few appear to systematically provide productive activity – usually a few to several hours a week of light work in exchange usually for shelter and food. This type of WISE exists in some mainland European countries (See Section 3). WISE cooperatives are also much less common in the UK than in some other EU countries, for example Italy (Borzaga & Loss 2002) (See Section 3).

2.1.2 WISES AND THE POPULATIONS THEY SERVE

a) Types of Activities

Overall, UK WISEs appear to run the same types of business as other UK social enterprises. UK social enterprises are concentrated in six main business sectors, including community, social and related services; business activities; education; wholesale and retail trade; agriculture, hunting, forestry and fishing; and, health and social work (SELUSI 2010).

The growth in UK social enterprises over the last decade has been driven at least in part by increased outsourcing of public service delivery, and government 'spinning-out' of public services into Third Sector hands (Haugh & Kitson 2007; Carmel & Horlock 2008; Teasdale, Kerlin et al 2013). Similar trends can be seen in mainland EU countries (UNDP 2008). Some of these social enterprises do hire significant numbers of disadvantaged workers even though work (re-)integration is not their primary mission (UNDP 2008; Defourny and Nyssens, 2008; OECD 2013). These social enterprises are not always counted as WISEs (OECD 2013; DeFourny & Nyssens 2008; UNDP 2008). As this group of social enterprises expands, so too may the number of WISEs of this type (UNDP 2008).

b) Types of Jobs

As indicated earlier, WISEs may provide either part-time or full-time jobs, sometimes both within the same organization. Jobs may be short-term, as in the case of ILMOs, or open-ended, as in the case of most worker cooperatives, social firms, Remploy and many community businesses and Third Sector enterprises (Aiken & Spear 2005; Aiken 2007). Although the latter usually provide long-term jobs within the organization and 'outside' the existing labour market (Aiken & Spear 2005), there is often an expectation that workers will eventually enter the existing labour market (Aiken & Spear 2005).

Only recently has the quality of these jobs been examined. A recent study of social enterprise job creation in several EU (and non-EU) countries, including jobs created by WISEs, and in the UK, found that many WISEs and other social enterprises work in low wage sectors, and compete with low paying private sector firms (Buckingham & Teasdale 2013).

c) Populations

As evident from the foregoing, UK WISEs serve a range of disadvantaged populations. Primarily, they serve individuals with disabilities, and job seekers that: are 'hard to place' or unemployed long term (>2 years), low education; are young and with low education; are members of disadvantaged minorities, especially stigmatized minorities such as Roma; have serious social difficulties (e.g. ex-prisoners, individuals with substance abuse problems; serious family difficulties); are females in vulnerable population groups (Davister et al 2004).

d) Organizational Structure

UK WISEs are concentrated in the Third Sector[8] (Spear 2002) with a very small number operating as stand alone for-profits (Spear 2006). The UK Third Sector is a broader category than Canada's non-profit and charitable sector, similar to Canada's *social economy* (Buckingham & Teasdale 2013). In addition to charities and other community-based not-for-profits, the Third Sector /social economy includes cooperatives, financial mutual societies, building societies, employee-owned businesses, housing associations, development trusts.[9] WISE cooperatives and WISEs run by social economy businesses such as housing associations appear to be more common in the UK than in Canada, if less common than in mainland Europe.

As in Canada, WISEs in the UK's Third Sector can be embedded in a charity or other not-for-profit, be arms-length subsidiaries of such organizations, or be stand alone. Many more appear to be stand alone than in Canada. (This is perhaps because UK charities can earn all their income from trade, and therefore the charity can be a stand alone WISE[10]). In reality though, stand alone WISEs are often linked to other social enterprises through partnership or network

[8] Now often called Civil Society, or the Big Society. See the National Council of Voluntary Organizations: <http://www.ncvo.org.uk/>

[9] For the full range of organizations included in the Third Sector or Civil Society, see the National Council of Voluntary Organizations : http://data.ncvo.org.uk/a/almanac14/what-is-civil-society-2/

[10] 'Trading' is also a broader category than 'operating a business'. Trading covers most commercial activities, including charging fees for services provided, renting property and services, raising revenue through events and sponsorships etc, as well as operating a continuous business (CC2007).

arrangements that leave them only formally independent, as in the case of many social firms (Spear & Bidet 2005). Some WISEs may be part of a larger federated structure comprising many WISEs within an umbrella body, which is common in Europe (e.g. the consortium structure of social cooperatives (type B) in Italy (Spear & Bidet 2003)).

Social enterprise franchising is a growing trend among UK and other EU countries (Aiken 2007; EC 2013).[11] A recent study identified 140 social enterprise business models in Europe that are already replicated in other locations (EC 2013), offering identical services and rules to ensure service and product quality, and often a common brand name (EC 2013). Franchising appears to be less risky than creating a new stand-alone social enterprise (EC 2013).

e) Sources of Income

Some UK WISEs earn most of their income from the businesses they operate; others do not (Davister et al 2004). ILMOs, for example, rely largely on UK and EU government funding, with the actual businesses generating only a small share of their income. Many of the WISEs that earn most of their income from their businesses nonetheless rely on government procurement contracts to deliver public services such as recycling and gardening/landscaping (Spear 2002; Aiken 2007). In one form or another, government is therefore a major source of income for UK WISEs. As a rule of thumb, experts say, the more disadvantaged its workers, the more the WISE is likely to rely on public sector income, whether in the form of direct wage subsidies, grants, public service delivery contracts, or tax breaks and other financial supports specific to the business operated (Aiken 2007; Aiken & Spear 2005). This is seen to result from the fact that disadvantaged workers cannot usually work at the same productive level as other workers in competitive private market (e.g. Aiken 2007; Aiken & Spear 2005).

Given the nature of their mission, and the participation of many WISEs in government labour market programs, WISEs are likely even more dependent on public sector trade and grants than other social enterprises, which depends significantly on public sector income in one form or another. One recent survey has found that the social enterprise sector as a whole earns about two-thirds of its income from trade with the general public, with (37% of) social enterprises relying principally on this trade. But about half of all UK social enterprises trade with the public sector, delivering public services on contract, and (18%) rely on trade with government to survive (SEUK 2011). Another survey has found that trade generates 63% of the sector's revenue (SELUSI 2010), with 24% of sector income coming from grants (SELUSI 2010). Social enterprises use loans, equity capital and microfinance very little (SELUSI 2010).

[11] A WISE example includes the defunct CREATE organization (Aiken 2007). Chef Jamie Oliver's 'Fifteen' chain of restaurants is a franchised social enterprise that trains disadvantaged young people (Aiken 2007).

2.2 Legal Framework

There is no legal form in the UK specifically for WISEs or, until recently, for social enterprises. UK WISEs therefore operate with a legal framework, and use legal forms, designed for other types of organizations (Spear 2002). This section first describes the legal frameworks for for-profit and not-for-profit UK WISEs, and then assesses their limits and advantages for WISEs.

2.2.1 LEGAL FORMS USED BY WISES

a) Third Sector Organizations

One important difference between the regulatory framework for UK and Canadian not-for-profits is the absence in the UK of the non-share (non-profit) corporation. The North American non-share corporation is defined by its prohibition or 'lock' on the distribution of profits to both members and external shareholders. This prohibition is designed to ensure that all the organization's resources serve its social mission. In the UK, only charities have such a full legal lock on the distribution of their income and assets (Lloyd 2010; NCVO 2012), as part of their charitable status.

Most Third Sector organizations in the UK, including charities, therefore either do not incorporate,[12] or they incorporate as a *company limited by guarantee* (CLG) or, much less often, as an *Industrial and Provident Society* (IPS)(Spear 2002; LawWorks 2012; SU 2002; Aiken & Spear 2005).[13] Essentially, CLGs are limited liability companies that can make and distribute profits only to the members that own them, and not to external shareholders (LawWorks 2012). CLGs therefore effectively cannot raise share capital.[14] Non-charitable Third Sector organizations incorporating as CLGs usually write restrictions/prohibitions on profit distribution, and payment of directors,[15] into their company articles (LawWorks 2012), to protect their social mission. But these restrictions/ prohibitions can be reversed by a majority of members at any time (LawWorks 2012), so profitable WISEs in this position may risk being turned into for-profit companies.

IPSs are limited liability organizations controlled and run by member-shareholders, but structured democratically (DTI 2003; LawWorks 2012). They include the cooperative form familiar in North America, in which the organization serves largely its members (but may also serve community ends) as well as community benefit companies ('bencoms') which by law must serve the larger community (DTI 2003). Bencoms include building societies, working men's clubs,

[12] Less than 20% of UK charities incorporate, for example (Morris 2012).
[13] Since 2012, charities have also been able to incorporate as Charitable Incorporated Organizations (CIOs) (LawWorks 2011, 2012).
[14] See also Company Law Club. *Community Interest Companies*. Retrieved September 15, 2013 from: http://www.communitycompanies.co.uk/guaranteecompanies.shtml
[15] Ibid.

allotment societies, Women's Institute markets, housing associations, football supporters' groups, and social and local interest groups, among others.[16] Most worker cooperative WISEs incorporate as IPSs (Spear 2002).

While cooperatives can make and distribute profits to members, based on democratic algorithms (DTI 2003), bencoms are nearly as fully asset-locked as charities: they cannot distribute profits or assets to members (LawWorks 2012) and can only pay them (capped) interest on their capital (DTI 2003a; LawWorks 2012). The law governing IPSs is widely considered outdated, which may help to explain the lower numbers of cooperative WISEs in the UK compared to some other EU countries.

b) Charities

Charities account for a large proportion of Third Sector organizations.[17] Many WISEs in the Third Sector are charities, or are linked to charities.[18] WISEs may operate as stand alone registered charities or as projects embedded into charities, or they may be a – usually for-profit— arms-length subsidiary (Spear 2002) that returns all its profits to the parent charity. As in Canada, charitable status is very restrictive in the UK. Organizations must have a charitable purpose as defined in law, meet a public benefit test, and adhere to a prohibition on the distribution of income and assets to individuals for their personal benefit (CC2007). Many WISEs meet the criteria for charitable status, since 'prevention or alleviation' of poverty is one of the 13 prescribed purposes of UK charities,[19] and trading carried on by the beneficiaries of the activity, as occurs in many or most WISEs, is recognized as a charitable activity(CC2007). However, WISEs that distribute the profits of their trade in the market, such as worker cooperatives and community businesses, or which employ disadvantaged workers in a business that is only as a minor objective of the organization's larger, non-charitable purposes, would be ineligible for charity status. Since charitable WISEs are tax exempt, and can issue tax receipts for donations

[16] Company Law Club. *Industrial Provident Societies.* Retrieved September 15, 2013 from, http://www.communitycompanies.co.uk/industrialandprovidentsocieties.shtml
[17] About 160,000 of the UK's estimated 740,000 Third Sector organizations are charities. See http://data.ncvo.org.uk/a/almanac14/what-is-civil-society-2/
[18] Some 45% of UK charities are estimated to be social enterprises, based on the criterion of earning 25% or more of their income from trading (NCVO 2012). Some charities rely entirely on trading for their income.
[19] The Charities Act 2006 restricts these to 13 types of activities, including: prevention or relief of poverty; the relief of those in need by reason of youth, age, ill-health, disability, financial hardship or other disadvantage; the promotion of the efficiency of the armed forces, police, firefighters, or ambulance services; advancement of education; advancement of religion; advancement of health or saving lives; advancement of citizenship or community development; advancement of the arts, culture, heritage or science; amateur sport; advancement of human rights, conflict resolution or reconciliation and the promotion of religious or racial harmony or equality and diversity; advancement of environmental protection or improvement; advancement of animal welfare; any other purposes currently recognized as charitable. Company Law Club. *Charitable Company Legislation*. Retrieved September 15, 2013 from, http://www.communitycompanies.co.uk/charitablecompanylegislation.shtml

(CC2007), they enjoy access to financial resources unavailable to other WISEs, even though they cannot raise external capital. In the UK, their businesses can also make profits as long as those profits are used to advance the charity's mission (CC2007).

Many charities embed WISEs as programs within the larger organization, and this strategy also restricted by charity rules. While UK charity rules allow charities to trade – that is, to buy and sell services, including delivering public services – and allow this trade to be a substantial part of their activities (or their sole activity), charities can only operate embedded WISEs if the business aligns directly with their charitable purposes (*primary purpose trading)* (CC2007). If the WISE business does not directly align with their charitable purposes (*non-primary purpose trading)*, charities must house the WISE in an arms-length subsidiary unless it poses minimal financial risk to the charities (CC2007). Since WISEs are generally seen to be high-risk ventures financially, such WISEs would very often be set up as a – usually for-profit – subsidiary (CC2007; LawWorks 2011; NCVO 2012).[20]

Embedded WISE businesses are able to make tax exempt profits as long these are used to advance the charity's purposes (LawWorks 2012; CC2007). For-profit arms-length WISE subsidiaries can return 100% of their profits to the parent organization, and UK gift laws actually amplify that amount[21] (LawWorks 2011; BIS 2010; CC2007). However, given their mission, many if not most WISEs are not profitable, and unlikely to return income to the parent charity (Aiken 2007; Aiken & Spear 2005). The total number of UK charity trading arms appears to be still quite small – with about 1,800 of the UK's 163,000 (general) charities reporting income from trading arms in 2009/2010 (NCVO 2012).

c) For Profit Share Companies

The legal form for for-profit companies in the UK – the company limited by share – is similar in core respects to the share corporation form in Canada. For-profit WISEs may make unrestricted profits, and pay tax on those profits, like other for-profit companies. WISEs usually operate in the low wage, low skill end of the marketplace.

d) Community Interest Companies

Since 2005, non-charitable UK social enterprises including WISEs have been able to register as a Community Interest Company (CIC). The CIC is a legal form specific to social enterprises that allows social purpose organizations to make profits and distribute a portion of them to external shareholders, while capping the distribution of income and assets to preserve their social purposes. Profits are taxable. The CIC form thus protects social enterprises' social purposes in law, while at the same time giving them considerable freedom in running their

[20] Charities sometimes also house their primary purpose trading businesses in arms-length subsidiaries.
[21] See HM Revenue & Customs. *Giving to Charity through Gift Aid.* Retrieved March 28, 2014 from, http://www.hmrc.gov.uk/individuals/giving/gift-aid.htm.

businesses, including potential access to a wider range of revenue sources – in particular, social investment and commercial lending. [22] Some 11% of social firms were CICs in 2010 (SFUK 2010).

2.2.2 HOW WELL DOES THE UK LEGAL FRAMEWORK SUPPORT UK WISES?

Legal frameworks often provide the basis for policy and funding infrastructures. The absence of a unified legal framework for WISEs, or for social enterprises, thus precludes one strategy for developing an integrated legal, policy and funding approach to support UK WISEs and other social enterprises. Instead, WISEs and other social enterprises in the UK operate within legal frameworks designed for various other types of organizations. Perhaps the most common of these is the framework governing charities. This framework provides WISEs that meet its restrictive eligibility criteria with tax and revenue benefits, and appears not to legally restrict their ability to grow or scale-up. On the other hand, the framework provides no specific supports to charities to operate businesses that are very often financially precarious and may tend to drain the charity of resources rather than generate new resources for it. Many if not most UK WISEs appear to be economically precarious, and not able to make enough money to pay workers a living wage (Buckingham & Teasdale 2013). More generally, UK social enterprises have called repeatedly for greater government tax support to the sector over the last decade as one way to increase sector revenues and offset declining revenues from donations and grants (e.g. HM Treasury 2013; Buckingham & Teasdale 2013).

The legal framework governing non-charitable Third Sector WISEs is less restrictive of these organizations' freedom to operate a WISE business, but provides far fewer tax and revenue-generating benefits. Another important feature of this framework is that, apart from the new CIC form, it offers no legal forms to Third Sector organizations that legally protect their social mission and prevent the organization's takeover by profit-seeking private interests. This is less likely to be a problem for WISEs struggling to make ends meet than for some other types of social enterprises, for example those created to run hived-off pieces of the National Health Service. But the lack of a legal form that protects organizations' social purposes also means that non-charitable Third Sector WISEs as well as for-profit WISEs lack a clear legal 'brand' that flags their social purposes.

One major purpose of the CIC legal form was to provide such a clear legal 'brand' for Third Sector and for-profit social enterprises, including WISEs. Another major purpose was to increase social enterprises' access to financing, and in particular *social investment* – investment from

[22] The CIC legal form locks the company's assets and income through a 35% cap on the total amount of profits that can be distributed to owners annually, and a requirement that at dissolution the CIC's assets be distributed only to other asset-locked organizations such as charities and bencoms (BIS 2010; BIS 2013; LawWorks 2011). CICs must already have incorporated as CLGs or regular limited share companies (BIS 2010).

investors content to make low rates of return because they support the enterprise's social purposes, or patient investors content to wait for a reasonable rate of return (Canadian Task Force on Social Finance 2010). This second purpose would likely to benefit more profitable WISEs.

Early in 2014, in response to UK social enterprises' calls for greater government support, Early in 2014, the UK government introduced tax breaks for certain types of social enterprises in a bid to inject more money into the sector (CO 2014). Under the Social Investment Tax Relief program, individual investors will be able to invest up to £1 million in charities, bencoms or CICs – all social enterprises with legally secured asset locks – and receive a 30% tax break on the investment (CO 2014). Eligible social enterprises must have no more than 500 employees and earn £15 million a year, and will initially be able to receive up to £290,000 over three years in such investment, with the cap rising over time, in keeping with EU rules (CO 2014). Shortly after, the National Council of Voluntary Organizations announced that UK charities lost over £1.3 billion in income from government spending cuts between 2010/11 and 2011/12,[23] so the tax break may not produce a net gain to charities.

2.3 Policy Framework

The UK has no policy framework specifically for WISEs, but supports social enterprise through a variety of policy and program initiatives. In considering the policy frameworks to which UK WISEs are subject, it is useful to distinguish WISEs that participate in labour market policy and programs and aim to integrate workers into the mainstream labour market, from those that seek to provide sustainable alternative, non-transitional jobs for these workers. However, since many WISEs in the second category, such as worker cooperatives and community businesses, depend significantly on trade with the public sector, many WISEs in this group are also affected by government policy, in particular government procurement policies and processes.

2.3.1 LABOUR MARKET POLICY

UK WISEs have a somewhat tenuous relationship with mainstream UK labour market policy. UK WISEs originated in the 1970s-1980s to help regenerate deprived communities in depressed areas, especially in Scotland and northern England. These were typically small grass-roots enterprises (e.g. community launderettes, community-run shops) tightly linked to the local community (Aiken 2007). Some were set up as worker cooperatives engaged in child care, personal care, recycling or cleaning and maintenance work (Aiken 2007). These WISEs often had

[23] See http://www.ncvo.org.uk/about-us/media-centre/press-releases/621-over-1billion-government-income-wiped-from-charities. Posted April 3, 2014. Retrieved April 16, 2014.

multiple aims: work re-integration, social (re-)integration, and also benefit to the community as a whole (Aiken 2007).

WISEs entered mainstream labour market policy in the 1990s, when the UK government adopted more active labour market policies to get disadvantaged workers into the mainstream labour market quickly (Aiken 2007; Damm 2012; Finn & Simmonds 2003). Policies were a mix of active training/placement and/or short-term employment programs, such as the former New Deal programs for the young (18-24) and conditional US-style welfare-to-work programs (Aiken 2007; Aiken & Spear 2005; Damm 2012; Finn & Simmonds 2003). The WISE approach to (re-)integration came to be seen as effective in reaching and serving populations far from the market, where other more conventional approaches were failing (Damm 2012). WISEs provided holistic services to disadvantaged workers that included social supports and greater individual attention, in addition to meaningful longer-term transitional employment embedded in local communities (Damm 2012). Their distinctive mission was to increase workers' employability rather than getting workers into mainstream jobs as quickly as possible (Finn & Simmonds 2003; DeFourny & Nyssens 2006).

Trends in labour market policies and procurement policies are increasingly seen to be at odds with the WISE approach. UK labour market programs for the disadvantaged remain largely 'work first', use mass market, highly standardized professional services, and tend to be outcomes-driven, with little tailoring or programs to meet the distinct needs of the highly disadvantaged (Aiken 2007; Damm 2012).[24] At the same time, government procurement policies over the last 15 years to so have deliberately fostered the growth of large scale 'prime' enterprises, mostly private sector, which sub-contract down through a multi-tiered supply chain which most often sees WISEs and other Third Sector service providers near or at the bottom (Damm 2012). Although the higher level contractors have included some Third Sector organizations, such as the Shaw Trust, the number of these is seen to be declining (Damm 2012). So too is the number of smaller Third Sector sub-contractors[25] who are seen to be being squeezed out of labour market service delivery by the new procurement practices (Aiken 2007; Damm 2012; Third Sector Task Force 2009 in Damm 2012; Rees, Whitworth et al 2013; Dean 2013).

As a result, WISEs are increasingly seen to be losing their distinctive position in labour market programming. Where initially they occupied a policy 'niche' – one in which their specialist skills were valued and resourced – they are now seen more often as simply alternate providers in generic programs (Teasdale, Buckingham et al 2013; Rees, Taylor et al 2013). For example, whereas under Supporting People, homelessness service providers were largely sheltered

[24] The Freud Report, a seminal report guiding UK labour market policy development, did recognize disadvantaged individuals' need for more time and supports to successfully integrate into the mainstream labour market, and the need to segment the market of disadvantaged people from other workers close to the market (Freud 2007).

[25] See also http://www.socialenterpriselive.com/section/news/policy/20110406/social-enterprise-opportunities-dwindle-first-work-programme-contracts

from competition with private sector providers, the UK's new welfare-to-work program gives Third Sector providers no special treatment (Teasdale, Buckingham et al 2013).

2.3.2 SOCIAL ENTERPRISE & PROCUREMENT POLICY

The UK is considered to be a leader among Anglo-American countries in promoting social enterprises, and the UK has strongly promoted social enterprises since the late 1990s through capacity building and governance initiatives, the creation of the CIC, and other initiatives (Aiken & Slater 2007; DTI 2006; DTI 2002; SU 2002; OTS 2006). It is seen to have a highly developed institutional support structure (McKay et al 2011; Nicholls 2010).

One critical policy issue for WISEs, especially for WISEs that earn most of their income from trade, is government procurement. [26] The UK government has actively promoted social enterprise trade with the public sector over the last decade as part of its broader policy strategy of outsourcing public service delivery and 'spinning-out' public services to the Third Sector, in preference to outright privatization (Morris 2012; Chew 2010; DTI 2002; Spear 2004; Chew & Lyon 2012; OTS 2006; OTS 2009). (In 2010 the government predicted its National Health Service would become 'the largest social enterprise sector in the world', for example (SEUK 2011)). Much of the growth in UK social enterprise over the last decade has been fuelled by this government strategy (e.g. Carmel and Harlock, 2008; Haugh & Kitson 2007; Teasdale, Kerlin, et al. 2013), and social enterprises rely significantly on public sector contracting for their survival. In 2010/2011, public service delivery contracts accounted for about half of UK charities' trading income, and trade was the largest source of income for charities (NCVO 2013).

The importance of public sector trade to WISEs and other social enterprises has made government procurement policy a vital issue for the sector, and government procurement policieshave come to figure prominently in policy discussions about ways to support social enterprise (Buckingham & Teasdale 2013; SEUK 2011*)*. In a recent survey of UK social enterprises, those working mainly with the public sector cited procurement policy as the second greatest barrier to their sustainability (SEUK 2011). Social enterprises, including WISEs, call for social clauses in government procurement contracts that recognize the social value that social enterprises provide such as development of depressed communities and, for WISEs, providing jobs for disadvantage individuals that are unlikely to be hired in the mainstream labour market (Buckingham & Teasdale 2013).

Until very recently, UK procurement policy gave WISEs and other social enterprises no preferential treatment in contract bidding. As an EU member, the UK is subject to EU-level procurement policy, which has limited the preference that local authorities can show to WISEs

[26] Procurement supports for WISEs and other social enterprises can take several forms. For one typology, see (Dean 2013), Table 2.

and other social enterprises in awarding public contracts. Prior to 2014, EU states could not reserve contracts for any specific class of organization, except sheltered workshops, without breaching EU competition policy (European Commission 2010, in Dean 2013; Buckingham & Teasdale 2013). National governments were allowed, however, to give small contracts to WISEs and other organizations without tender. They were also allowed to insert 'social clauses' into larger contracts, clauses that require the contractor to pay workers prevailing wage rates or hire disadvantaged workers (Dean 2013; DeFourny & Nyssens 2008). The UK has been one of several countries not to take up these options, and to forbid any preferred treatment to WISEs in public contracting (DeFourny & Nyssens 2008). The UK government's main strategy to promote social value creation through procurement has been to encourage larger contractors to sub-contract to smaller organisations, a strategy that circumvents the EU procurement directive (Dean 2013).

In early 2014, the EU revamped its procurement policies to allow national government to reserve contracts for economic operators whose main aim is the social and professional integration of disadvantaged persons, provided that at least 30% of these contractors' workers are disadvantaged workers (ENSIE 2014). Existing provisions to support WISE contractors were also strengthened (ENSIE 2014). Just before the EU action, the UK government introduced its *Public Services (Social Value) Act*[27] in 2013, originally intended to incorporate social value considerations into public procurement criteria. However, while the original bill gave give Third Sector organizations preference in contracting, the law finally proclaimed requires only that local authority procurers 'consider how they can improve the social impact of their public service contracts before they start the procurement process'.[28] This is seen to provide merely a 'nudge' to commissioners to consider social value in awarding contracts (Teasdale, Buckingham et al 2013; Teasdale et al 2012). In Scotland, the Scottish Procurement Directorate advises that procurement processes should: "ensure that the social dimension is fully taken into account when requirements are being drawn up, at advertising, at selection stage ... to ensure that the target audience is aware of requirements and how to respond to them; and after contract award" (Scottish Procurement Directorate, 2007, in Dean 2013).

The precariousness of government service delivery contracts is another sore issue for WISEs and other social enterprises. Like governments elsewhere in the EU and in Canada, the UK government has moved from supporting the Third Sector with long-term, organization-level funding to project funding (Buckingham & Teasdale 2013). In a recent survey, EU WISEs including UK WISEs spoke repeatedly of the need for longer term contracts to enable them to plan for the future and to provide job security to their staff (Buckingham & Teasdale 2013). Many CICs – which also tend to rely on trade with government – also report their income from government contract to be precarious and unsustainable (Mulkerrin & Gaughan 2013).

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[27] For more information, see https://www.gov.uk/government/news/significant-boost-to-social-enterprises-as-the-social-value-act-comes-into-force. (31 January 2013), retrieved December 5, 2013.
[28] See https://www.gov.uk/government/news/significant-boost-to-social-enterprises-as-the-social-value-act-comes-into-force. Accessed January 7, 2014.

UK WISEs that contract with local authorities to deliver services such as waste and recycling, landscaping or childcare are also increasingly subject to the prime contractor-based tendering processes, and outcomes-focused programming described in the context of labour market programs (e.g. Aiken & Slater 2007). These WISEs are experiencing some of the same side-effects of these processes (Aiken & Slater 2007). For example, in the waste and recycling industry, where many WISEs operate, tendering processes have shifted to the 'prime' model, and WISE organizations have come to be sub-contractors, and the providers that deliver services to the most disadvantaged (Aiken & Slater 2007).

2.3.3 HOW WELL DO UK POLICY FRAMEWORKS SUPPORT UK WISES?

a) Labour Market Policy

Overall, UK recent and current labour market policy is seen to work against the WISE approach to worker re-integration (Aiken 2007; Damm 2013; Rees et al 2013) for reasons intimated in the previous section. Most researchers believe the trend toward standardized 'work-first' type programs, delivered via ' supply chain contracting led by a few very large 'prime' contractors, is pushing ILMO WISEs (and other Third Sector training and placement organizations) further to the margins of labour market programming (Simmonds 2011, WPC 2009, in Damm 2012; Loader 2011). WISEs are excluded or left some way down the sub-contracting hierarchy, meaning they now receive less funding (Aiken 2007). Many are left struggling to survive or forced to seek other sources of income (Armstrong et al 2011, WPC 2010, Roberts & Simmonds 2011, in Damm 2012). Some studies, on the other hand, have found that prime contractors were willing to invest time and resources into their supply chains, and even adapt terms for struggling contractors (Armstrong et al in Damm 2012).

WISEs or other Third Sector organizations providing training and/or placement may not be the only organizations affected by the new tendering processes. Place in the supply chain appears to be the most important factor affecting success under these processes; Tier 1 (first-level sub-contractor)WISEs providing 'end-to-end' (recruitment to placement) services appear to do better than other WISEs under the current regime (Rees, Taylor et al 2013).

The current outcomes focused, prescriptive[29] labour market program model and the new tendering processes, appear to be putting ILMOs participating in labour market programs under increasing pressure to get workers into a job as quickly as possible, thereby compromising their core mission to increase their clients' general employability (Buckingham, 2012 in OECD 2013; Aiken & Bode 2009; UNDP 2008; Armstrong et al 2011 in Damm 2012). Many WISEs experience

[29] Earlier programs were highly prescriptive, often specifying which people in which streets could be assisted (Spear & Aiken 2007). However, the latest Work Programme appears to be much less so (Damm

pressure to reduce services, and their quality, to survive (Damm 2012; Aiken & Bode 2009; DeFourny & Nyssens 2008), despite the new programs' stepped payments for different categories of disadvantaged (Damm 2012). At the same time, the 'creaming' of the most employable clients by providers higher up the contracting supply chain leaves ILMOs and other sub-contractors with clients that are hardest to serve (Aiken 2007; Rees, Taylor et al 2013; Rees, Whitworth et al 2013). Researchers several years ago documented a growing stress in the Third Sector in response to the recent changes (e.g Carmel & Harlock 2008). In addition, ILMOs that use multiple funding sources are squeezed by the need to comply with program requirements, and also demonstrate to charitable funders that they are pursuing their social mission (Buckingham 2012 in OECD 2013).

These outcomes, apparent in many EU countries, are usually discussed as the 'institutionalization' of WISEs (e.g. Defourny & Nyssens 2008, 2012; Aiken & Bode 2009). At the same time as governments have recognized the value of the WISE approach, and integrated WISEs into their programs, governments' 'job first' approach to (re-)integration is seen to be stripping WISEs of their capacity to achieve their own holistic objectives for the disadvantaged and the communities they live in (Aiken & Bode 2009). Denuded by neglect are the infrastructure, networks, trust and relationships that enable WISEs to empower and effectively integrate individuals far from the market (Aiken & Bode 2009).

One example cited is that of Necta, located in northern England, which originated as a community campaign for better facilities in a deprived area, and developed into a project to train local unemployed people in construction skills to build a community centre for a multi-purpose community organization (Aiken & Bode 2009). Success led to commercial contracts for construction projects, mostly with the public sector. Combined with training and support funds from government social inclusion programs, Necta was able to grow, while retaining links with local community organizations including a welfare advice centre, and credit union. Over time, Necta realized it had become highly influenced by both government programs and the needs of the local building industry while becoming decoupled from other community organizations. The requirement to measure, quantify and record every activity affected its services: its job provision dropped from one year to six months, meaning that with the mix of monies and targets, it had to place people into work within 11 weeks. It was facing pressures to become a creaming organization that worked only with the most employable (Aiken & Bode 2009). Realizing they had been drawn from their community origins to become a specialist jobs and training agency, Necta reassessed its priorities in 2006, diversified its activities and reconnected with local organizations.

The trend to institutionalization has led some commentators to conclude that successful organizational development is only possible for WISEs if they remain at the margins of labour market programs – where softer local contract policies may apply or niche markets yield sufficient incomes (Aiken & Bode 2009). They warn against using WISEs as 'bridges' to the mainstream labour market (Amin 2009 in OECD 2013), arguing that not only do current trends denude WISEs of their capacities, but they may also inadvertently make things worse for socially excluded people, since individuals with a long history of social exclusion cannot be transformed into economic agents just from a placement in a social enterprise (Amin 2009 in OECD 2013; Aiken & Bode 2009). They may require sustained long-term support from state, community and employers.

Finally, some commentators argue that current labour market programs do not fully acknowledge the structural barriers that individuals with disabilities and stigmatized ethno-racial minorities face in getting mainstream labour market jobs. Rather, they tend to assume that the problem is with the individual (Grover & Piggot 2007, in Damm 2012; Buckingham & Teasdale 2013).

b) Social Enterprise and Procurement Policy

It may be too early to tell how recent changes in EU procurement policies on preferential treatment for WISEs and other social enterprises, and the UK's own new procurement law, will affect WISEs. However, the UK government's new procurement law seems to fall considerably short of WISEs' and other social enterprises' hopes. Some local authorities are supportive of WISEs, for example, but others are not (Spear & Aiken 2007), and a law that only 'nudges' local authorities to consider social value in procurement is unlikely to change the latter group's current practice.

UK social enterprises have made clear their unhappiness with existing procurement policies for at least a decade, and a recent survey indicates that many social enterprises that trade with the public sector are beginning to look elsewhere for income (SEUK 2011). Almost two-thirds of the social enterprises trading mainly with the public sector that expected to grow, said their growth would come from non-government sources (SEUK 2011).

Yet despite the policy challenges, UK WISEs, and social enterprises, have continued to grow, including WISEs operating without benefit of significant policy support, such as worker cooperatives, community businesses and social firms.

2.4 Funding Framework

As noted at the outset of this Section, the UK has no integrated funding framework for UK WISEs or other social enterprises. Nor do there appear to be any major government funding programs or streams specifically for WISEs or other social enterprises. UK WISEs and other UK social enterprises, typically cobble together a mix of income sources (SEUK 2011; Spear 2002), which along with market income – from commercial and/or public sector trade – may include grants, donations, volunteer support, and wage subsidies or worker graduation payments for WISEs participating in labour market programs (Damm 2012). Much of WISEs' income from public sector trade passes through local authorities' hands. In addition, many WISEs rely significantly on EU funds and programs for financial support (e.g. Damm 2012). The EU's European Social Fund (see Section 3) funds a wide range of UK social enterprises and WISEs. These programs also carry their own requirements and specifications.

As described earlier, the UK tax system also provides indirect financial supports to some WISEs and other social enterprises, in particular charities. As described earlier, the UK recently increased and broadened this support through introduction of its Social Investment Tax Relief – the new 30% tax break for investors investing in charities, CICs, and bencoms, to start in 2014 (HM Treasury 2013).[30] Some WISEs may benefit from this tax break.

The government has also made efforts to increase social enterprises access to other financing sources, especially equity financing in the form of social investment. As indicated earlier, the CIC structure is explicitly designed to attract social investors willing to receive below-market rates of return in order to support organizations with social purposes. The government also hoped that CICs would help grow the social investment market by creating a suitable vehicle for it[31] (DTI 2003a).

As part of these efforts, the government has also worked to develop and enlarge the social investment market for social enterprises. It has created multiple investment programs (HMG 2013; HM Treasury 2013), and announced plans to create a wholesale financial organization (the Big Society Bank) to invest in financial intermediaries in the social investment market (CO 2010). The government claims some success in growing the social investment market (HMG 2013; HM Treasury 2013). However, at present very few social enterprises appear to use equity financing, and use of debt financing is also low (Mulkerrin & Gaughan 2013; SEUK 2011). How much this will benefit WISEs is unknown, since, given the nature of their mission, they are less likely than many other social enterprises to be self-supporting financially, and therefore would be relatively unattractive to external investors.

2.4.1 HOW WELL DO THE UK'S FINANCIAL FRAMEWORKS SUPPORT UK WISES?

The widespread precariousness and low quality of WISE jobs (for disadvantaged and other WISE workers) suggests that WISEs' current financial resources are inadequate (Buckingham & Teasdale 2013; Teasdale 2009).[32] This appears to be a widespread problem in many OECD

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[30] See also September 5, 2013 update at: http://www.hempsons.co.uk/news/charities-and-social-enterprises-updates/. Retrieved December 6, 2013.

[31] Patricia Hewitt, Secretary of State for Health, on publication of a joint DTI/Home Office/Treasury consultation document on March 26th 2003. Cited at <CICassociation.org UK>. Retrieved October 30, 2013.

[32] Some of the WISEs in the Europe-wide study were involved in providing training opportunities and supporting vulnerable people to find employment; some provided stable employment opportunities to people from vulnerable groups; and others provided support to vulnerable groups. Those that did employ

jurisdictions, including British Columbia and Quebec (OECD 2013). The increasingly unsupportive labour market program and public procurement policies are blamed for much of this problem in the UK and elsewhere (e.g Buckingham, 2009; Cunningham and Nickson, 2011 in OECD 2013; Aiken 2007; Buckingham & Teasdale 2013). But the economic slowdown of recent years has also reduced sales for WISEs, or made it harder to grow sales, and in any case most WISEs – whether tied or untied to government policies and programs – operate in low wage sectors (Buckingham &Teasdale 2013). Some European funds also deliberately inhibit income-generating activities (Spear & Aiken 2007).

In a recent EU-wide survey of WISEs and other social enterprises serving the highly disadvantaged, many organizations called for more tax and insurance concessions to reduce the cost of employing highly disadvantaged workers (Buckingham & Teasdale 2013). UK social enterprises have also called for more tax concessions, such as extension of the new 30% Social Investment Tax Relief measure to non-asset locked social enterprises.

More broadly, WISEs and other social enterprises serving the highly disadvantaged in the UK and mainland Europe argue that current government funding levels —whether in labour market programs, service delivery contracts, or grants— do not sufficiently recognize the 'social' dimension of the work that WISEs do in order to support and integrate highly disadvantaged individuals into jobs (Buckingham & Teasdale 2013). This dimension makes it very difficult for WISEs to operate successfully without some state support. Access to government contracts – often insufficiently funded, in any case – alone are not enough to ensure WISEs' sustainability (Buckingham & Teasdale 2013). One literature review of social enterprises serving the homeless found that WISEs serving the homeless "may deliver work integration, but appear unable to generate sufficient surplus to meet their client groups wider social support needs" (Teasdale 2009). WISEs that prioritize their social over their economic objectives (operating their business and/or employing and training the homeless) risk becoming financially unsustainable (Teasdale 2009), or appear likely to abandon the most excluded of its client group. However, the author concludes, "it may be that certain programmes can be delivered at a lower cost using a social enterprise model".

WISEs and other organizations working with vulnerable populations see it as the government's responsibility to meet the costs of the 'social' dimension of their work, i.e. the costs of supporting vulnerable people that went over and above those that would have been incurred by mainstream employers (Buckingham & Teasdale 2013). One option is to couple social clauses in procurement with a government commitment to meet the full cost of fulfilling contracts, for example by specifying that the payment of living wages to all staff is made a requirement of all government contracts (Buckingham & Teasdale 2013).

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vulnerable people were more likely than other social enterprises to cite adequacy of pay as an aspect of employment quality that was difficult to deliver (Buckingham & Teasdale 2013).

One expert has suggested that WISEs have the prospect of some sustainability without government support only if they hire individuals at lower levels of disadvantage or operate in areas where special conditions exist (Aiken 2007). These special conditions may be where:

- there is a niche 'social' market (for example, customers paying slightly more for a specialist soap produced by a Social Firm employing disadvantaged people)
- market competition is weaker (for example where social enterprises entered a field initially unattractive or not noticed by commercial organisations – such as furniture or clothes collection and distribution to families in social need)
- small numbers of disadvantaged people can be absorbed in a larger prosperous organisation (such as a highly profitable commercial company)
- an organisation cross-subsidises or takes low wages (for example some co-operatives have taken this path as part of a social commitment) (Aiken 2007).

2.5 Outcomes

WISEs' mission is to increase the employability of disadvantaged workers through meaningful work, usually supplemented by training and other supports (Finn & Simmonds 2003; DeFourny & Nyssens 2006). In addition, they aim to directly benefit the communities they serve by increasing employment and delivering needed community services. WISEs participating in labour market programs will measure their employment success – one major outcome – in terms of numbers of WISE graduates transitioning to, and staying in, mainstream jobs. (measures of employability success would be broader.)WISEs creating permanent or transitory new jobs 'outside' labour market programs may measure employment success in the number and quality of the jobs they create for disadvantaged workers, and in workers retention rates.[33]

2.5.1 MAINSTREAM LABOUR MARKET (RE-)ENTRY

Third Sector organizations providing training and/or employment have widely been seen as better able to reach and retain the highly disadvantaged because they are more trusted by the communities and individuals they exist to help, and more innovative and better at serving specific highly disadvantaged groups (e.g. Third Sector Task Force 2009, in Damm 2012; Bickerstaffe & Devins 2004). They provide more intensive supports to the highly disadvantaged, delivered by staff experienced and expert in dealing with highly disadvantaged populations (e.g. Hopkins 2007 in Damm 2012; Amin 2009 in OECD 2013; Aiken & Spear 2005). WISEs' better access to disadvantaged populations, and wider support to the highly disadvantaged is the reason that government integrated them into labour market programs.

[33] See Chiaf & Giacomini (2009) for a detailed discussion of an appropriate evaluation framework for WISEs

Research suggests that WISEs have proven somewhat better than other organizations at integrating the highly disadvantaged into the mainstream labour market, indicating that job integration is more successful within WISEs' individualized, flexible, more supportive 'organizational climate' (Perkins 2008 in Aiken & Bode 2009; Bickerstaffe & Devins 2004). Moreover, early studies of pioneering WISEs such as the Wise Group and Glasgow Works in Scotland reported high and sustained job outcomes (e.g. Cambridge Policy Consultants 1996b, 1990, 2000 in Finn & Simmonds 2003). A national survey of ILMO programs in 2000 also found that in established ILMOs around 20-30 percent of individuals dropped out before completing the contract people, compared to up to 50% in comparison groups (Marshall & MacFarlane 2000), and that ILMOs could place up to 60% of disadvantaged program participants into mainstream labour market jobs (Marshall & MacFarlane 2000). For other comparable providers, the rate was below 40%. Also important, over 90% of ILMO participants followed up were still in their job after six months, compared to less than 40% in other programs(Marshall & MacFarlane 2000). ILMO participants' earnings were also higher than for leavers of comparable programs.

Another extensive study of UK ILMOs in the early 2000s also found superior outcomes for ILMOs, including those participating in labour market programs. Some 43% of ILMO graduates found jobs, although ILMO clients tended to be less employable than clients of other service providers (Finn & Simmonds 2003). ILMOs that did not participate in government programs (at that time, the New Deal programs) had much higher job entry rates (67%) than those that did participate (Finn & Simmonds 2003)— although the non-New Deal ILMO participants may simply have been more employable. ILMOs participating in New Deal programs had superior outcomes to other service providers participating in the programs: ILMO participants in the New Deal's Environmental Task Force and Voluntary Sector options had 8-26% higher success rates than other ETF and VS participants (Finn & Simmonds 2003). The difference seemed largely attributable to the generally longer jobs provided by ILMOs (52 weeks): – medium-sized ILMOs providing more than 26 weeks work were the most successful (Finn & Simmonds 2003). The authors concluded that the additional £2,000-£3,400 cost of an ILMO placement produced a significant increase in the job outcome rate. They did find ' significant capacity and administrative issues in operating a successful ILM" (Finn & Simmonds 2003).

Other researchers suggest there is too little independent (i.e. non-government commissioned) evidence to determine the Third Sector's 'added value' in labour market programs directed to the disadvantaged (Aiken, 2007, Crisp et al., 2011b in Damm 2012). No recent evaluations of ILMOs were found which might assess the impacts of recent tendering processes and program changes on WISEs' effectiveness.

2.5.2 PROCUREMENT AS JOB CREATION STRATEGY

As noted earlier, WISEs that fund workers' jobs through service delivery contracts with the public sector typically do so through competitive bidding. To this point, there have been no set-asides for social enterprises in these processes, or even, officially, favoured treatment. A 2007 study of a pilot project designed to integrate unemployed workers into the labour market through government procurement contracts, however, found that the project successfully created new jobs for disadvantaged workers. Under the Unemployment Pilot Project in Northern Ireland (Erridge 2007), government tendered 15 cleaning, catering, security and construction contracts worth up to £45 million to employers willing to hire unemployed workers for the jobs. The projects created 51 new jobs for the unemployed workers, at an estimated cost of one person employed per £0.61m of the project spend (Erridge 2007). (The construction industry standard is one person employed for every £1m of the project spend). While these workers had only been registered as unemployed for three months, and therefore were fairly employable, the study concluded that procurement was an effective strategy for (re-)integrating disadvantaged workers into the labour market (Erridge 2007).

2.5.3 ALTERNATIVE JOBS

The evidence suggests that many WISEs have successfully created permanent new jobs primarily through their market activity, and continued to do so after the 2008 economic crash. This said, the most striking feature of WISEs creating 'alternative' new jobs for the highly disadvantaged is the small size of the organizations, and the small number of jobs created by each. Social firms exemplify this phenomenon.

a) Social Firms

Social firms appear to be expanding in the UK (SFUK 2010), and continue to earn about 85% of their income from market sales (SFUK 2010). In 2010, they were estimated to employ 1886 staff, of which 624 full-time and 440 part-time employees were severely disadvantaged. Employment had grown 62% since 2008 (SFUK 2010). The average number of FTE (full-time equivalent) staff per firm was 13.5, and the average FTE (full-time equivalent) staff that were severely disadvantaged was 8 (SFUK 2010). In 2006 the sector employed more than 1600 FTE staff with 860 of them being severely disadvantaged. Nearly 21% of disadvantaged people worked less than 16 hours per week (SFUK 2010).

Social Firms UK estimates it costs social firms £3000 to £6000 a year to provide support to each disabled employee, most of which is generated from sales.[34] Studies of individual social firms have identified Social Return on Investment (SROI) ratios of between £2 and £7.50 for every £1 invested (Neville 2008). Analysis of SFUK's 2006/2007 sector mapping results found that, at its then current size, the social firm sector was saving the UK government £6.4 million a year that it would otherwise have paid out in benefits (Neville 2008).

[34] See http://www.socialfirmsuk.co.uk/get-involved/get-business-support/finance

Two recent studies of social firms also suggest they may provide good value for money, and be an underused employment strategy. One study of two social firms run by the Royal National Institute of Blind People (RNIB)in London identified a SROI ratio of £4.98 estimated social value to individuals and society for every £1 invested in the WISE. The social value was calculated in terms of: social outcomes to employees and trainees, and changed attitudes (valued at £3.29 per £1), economic outcomes to the government in reduced welfare spending and increased tax income (valued at £1.52 per £1) (Sital-Singh 2011)). The social outcomes for the blind and partially blind workers included increased self-esteem, increased self-efficiency, and more satisfying personal lives (Sital-Singh 2011).

The second study, a survey of 53 social firms and other social enterprises targeting people with mental illness , found that they provided stable (>two years) jobs that paid more than minimum wage – up to £5 per hour more for 30% of workers in the social firms (Gilbert et al 2012). Over a quarter of the social firms received some funding from the national health service or a mental health charity, but were more likely to make a yearly profit than the other social enterprises studied (Gilbert et al 2012).

In both studies, however, the firms studied were small, and employed few employees. The RNIB enterprises had 10 employees and 3 trainees; half of the social firms surveyed in the second study employed 10 workers or less. Combined with the slow turnover of employees with mental illness, the authors concluded it is not surprising that social firms currently offer limited job opportunities for people with mental illness (Gilbert et al 2012). They also concluded that social firms have significantly greater potential to be a viable addition to placement and support organizations and sheltered workshops in integrating people with mental illness into employment (Gilbert et al 2012).

b) Community Businesses

Community businesses appear to vary more in size and employment, but anecdotal evidence suggests that community enterprises competing in mainstream markets experience the same volatility and stresses as other growing small and medium businesses. For example, an award-winning computer recycling community business WISE, Recycle-IT folded (in one of two locations) in 2005 after 10 years, despite thousands of customers. Its demise was attributed to several changes in its environment happening at once: a European Directive on Waste Electrical and Electronic Equipment requiring companies to recycle their own computers where possible, increased competition from other firms in the field, and rising quality of the computers being donated, which made them easier for owners to sell rather than donate (SFUK n.d.). Another high profile community business WISE, Ealing Community Transport (ECT) grew successfully in local transportation and then recycling, but was broken up in 2008, and its recycling business sold to a private waste management company, amid mixed views as to the import of the event for UK community businesses. Critics questions whether community businesses, (in this case a CIC), which typically start off as small local enterprises " can really scale up and compete with the big private public service providers without losing their original distinctiveness (Butler 2008).

Section 3: WISEs in the EU

3.1 A Descriptive Overview

3.1.1 SECTOR OVERVIEW

WISEs have been prominent within European social enterprise since the mid-1990s, and in some countries the concept of social enterprise[35] is closely associated with employment related enterprises or more directly with WISEs (DeFourny & Nyssens 2012). WISEs continue to comprise a significant proportion of EU social enterprises even as other types of social enterprise have proliferated. According to one recent survey of 600 or so social enterprises in several EU countries, almost 15% of EU social enterprises are WISEs – defined as organizations whose mission is to employ and train highly disadvantaged workers far from the market(SELUSI n.d.. in EC 2013).[36] The prominence of WISEs varies by country. In Italy, for example, social enterprises are largely either WISEs or organizations providing welfare services (EC 2011). Similarly, 43% of Spanish social enterprises are WISES (SELUSI 2010a).

EU WISEs tend to be small, and most often act at the local level (Heckl et al 2007: DIESIS 2009; DeFourny & Nyssens 2008; UNDP 2008). A comprehensive study of EU WISEs in the early 2000s estimated there were more than 14,000 WISEs in the EU, employing 240,000 people at that time (Spear & Bidet 2005).

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[35] The variation and proliferation of definitions of *social enterprise* and the nomenclature for organizations that are neither state nor private sector plagues discussion on social enterprise in the EU as elsewhere (Heckl et al 2007; Campos & Avila 2012; Campos & Avila 2007). The legal definitions of *social enterprise* vary even among laws specific to social enterprise (Heckl et al 2007). Still, nearly all definitions characterize social enterprises as organizations that pursue social ends primarily or exclusively, and operate businesses to this end. In addition, much European discourse on *social enterprise,* including formal European documents, sees democratic decision-making as a defining characteristic of social enterprises (Campos & Avila 2012), in contrast to UK and North American definitions. S*ocial enterprise* is also often discussed as part of the larger category of *social economy,'* which includes, in addition to not-for-profit associations and charities: co-operatives, mutual associations and other organizations that pursue social ends and re-invest most of their revenue into the pursuit of those ends (similar to the UK's Third Sector (Campos & Avila 2012; Heckl et al 2007; Noya & Clarence 2007). The terms *social economy* and, more recently, *social business*, are now widely used in EU policy discourse and research, often in place of social enterprise, the narrower category (e.g. Campos & Avila 2012; Guerini 2012).

[36] This likely underestimates the proportion of social enterprises that would qualify as WISEs since the survey question asked organizations about their primary mission. For some organizations, work integration of disadvantaged populations in instrumental to, or complementary to, a primary mission of, say, local community development.

The same study found that European WISEs are a very heterogeneous group of organizations (PERSE 2005; Spear & Bidet 2003). This diversity in part reflects different policy frameworks and cultures within EU states, but great diversity also exists within some states (PERSE 2005; Spear & Bidet 2003). The degree of diversity within states appears to depend on factors such as the coherence of national policy towards WISEs, the maturation of the Third Sector, and degrees of government centralization (Spear & Bidet 2003).

a) WISE Objectives

While a defining objective of WISEs is the work integration of people experiencing serious difficulty in the labour market, or at risk of exclusion from the labour market and society (UNDP 2008; Nyssens 2006; Davister et al 2004), most European WISEs also share the mission of helping deprived communities renew (Campi et al 2008; UNDP 2008). The latter mission may even be paramount, as it is for UK's *community businesses (*Aiken & Spear 2005) and France's *neighbourhood enterprises,* for example (Davister et al 2004). Similarly, for Belgian and German municipally-owned WISEs waste recycling and salvage is a as a major objective in its own right (Davister et al 2004).   The paramount mission of Ireland's *local development work integration social enterprises* is also to regenerate deprived communities (DeFourny & Nyssens 2008; O'Hara & O'Shaughnessy 2004; O'Shaughnessy 2006).

In addition, among WISEs for which work (re-)integration is the main goal, the business may be an important end in itself, or largely a vehicle for employing disadvantaged workers. For example, the business is an end in itself (as the primarily income source) for w*orker cooperatives* in Finland and the UK, and *work integration enterprises* in Spain, France and Belgium (Davister et al 2004). On the other hand, the businesses run by Belgium's trainee-run *on-the-job training centres,* which primarily serve disadvantaged youth jobseekers, and Spain's *occupational centres,* which primarily serve individuals with disabilities, are not intended to generate substantial revenue (Davister et al 2004).

All 160 of the WISEs studied in the PERSE project (PERSE 2005) claimed multiple goals that fitted three main categories: occupational and social integration, production of goods and services, and lobbying and advocacy (PERSE 2005). The relative importance of the goals varied among WISEs:

b) WISEs and social service social enterprises

Increasingly, the line between WISEs and some other types of social enterprises is also being blurred by the rapid growth in social service social enterprises (UNDP 2008). While the primary mission of social service social enterprises is to provide social services such as child care or health care – most often on contract to government – many of these enterprises do also hire disadvantaged individuals as workers (UNDP 2008). France's *neighbourhood enterprises* exemplify this blurring identity – many of the jobs they provide are in local community services

(UNDP 2008). These include services to social housing companies and municipalities such as cleaning, maintenance, garbage manager, and painting, as well as small repair services to social housing residents (Spear & Bidet 2005). In Italy, Spain and Portugal, however, the two types of social enterprises are kept distinct in law (UNDP 2008).

The philosophy of the pioneering WISEs of the 1980s was to empower and integrate excluded groups through participation in business enterprises that offered them a chance to reassess the role of work in their lives, and gain control over their own personal affairs (UNDP 2008). This mission entailed providing meaningful work that also socially benefitted the communities workers lived in, as well as the opportunity for workers to participate in democratically run organizations (UNDP 2008). (Re-)integrating workers into the mainstream labour market was thus not a WISE priority (UNDP 2008). At this point, many WISEs do participate in labour market programs in some European countries – including the UK – while others, such as Ireland's pioneering *local development initiatives,* do not (UNDP 2008).

3.1.2 TYPES OF ORGANIZATIONS

Two comprehensive studies in the early 2000s – the ELEXIES and PERSE projects – produced a widely-used taxonomy of EU WISEs in 10 EU countries, including the UK. Analysis of the two studies identified 39 different types of WISEs, including five of the six UK types discussed in Section 2, and categorized them into four main types of organizations based primarily on the organizations' objectives and the type of employment they provide (Davister et al 2004; UNDP 2008; DeFourny & Nyssens 2008).[37] Appendix 1 identifies the 39 types of WISEs and distributes them among the four categories below. It also clusters them by country.

a) Transitional employment or on-the-job training

The single largest group of WISEs (19) offers disadvantaged individuals transitional employment or on-the-job training, with a view to integrating them into the mainstream labour market (Davister et al 2004; UNDP 2008). This is the priority for Belgium's *on-the-job-training (entreprises de Formation par le Travail)*, Portugal's *integration enterprises (impresas de insercion)*, and most German WISEs. These WISEs offer their trainees the chance to improve their personal, social and professional competencies, and therefore their employability, through work and training adapted to individual needs (Davister et al 2004). Workers usually work on fixed-term contracts, although workers in five types of WISEs in this group also have some workers as trainees, and one has only trainees – Belgium's *on-the-job training enterprises* (Davister et al 2004).

[37]The category of WISEs that are charities, community organizations and local authority-run is not included for the UK or for any country. In mainland Europe, these organizations are spread across nearly all types of WISEs.

Altogether, 19 of the 39 types of WISEs identified by the studies provide transitional employment. Of these, 12 provide only this form in integration employment, including UK ILMOs, while seven provide both transitional employment and permanent self-financed jobs (Davister et al 2004). Italy's type B *social cooperatives*, for example, offer both transitional employment and permanent employment (UNDP 2008) to individuals with physical and mental disabilities, drug and alcohol addiction, developmental disorders, and/or problems with the law (EC 2013; Loss 2004).

WISEs in this grouping serve mainly low qualified young people or the able-bodied long-term unemployed (Davister et al 2004). Some of these types of WISEs depend heavily on market income while others such as the German WISEs rely mostly on public subsidies (Davister et al 2004).

b) Creation of permanent self-financed jobs

Another large group of WISEs provides stable and economically sustainable jobs in the medium term for people disadvantaged in the labour market (Davister et al 2004; UNDP 2008). In the initial stage, these WISEs receive public subsidies to make up for the lack of productivity of the target group. These subsidies usually taper off as the workers' productivity increases (Davister et al 2004). These WISEs are resourced mainly by market-earned income, as WISEs pay the workers from their own (mainly market-earned) resources (Davister et al 2004) as the subsidies decline (Davister et al 2014). Workers are typically on fixed-term or open-ended contracts (Davister et al 2004).

Some 16 of the 39 types of WISEs identified in the studies provide permanent self-financed jobs. Of these, six only provide such employment, seven provide both transitional and permanent employment, and three provide self-financed jobs and professional integration with permanent subsidies (Davister et al 2004). These 16 types of WISEs vary in approach and aim: France's *long-term work integration enterprises* provide only long-term jobs with an aim to help workers acquire social and professional autonomy, and to thrive within a participative management structure. The UK's w*orkers cooperatives* and *community businesses*, and Germany's *social firms and cooperatives,* also create only permanent self-financed jobs, but are structured as regular for-profit companies or cooperatives (UNDP 2008; Davister et al 2004). Italian *social cooperatives* may provide long-term jobs within the cooperative with a view to ultimate integration into the mainstream labour market (Loss 2004).

WISEs in this category usually employ able-bodied long-term unemployed, benefit recipients, low qualified young people, and/or ethnic minorities, women and other groups experiencing discrimination in the labour market (Davister et al 2004).

c) Professional integration with permanent subsidies

For the most disadvantaged groups, few of whom would find employment in the open labour market in the medium or long term, the third group of WISEs provides stable, permanently publicly subsidized jobs, which are often 'sheltered' from the open market (Davister et al 2004; UNDP 2008; Spear & Bidet 2003). These are among the oldest WISEs. They usually employ disabled workers (Davister et al 2004), and range from the more traditional sheltered workshops (Portugal, Sweden and Ireland), to Belgium's *adapted work enterprises*, which offer various productive activities to workers with disabilities (UNDP 2008; Davister et al 2004). Belgium's *work care centres* and *social workshops* are singular in providing sheltered employment to people without disabilities. In all, 11 of the 39 types of WISEs provide this kind of employment; six only provide this kind of employment, three provide this kind of employment as well as permanent self-financed jobs, and two provide this kind of employment as well as socialization through productive activity (Davister et al 2004). Most workers in these WISEs work on open-ended contracts. In some countries, these WISEs earn more than 50% of their income from market activity (Davister et al 2004).

d) Socialization through a productive activity

WISEs in this fourth category do not aim to integrate their workers directly into the open labour market (even though this might happen), but rather focus on (re)socializing highly disadvantaged groups through social contact and structure, and productive activities. These WISEs mainly work with able bodied people with serious psycho-social problems (e.g. alcoholics, drug addicts, former convicts) and people with a severe physical or mental disability*(*Davister et al 2004; PERSE 2005; Spear & Bidet 2003). The work activity is 'semi-formal' in the sense that the workers do not have a work contract or legal employee status, or trainee status. They may receive some money for working a few hours per week, or food and shelter in exchange for work *(*Davister et al 2004; UNDP 2008).

Five of the 39 types of WISEs identified in the studies provide this type of productive activity, with two of the five providing only this type of activity, one also providing transitional employment or on-the-job-training, and two also providing professional integration with permanent subsidies (Davister et al 2004). Among the two WISEs exclusively providing this type of productive activity, France's *centres for adaptation to working life* provide productive activity, but do not set targets for their highly disadvantaged workers to reach. Belgium's *work integration social enterprises* recruit similarly highly disadvantaged workers to work in their salvaging and recycling waste businesses. (Davister et al 2004).

The studies noted national differences in the types of employment provided by WISEs. For example, while France and Germany concentrate their effort on transitional employment and on-the-job training, Belgium and Ireland try to ensure longer term employment, be it permanently subsidized or self-financed (Davister et al 2004).

3.1.3 WISES AND THE POPULATIONS THEY SERVE

a) Populations Served

European WISEs serve two main target populations: individuals with disabilities, and able-bodied job seekers experiencing significant disadvantage in getting work in the mainstream labour market (Davister et al 2004).

Nearly one third (11) of the 39 types of WISEs identified from the two major studies serve primarily people with disabilities, about half of these (5) in the form of 'sheltered', largely publicly subsidized, workshops or businesses. The other types of disadvantaged workers are very heterogeneous (PERSE 2005), but can be categorized into four main groups (Davister et al 2004):

a) 'hard to place" or long term job seekers who have been unemployed for a minimum of 1-5 years (depending on the country) and usually who have low education. Examples: Finland's *labour cooperatives*, and Belgium's *social workshops*.
b) Young job seekers with low education. These youth are seen to need training, either on the job or structured, in order to enter the mainstream labour market. Example: Belgian *on-the-job-training enterprises*.
c) Job seekers from disadvantaged minorities, especially ethnic minorities such as Roma, who face discrimination in the labour market.
d) Job seekers with serious social disadvantages: long-term unemployed who may have low education/lack of qualifications, but also experience serious problems such drug addiction, family problems, or recent release from prison. Example:France's *centres for adaption to working life.*
e) Female job seekers from vulnerable female populations, who are at risk of social exclusion. Example: France's *neighbourhood enterprises.* Women workers in these WISEs maintain and clean buildings, maintain public green or urban spaces, and do other jobs that benefit the local neighbourhood. Most WISE workers are estimated to be women, a not surprising fact given the kinds of work WISEs do (Buckingham & Teasdale 2013).

Most WISEs serve more than one target group (Davister et al 2004) and the target populations themselves are very heterogeneous (PERSE 2005), ranging from individuals lacking human capital, to individuals suffering temporary unemployability (PERSE 2005).

b) Types of Activities

WISEs operate a diverse range of businesses. Most common are manual labour (building, carpentry etc), salvage and recycling waste, maintaining public or green areas, cleaning, packaging products, facility management services, furniture production, renovation and re-use (Davister et al 2004; EC 2013). Businesses also include administration/ office work, tourism, crafts, trade, restaurants, and provision of personal services (e.g. child care, home care) and health services (Heckl et al 2007), the last two reflecting the growing number of social services social enterprises.

c) Work Status and Wages

Most disadvantaged WISE workers have formal work contracts (fixed or open), while a small minority are hired as trainees or have occupational status only (Davister 2004 et al). Some 32 of the 39 types of WISEs identified in the studies mainly offer formal work contracts, which comply with local national salary scales. WISEs in Italy, the UK and Finland use only formal work contracts. Five types of WISEs hire trainees, who are not paid a wage but may receive benefits. Traineeships usually do not exceed 12-24 months. Individuals with occupational status are typically hired by WISEs that provide socialization through a productive activity. Work conditions here are easier than in regular jobs, and workers do not receive a salary but sometimes an allowance or free board and lodging (communal living).

d) Training

WISEs may provide 'on-the-job' or structured professional training (Spear & Bidet 2003; (Davister et al 2004). On-the-job training teaches workers what they need to do their job; it may last from a few hours to a few days (Davister et al 2004). Structured professional training is provided by experts and can last several months.

Just over half of the different types of WISES (20 out of 39) provide both types of training (Davister et al 2004), and often integrate the two. For example, France's *employers' groups for work integration and training* combine both types in 'integration paths' designed for each worker. All Spanish and Finnish WISEs provide both types of training (Davister et al 2004). WISEs offering structured professional training usually provide transitional employment (Davister et al 2004).

An additional 14 types of WISEs provide on-the-job training only(Davister et al 2004), and five types of WISEs provide structured professional training only. The latter include Belgium's *on-the-job training enterprise*s and the UK's *Intermediate Labour Market Organizations,* which employ mainly young low-qualified jobseekers.

Many WISEs provide multiple integrated supports that include training, temporary and permanent employment, placement services and support for placement within mainstream organizations (Spear & Bidet 2003).

e) Sources of Income

As in Canada and the UK, EU WISEs rely on diverse sources for their income, ranging from market sales to government grants, to donations (Davister et al 2004; OECD 2013). One study found that EU WISEs earned 53% of their income from sales of goods and services, 38.5% from grants and other funding redistribution resources, and an average 8.5% from voluntary resources, including volunteers (Gardin 2006, in DeFourny & Nyssens 2013). Some 28 of the 39 types of WISEs identified from the two major EU studies earned more than 50% of their income from the market, including trade with the public sector (Davister et al 2004). Appendix 2 shows the degree of reliance on public subsidies, market income, and donations/ volunteering for different type of WISE.

WISEs' reliance on public subsidies versus market income varies greatly. (Public subsidies may be labour market program wage subsidies, public sector service delivery contracts, or grants (e.g. Heckl et al 2007; OECD 2013; Dean 2013; Buckingham & Teasdale 2013).) The most market-reliant WISEs are the UK's and Finland's *worker cooperatives,* and France's *Employers' Groups for Work Integration and Training.* About half those types of WISEs providing transitional employment rely primarily on public subsidies (Davister et al 2004). Most WISEs employing individuals with disabilities (7 out of 11 types) rely more on market income than public subsidies (Davister et al 2004). Italian WISE cooperatives rely primarily on market income (SELUSI 2011), but also rely on public administration resources, non-contract public contributions, donations and private contributions, and savings from exemptions from social security contributions (SELUSI 2011). (See Appendix 2 for more detail on sources of income for individual types of WISEs).

Many WISEs also rely to a significant extent on non-monetary resources. Italy's cooperatives, for, for example, use considerable volunteer labour (SELUSI 2011). Other non-monetary resources include social capital such as local networks and partnerships, goodwill from the public, and trust relations with other businesses (Davister et al 2004; PERSE 2005). Many WISEs mobilize these resources to create market niches for themselves that exploit their social purpose credentials (PERSE 2005), including niches in public procurement processes that factor in the social value they create.

Overall, public sector contracting is important for many EU WISEs. One of the two major studies found that 19% of the total resources of the 160 WISEs studied came from sales to public bodies (PERSE 2005).

WISEs' exploitation of their social capital within their communities has been found to reduce the WISEs' transaction costs of doing business (Laville & Nyssens 2001 in Davister et al 2004). Volunteer contributions can range from board members to trainers or guidance staff, to individuals providing specific skills and services (Davister et al 2004). UK c*ommunity businesses* and Spain's *national organization for the blind* rely most heavily on donations and volunteering (Davister et al 2004).

f) Organizational Structure

The vast majority of EU WISEs are in what in the UK is called the Third Sector, and in Canada the social economy. Within this broad category, most WISEs are charities or other voluntary organizations (usually called ‘organizations with associative structure’ (UNDP 2008),[38] or cooperatives (UNDP 2008; Dean 2013; DeFourny & Nyssens 2008; DIESIS 2009). Some types of WISEs are required to be not-for profits by law (e.g. France’s *neighbourhood enterprises* and *intermediate voluntary organizations) (*Spear & Bidet 2003).

Some Third Sector WISEs are stand-alone organizations, but much more often they are clustered under a holding structure (e.g. the *Terre* organization in Belgium), are projects or subsidiaries of other social enterprises, or are partners either in multi-stakeholder structures or with the State (Spear & Bidet 2005). [39] Italy’s Type B *social cooperatives*, for example, have a two-tier structure in which the individual WISEs are joined in a regional consortium or federation (Borzaga & Loss 2002), which maintains the necessary networks and partnerships for the WISEs. The networks ease the disadvantaged workers` integration into the community better than an individual WISE could do (Borzaga & Loss 2002). The consortia may also negotiate public pr

A majority of WISEs engage multiple types of stakeholders in their decision-making processes (58% of the 160 WISEs in the PERSE study for example (PERSE 2005). This suggests that most WISEs are firmly embedded in communities and networks that may include local government partners (PERSE 2005).

While cooperatives are a distinct legal and structural form in EU countries, the traditional cooperative and associative models have become more similar in their activities and their goals, with associations becoming more entrepreneurial and cooperatives becoming less member-oriented (UNDP 2008).

3.2 Legal Frameworks

As in North America, most WISES in the EU operate within legal frameworks designed for other types of organizations. However, new legal forms specific to WISEs or to social enterprises have emerged in some countries. This section describes the legal forms in which EU WISEs operate, and provides a typology of the WISE- or social enterprise-specific legal forms that have emerged in some countries.

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[38] Specific names of these organizations vary from country to country: for example, associations, non-profit organizations, voluntary organizations, non-governmental organizations, charitable institutions (UNDP 2008).

[39] Finland’s cooperatives are grouped together at the regional level in nine Co-operative Development (CDA), and represent an important lever of development for the local and regional economy in addition to providing disadvantaged workers with employment. These co-operatives differ from traditional worker co-operatives insofar as they outsource the competencies of their members to other enterprises.

3.2.1 WISES OPERATING UNDER CONVENTIONAL LEGAL FORMS

As noted earlier, most European WISEs are in the not-for-profit sector. In countries without social enterprise-specific legal forms, most WISEs in this sector incorporate under the same national legal forms as other not-for-profits – when they do incorporate. These legal forms vary across countries, but are usually some form of non-share corporation, which only permits distribution of profits to members – not to private investors (UNDP 2008) – and to varying degrees. For example, as discussed in Section 2, UK social enterprises typically incorporate as *companies limited by guarantee,* which permits profit distribution to members unless prohibited by the company's articles. [40] These non-share corporation legal forms also vary in the extent to which they permit trading. For example, associative legal forms in the Nordic countries and Italy restrict freedom to trade so severely that social enterprises in these countries tend to incorporate as cooperatives (Spear & Bidet 2003).

As in the UK and Canada, these associative legal forms usually offer some tax benefits (Heckl et al 2007). Several countries exempt not-for-profits and charities from income tax (Heckl et al 2007). Germany and Austria grant tax exemption to all organizations whose activities have 'public utility', regardless of the organization's legal form (Heckl et al 2007), but in practice mos of the organizations receiving the tax benefits are not-for-profit associations or foundations (Heckl et al 2007.) As in the UK, the legal forms used by not-for-profit WISEs tend to lack an asset lock on assets and income that would prohibit any distribution of profits and assets, charities excepted.

Cooperatives are far more common in EU mainland countries than in the UK or Canada, and are governed by individual national laws (UNDP 2008; Heckl et al 2007), which vary. Cooperatives traditionally provide for limited distribution of profits to members, and are democratically governed and operated. But new cooperative forms deviate from these norms.[41]

WISEs in nearly all EU countries use a variety of legal forms (Spear & Bidet 2003), but the mix varies by country. German WISEs, for example, usually incorporate under some non-share corporation legal form, or as cooperatives. French WISEs incorporate as non-share corporations of some type, as cooperatives, or as regular for-profit companies. Irish WISEs generally incorporate as non-share companies (companies limited by guarantee) or as cooperatives (Industrial and Provident Societies), as in the UK (Spear & Bidet 2003).

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[40] A recent study of Irish social enterprises found also that 87 % of participating social enterprises were companies limited by guarantee (See Section 2 for definition) (Heckl et al 2007).

[41] Generically, a cooperative is an 'autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise' (International Cooperative Alliance, 1995, in EC 2013).

As in the UK and Canada, for-profit WISEs in the EU usually incorporate as regular for-profit companies. For-profit company legal forms vary across countries, but all allow WISEs to make unrestricted profits and to distribute them to private shareholders, with profits being taxable.

3.2.2 WISE-SPECIFIC AND SOCIAL ENTERPRISE-SPECIFIC LEGAL FORMS

Since 1991, several countries have also created legal forms specific to WISEs or to social enterprises (UNDP 2008; DeFourny & Nyssens 2008; Spear & Bidet 2003). These new legal forms are designed to fit the special needs of the WISE or social enterprise sector, or to try to mould the sector, or parts of it, to a desired form. In most instances, WISEs or social enterprises are not required to adopt the new legal form. However, a few are: Belgian WISEs, for example, are required to incorporate as *sociétés à finalité sociale* (see below)(Spear & Bidet 2003).

Many of these new legal forms are integrated into government policies, programs and funding regimes, and function to identify the appropriate organizations to receive funding and policy support. In other instances, the new legal forms confer no automatic financial or program benefits – for example, the UK's Community Interest Company, and Finland's legally defined social enterprises. WISE- or social enterprise-specific legal forms can be categorized into three different models: the social enterprise-specific cooperative form, the company model, or the open form model' (Cafaggi & Iamiceli 2008).

a) Cooperative Forms

Italy was the first country to create a legal form specifically for social enterprises, creating two special cooperative legal forms in the 1990s (DeFourny & Nyssens 2013). Type A cooperatives provide social services,[42] and Type B cooperatives are WISEs (Thomas, 2004 cited in Carini et al 2011; Davister et al 2004; UNDP 2008). These cooperatives are member-owned, and operate in order to create social value for their community (Carini et al 2011).

In 1998 Portugal created the *social solidarity cooperatives,* with a broader scope to support economic reintegration of both vulnerable groups and socially disadvantaged communities. In 2006, Poland and Hungary introduced the WISE-specific *Law on Social Cooperatives*, and the *Social Cooperative Law,* respectively (EC 2013). Poland's legal form is based largely on Italy's Type B cooperative form (Cafaggi & Iamiceli 2008). In the same period, France created the *cooperative society of collective interest (SCIC)* , a new form of social enterprise co-operative, not WISE-specific, that brings together employees, users, voluntary workers, local and regional authorities and any other partner wishing to work together on a given local development project (UNDP 2008; DeFourny & Nyssens 2008). SCICs are usually more like Italy's Type A cooperatives in their

[42] That is, social-health care and educational services, cultural services, nurseries, and initiatives aimed at environmental protection. They also employ many professionals (Carini et al 2011).

social services focus. The creation of the SCIC legal form is one of the outcomes of a debate on the need to take into account, in the range of legal forms available to social economy enterprises, the different stakeholders involved in the setting up of local initiatives (DeFourny & Nyssens 2008).

Some of these new cooperative forms allow a capped distribution of profits to members (e.g. France), as in Canadian cooperatives, while others do not (Cafaggi & Iamiceli 2008). For example, Portuguese social solidarity cooperatives cannot by law distribute profits to members, and must include as members the users of their services, cooperative workers and volunteers (DeFourny & Nyssens 2008). The extent to which the disadvantaged workers participate in the cooperative's governance also varies (Cafaggi & Iamiceli 2008).

b) The Company Model

A second type of legal form for social enterprises is a for-profit corporation with legal restrictions on profit and asset distribution and other requirements designed to ensure that most of the enterprise's resources are used to advance its social purposes. The UK Community Interest Company (CIC) described in Section 2, and Belgium's legislation for companies with social purposes (*sociétés à finalité sociale*) exemplify this kind of legal form. The UK CIC, for example, caps annual dividend payouts to investors, prohibits distribution of assets to private interests, and requires the CIC to submit an initial statement of public purpose, and report annually on its activities. Before the Belgian legislation was introduced in 1995, most Belgian social enterprises incorporated as associations (typically non-share corporations), and could operate businesses only as a secondary activity (Cafaggi & Iamiceli 2008). The new law allows any Belgian company, including cooperatives and for-profit limited companies, to register as *société à finalité sociale* if it writes a restriction on profit distribution into its company articles (Cafaggi & Iamiceli 2008). As indicated above, Belgian WISEs are required to adopt this legal form.

c) The Open Model

A third model of legal form for social enterprises or WISEs, permits enterprises to incorporate under any existing legal form – whether for-profit or not-for-profit – but requires them to meet certain operating criteria set in law. Finland's WISE-specific *Finnish Act on Social Enterprise* (2003), for example, is designed to encourage all kinds of enterprises to employ individuals with disabilities and the long-term unemployed (Cafaggi & Iamiceli 2008). (The law in fact equates WISEs with social enterprises (DeFourny & Nyssens 2008).[43] Under the Finnish law, enterprises must include in their bylaws the explicit commitment to employ disabled and long-term unemployed persons – a minimum 30% of their workforce – and to pay these workers market rates whatever their productivity (DeFourny&Nyssens 2008; Cafaggi & Iamiceli 2008). The enterprise must also operate as an ordinary business, on commercial principles (Cafaggi &

[43] The Finnish law goes so far as to prohibit non-WISEs from using the term 'social enterprise' in their marketing (DeFourney & Nyssens 2008).

Iamiceli 2008). Social enterprise status under Finland's open model law gives enterprises few significant financial or policy advantages (Cafaggi & Iamiceli 2008), since they still have to compete for labour market program funding on the same terms as other types of enterprise employing disadvantaged workers (UNDP2008). However, workers employed by this class of social enterprise receive wage subsidies for longer periods than other enterprises (Heckl 2007). Finland's Ministry of Labour regulates these WISEs, such that this legal form appears to function largely as an entry criterion for labour market program funding. The Ministry may, where budgets allow, also fund the creation of WISEs, and /or scaling up of their operations (Heckl et al 2007). In most countries using this open model legal form, most of the enterprises registering under the law are Third Sector not-for-profit organizations (Heckl et al 2007; UNDP 2008).

Although these three models of WISE- or social enterprise-specific legal forms are distinct, individual legal forms within each category vary in ways that blur the distinctions. For example, Belgium's *sociétés à finalité sociale* share some similarities with French and Italian cooperative forms (Cafaggi & Iamiceli 2008). Overall, most of these new WISE- or social enterprise-specific legal forms permit some (restricted) distribution of profits to increase financial sustainability, permit the enterprises to raise external financing, and allow external instrument holders (equity and loans) to participate in the enterprise's governance in some form (Cafaggi & Iamiceli 2008). In addition, most of these European legal forms discourage or prohibit single person ownership and control of the enterprise, which is actively promoted in North America, without necessarily option for full democracy and equal voting rights in organizations (Cafaggi & Iamiceli 2008).

d) EU-Level Legal Frameworks

Legal frameworks governing WISEs operate at the country level. However, the EC's recent 12-point action plan for a single market proposed creation of a statute to set guidelines for foundations, which fund some WISEs, and a proposal to simplify the Statute for a European Cooperative Society (Campos & Avila 2012). The European Economic and Social Committee (EESC), an advisory committee to the EC, supported these proposals and also suggested that establishing statutes for the charities and voluntary organisations 'that frequently give birth to social enterprises' (Guerini 2012).

4.2.2 HOW WELL DO LEGAL FRAMEWORKS SUPPORT WISES IN THE EU?

a) Conventional legal forms

A major reason for the creation of new legal forms for WISEs and social enterprises among EU countries has been the perceived inadequacy of existing forms for social enterprises' needs (Heckl et al 2007). In particular, the non-share company legal forms available to not-for-profits may restrict their freedom to operate a business, especially if they have charitable status. (See

Section 2’s discussion of the legal framework for UK Third Sector WISEs as an example.) They may also restrict their ability to generate profits from the business to re-invest in the enterprise, as in Canada. (See discussion of the Canadian situation in Section 4.)

Another core problem with not-for-profit legal forms is that the more the legal form protects the social purpose of the enterprise – by restricting or prohibiting the distribution of profits and assets – the less attractive the not-for-profit becomes to commercial lenders, and other external financing sources. The existing forms thus limit external sources of capital generation. Lenders’ own rules may exacerbate this situation: In Malta, for example, social purpose organizations cannot participate in EU projects because Maltese banks do not provide loan guarantees to such organizations (Heckl et al 2007). Against these restrictions, not-for-profits enjoy tax exemptions in many EU countries, including Malta, although this varies significantly country by country (Heckl et al 2007).

Another significant limit of existing legal forms for both not-for-profit and for-profit social enterprises is the problem of ‘brand’. Social enterprises that incorporate as share corporations and non-share corporations allowing profit distribution to members, often have difficulty distinguishing themselves from their profit-making competitors in the marketplace, and clearly signaling their social purposes.

b) The New Legal Forms

Take-up of the new legal forms by WISEs and other social enterprises has varied significantly (UNDP 2008). Italy’s pioneering social cooperative legal form is now widely used: the number of enterprises registering under the law grew by 15-30% a year between 1991 and 2008. By 2008 there were an estimated 14,000 or so social cooperatives providing 317,000 or so jobs (Carini et al 2011). WISEs – Type B social cooperatives – employed about 80,000 individuals (Carini et al 2011). Similarly, the number of UK Community Interest Companies had reached 8,784 by December 2013, nine years after the introduction of CICs (CIC 2014).

Several other new legal forms appear underused, however. Take-up has been low of the new legal forms in Belgium, France, Portugal and of Italy’s newest legal form introduced in Italy in 2006 (UNDP 2008). The Portuguese law was imposed top-down by the state, and this is seen to explain at least some of its lack of appeal (UNDP 2008). However, the French *‘cooperative society of collective interest’ (societe cooperative d’interet collectif*, or SCIC), introduced in 2001, was seen as the product of local desire for a legal form that stipulated multi-stakeholder representation in the organization. Yet by late August 2007, only 97 SCISs had been established (UNDP 2008).

Finland’s new law is also under-used. Only 69 organizations had registered three years after its introduction (Karjalainen et al. 2006 in DeFourny & Nyssens 2008). (Most of these were incorporated as non-share companies, some as share companies, some of them subsidiaries of welfare associations (nonprofits) or foundations. An evaluation found the legislation had failed to promote WISEs, concluding that the continued limited capacity of Finnish WISEs may reflect the 'minimal financial support' they receive (Karjalainen et al. 2006 in DeFourny& Nyssens 2008).

It has been suggested that the new forms are more likely to be successful if they crowd out existing forms and offer distinct advantages (UNDP 2008). These need not be financial – the UK's popular CIC is a regular taxable corporation, for example.[44] The mixed showing of the new WISE- and social enterprise- specific legal forms suggests that the supportiveness of the legal form for EU WISEs is context-dependent (UNDP 2008).

3.3 Policy Frameworks

WISES are subject to policy regimes operating at both the EU and country levels, although the policies most important to WISEs most often operate at the national, or even regional, level. As in the UK, many EU WISEs participate in national, regional or local level labour market programs. Many other WISEs depend significantly on trade with the public sector, and are therefore subject to government procurement policies and processes.

3.3.1 WISES' PRESENCE IN EU POLICY

WISEs and the social enterprise sector as a whole have relatively low visibility at the EU macro-policy level (DIESIS 2009; Campos & Avila 2012). WISEs, for example, are not mentioned in the EU's post-2008 Recovery Plan (or in the recovery plans of most member states) (DIESIS 2009).[45] They are rarely mentioned in annual progress reports on the EU's Lisbon Strategy for the EU's sustainable economic development, and only sometimes mentioned in EU member countries' Open Method of Coordination reports on the development of their social policies in the context of the renewed EU Lisbon Strategy in the mid-2000s (DIESIS 2009). However, several EU policy documents have called for greater policy emphasis on (re-)integration of disadvantaged populations into the labour market, and on social economy strategies to help achieve this (DIESIS 2009).[46]

[44] The UK did recently introduce tax breaks for CICs to increase their financial sustainability. See Section 2 for more details.
[45] The plan is available at: http://ec.europa.eu/economy_finance/publications/publication13504_en.pdf
[46] Examples include the Joint Employment Report, the Key Messages of the Employment Summit; the Trio Presidency Operational Programme (DIESIS 2009); and the EC's 2009 communication, *A Shared Commitment for Employment*, which specifically identifies social economy as a solution for providing access to employment to vulnerable groups. In the 2009 communication the EU committed to making available €19 billion of planned European Social Fund expenditure to support people hit by the economic crisis. Available at: http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=514

In recent years, however, the *social economy*[47] has come to figure somewhat prominently in high level EU policy discourse, and social enterprises are very often discussed within this larger frame. In 2009, for example, the European Parliament passed a resolution supporting the social economy (Guerini 2012) as a potential engine for economic growth and employment. In 2011, the EC announced a 12-point plan to continue implementation of the European single market, one point of which was the promotion of *social entrepreneurship* within the EU(Campos & Avila 2012). Specific proposals to promote this goal included, among other things: legislation setting up a European framework to facilitate development of social investment funds; introduction of a *Social Business Initiative* to support development of the social economy as an instrument for active inclusion; and encouragement all businesses to pursue actions with social or environmental objectives as part of their daily activities (EC 2011a; Campos & Avila 2012).

The *Social Business Initiative* introduced later in 2011 proposed 11 key actions, several of which focused on increasing social enterprises' access to financing. They also included a commitment to giving social enterprises priority in the EU's large structural funds, mapping of the social enterprise sector and identification of best practices, and enhancing recognition of social value in the awarding of public procurement contracts (EC 2011a; Campos & Avila 2012).

The new economically-focused EC initiatives thus frame WISEs and other social enterprises in the context of social entrepreneurship and *social innovation*.[48] The SBI equated *social business* with *social enterprise*[49], but also included proposals for for-profit companies that meet criteria for social responsibility.

3.3.2 NATIONAL POLICY FRAMEWORKS

As in the UK, WISEs and other social enterprises in mainland Europe have evolved largely spontaneously, from the bottom up, initially without comprehensive policy or regulatory supports (EC 2013; PERSE 2005). As small organizations, operating most often at the local level, and in fields governed by local or regional authorities, they operated beneath the policy-radar. However, as legal frameworks developed to support WISEs/social enterprise in several countries, so too did

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[47] For a definition, see footnote 37.

[48] The European Commission's definition of *social innovations* is: "new ideas (products, services and models) that simultaneously meet social needs (more effectively than alternatives) and create new social relationships or collaborations. (Open Book of Social Innovation, Murray, Calulier-Grice and Mulgan, March 2010)". See: http://ec.europa.eu/enterprise/policies/innovation/policy/social-innovation/index_en.htm. The case for WISEs as social innovators is made in (DeFourny & Nyssens 2013).

[49] The SBI did not define *social enterprise,* but identified social enterprises as having three characteristics: pursuit of primarily social goals, rather than profit for members or owners; providing goods and services in the marketplace; and being operated on democratic or participative principles (EC 2011a; Campos & Avila 2012). The SBI's aim is to promote "the development of businesses which have chosen – above and beyond the legitimate quest for financial gain – to pursue objectives of general interest or relating to social, ethical or environmental development" (EC 2011a; Campos & Avila 2012).

policy frameworks, in some cases in tandem with the legal innovations, as in Italy (Heckl et al 2007).

As in the UK, much of the policy development affecting WISEs has been in the area of labour market policy and programs. EU WISEs have been increasingly drawn into such programs as governments sought new strategies to reach and integrate highly disadvantaged populations (e.g. DeFourny & Nyssens 2008; Spear & Bidet 2003). However, in some countries, such as Italy, WISEs (Type b social cooperatives) operate within well-defined legal and policy frameworks that are not labour market program-focused (Loss 2004). These types of WISEs are usually discussed within social policy frameworks, as vehicles for rehabilitating or supporting the disadvantaged, but they can also be considered active labour market policy agents insofar as they often graduate workers into the mainstream labour market. This dual role is institutionalized within Italy's legal and policy/program frameworks.

Many EU countries also have well-developed policy frameworks specifically for businesses employing individuals with disabilities. Sheltered workshops for individuals with disabilities were among the first WISEs, and the first to receive public support (Spear & Bidet 2005; DeFourny & Nyssens 2008). The recent trend has been to privatize the originally public/quasi-public enterprises, although in many cases they still receive permanent public subsidies (Spear & Bidet 2005).

As suggested earlier, many WISEs operating outside labour market programs and policies may still be subject to government procurement policy and practices, as well as EU industrial policy. Moreover, since many western European governments give WISEs and social enterprises additional institutionalized support, mainland European WISEs may be affected by a wider range of policies than UK or Canadian WISEs.

a) WISEs and Labour Market Policy

The integration of WISEs into national labour market policy varies considerably among EU states, but WISEs are seen as having become increasingly become a tool for implementing labour market policies in many states, to the point that WISEs have been described as a 'conveyor belt' of active labour market policies (UNDP 2008; DeFourny & Nyssens 2008). High structural employment in the EU during the 1970s and 1980s led EU governments to adopt more active labour market policies to increase employment (Spear & Bidet 2003). By the 1990s, however, governments had realized that mainstream programs were failing to reach disadvantaged workers such as the long-term unemployed, low education adults and youth, and members of stigmatized or vulnerable groups such as newcomers (Spear & Bidet 2003; Damm 2012). European WISEs, which had emerged in the 1970s and 1980s but had been operating largely outside labour market policies and programs, attracted governments' attention as an effective strategy to (re-)integrate the disadvantaged into the labour market. Governments began to integrate them into their labour market strategies either through WISE-specific programs or through inclusion in mainstream programs, as in the case of UK ILMOs.

As in the UK, many WISEs in most mainland EU countries do not participate in public labour market programs – Ireland's *local development WISEs*, for example, or WISEs employing primarily individuals with disabilities, or WISEs focused on socialization through productive activity (Davister et al 2004; UNDP 2008). In some countries, certain types of WISEs are excluded from labour market programs – France's self-help based WISEs, for example (DeFourny & Nyssens 2008).

WISE-specific Labour Market Programs

Within labour market policy frameworks, some EU countries have established WISE-specific (or social enterprise-specific) public programs, beginning in the 1990s. These WISE-specific policy/program structures often have their own legal structure, and usually their own funding structure. Most provide fixed–term employment for highly disadvantaged workers, usually with a view to graduating these workers into the mainstream labour market. Most of these programs provide WISEs with temporary subsidies to start the initiative and to compensate for the worker's temporary inability to work effectively (UNDP 2008). Subsidies typically taper off after several years as the WISEs are meant to become self-supporting (UNDP 2008; Davister et al 2004; DeFourny & Nyssens 2008). Some workers continue to work within the WISE, unsubsidized.

An example of such a program is the *impresas de insercao* (integration enterprises) in Portugal, established in 1998 by the WISE-specific law creating social solidarity cooperatives. Apart from sheltered workshops, these are the only type of WISEs operating in Portugal (DeFourny & Nyssens 2008; Davister et al 2004).These WISEs provide temporary jobs for the long-term unemployed and other disadvantaged worker of 6-24 months, in addition to six months' vocational training, after which workers are expected to graduate into mainstream labour market jobs.[50] The government provides technical support, including job placement at the end of the contract.[51] WISEs receive 50% of the WISE's initial start-up investment up to 18 times the Portuguese minimum wage, plus 80% of the minimum wage for each worker plus social security taxes (OCNP 2014). WISEs also receive payment of 12 times the minimum wage (about €5000) for each successfully reintegrated worker (OCNP 2014). WISEs are supported by the state for seven years, during which time they must provide 5-20 spaces for disadvantaged workers (OCNP 2014). The number of registered WISEs reached 521 in 2004 before dropping to 494 in 2007. In 2012, the state suspended new applications to be program (OCNP 2014). *Impresas de insercao* employ mostly women, not surprisingly given they work mainly in homecare support, gardening, laundry

[50]See http://www.iefp.pt/apoios/candidatos/Paginas/EmpresasdeInsercao.aspx.
[51] Specifically: assessment of local needs; training management skills for social economy staff (not implemented in practice); recruitment and follow up of workers (usually in cooperation with WISEs promoters); job placement of workers at the end of the work contract (OCNP 2014).

and restoration (DeFourny & Nyssens 2008). While these WISEs are allowed to hire workers permanently, few are hired (DeFourny & Nyssens 2008).

Other examples of such programs include France's *enterprises d'insertion* and *associations intermediaires,* Ireland's *social economy program,* and Finland's *social enterprises (*UNDP 2008). By 2004, 2,300 registered organizations employing 220,200 salaried workers were providing work integration services through public programs in France (DARES 2005 in DeFourny & Nyssens 2008). Belgium has created several labour market programs specifically for WISEs, including work integration enterprises (*entreprises d'insertion*, on-the-job training enterprises (*entreprises de formation par le travail*) and social workshops (*sociale werkplaatsen*) (DeFourny & Nyssens 2008). Integration enterprises (*empresas de inserción*) are one of four types of WISEs in Spain (Davister et al 2004).

WISE Participation in Labour Market Policies and Programs Overall

Many WISEs also participate in labour market programs not specific to WISEs (UNDP 2008)as UK ILMOs do, for example. The extent of WISE participation in either WISE-specific or more generic programs varies greatly among countries and regions. German WISEs are perhaps the most integrated into public labour market programs, with three of the four types of German WISEs identified in major studies earning nearly all their income from government wage subsidies (DeFourny & Nyssens 2008; Davister et al 2004).[52] These WISEs provide fixed-term employment, with the aim of graduating disadvantaged workers into the mainstream labour market (Heckl et al 2007: Davister et al 2004; Spear & Bidet 2005; Davister et al 2004). Many of the WISEs run by German municipalities are in waste recycling and salvage (Aiken & Bode 2009; Davister et al 2004). The WISEs run by German welfare organizations are often projects or subsidiaries of the large organizations that dominate the not-for-profit sector (Aiken & Bode 2009).

As in the UK, German WISEs have to compete for fixed term government contracts to deliver services that are typically 'work-first' (Aiken & Bode 2009). Funding is outcomes-driven, with contractors rewarded for graduation of a worker into the mainstream labour market (Aiken & Bode 2009). The German WISEs tend to have hierarchic, state-oriented management structures, with workers given little say in the running of the organization (Heckl et al 2007). One major study of WISEs in the early 2000s found that more than half the workers referred into German WISEs were referred from the local labour office (PERSE 2005).

WISEs and 'Work-First" Labour Market Program Trends

[52] These are the: *municipally-owned social enterprises, social enterprises organized by welfare organisations,* and *social enterprises organized by local initiatives*. Each of these depends on government wage subsidies for most of their income (DeFourny & Nyssens 2008; Davister et al 2004.)

In addition to Germany and the UK, several other EU countries have also shifted more towards 'work first' policies and programs primarily geared to getting disadvantaged workers jobs in the mainstream labour market as quickly as possible. Such programs, as indicated earlier, are largely outcomes-driven, and to use mass market, highly standardized program approaches (e.g. Damm 2012; Finn & Simmonds 2003; DeFourny & Nyssens 2008; Aiken & Bode 2009). Governments are attaching more conditionality to social benefits for the long-term unemployed, requiring them to take jobs for which they may have no experience or qualifications (e.g. DIESIS 2009; Spear & Bidet 2005).

As discussed in Section 2, such programs raise questions about the ability of WISEs participating in these programs to continue to provide their original 'one plus two' approach to work integration -- work + community benefits + local network development – given the programs' focus on the speedy integration into mainstream labour markets (Aiken & Bode 2009). Moreover, as in the UK ILMOs and Finland – despite the legal and policy distinction given to WISEs in that country – WISEs often competing with for-profit and other not-for-providers for transitional employment labour market contracts on the same terms as these providers (DeFourny & Nyssens 2008).

b) Social Enterprise Policy: Public Procurement

As in the UK, many mainland EU WISEs that do not rely on labour market programs, rely significantly on public sector trading to survive. PERSE study in the early 2000s found that WISEs earned 19% of their income from trade with the public sector on average (PERSE 2005). WISEs contract to provide services such as maintenance of public spaces, or waste recycling or quasi-public goods such as childcare, elderly care, second hand shops for needy people, transport services for individuals with disabilities, meal delivery or personal shopping (PERSE 2005). As in the UK, the trend toward outsourcing of government service delivery in several EU countries has created increased WISE opportunities for public sector trade.

Many WISEs' success in securing contracts, and related survival, depends on local governments taking their social mission into account in the procurement process (Laville et al 2006, Navez 2005 in DeFourny & Nyssens 2008; Deans 2013; UNDP 2008), since the WISEs very often support costs that are externalized by traditional for-profit companies (DeFourny & Nyssens 2008). In three quarters of the public sector purchases identified by the PERSE study, procurement policies took the WISE's social purposes into account in allocating the contract (PERSE 2005).

Procurement policies can recognize and support WISEs and other social enterprises in several ways (Barraket et al 2012 in Dean 2013). They may include:

- Direct subcontracting, where a 'prime'contractor is encouraged to subcontract some of the work to entities that deliver social outcomes (as in the UK)

- *Employment requirements*, that require the contractor to employ disadvantaged workers drawn from a partner organization (such as group training schemes)
- *Social clauses* in contracts, which require the contractor to achieve specific social objectives in addition to delivery of the goods and services. These may require contractors to pay workers at prevailing rates, for example, or hire disadvantaged workers.
- Purchasing agreements and partnerships with suppliers (such as social enterprises) to deliver goods and services and also achieve social impacts. This can involve reserving part of a large contract for social enterprises (Barraket et al 2012 in Dean 2013).

EU WISEs and other social enterprises and their supporters have advocated for more than a decade for EU and national procurement policies that recognize and account for their social outcomes (e.g. Rodert 2011; Dean 2013). While EU procurement policy is set at the EU level, it has permitted significant variation in interpretation, and national and regional practices are relatively diverse across the EU (DeFourny & Nyssens 2008).

Prior to the new EU Procurement Directive announced in January 2014, EU procurement policies were governed by the EU's 2004 Public Procurement Directive. This directive allowed public bodies to give small contracts to WISEs and other social enterprise without going through the tender process(DeFourny & Nyssens 2008). It also permitted permitted authorities to take the social dimension of the contractor into account on larger contracts, through insertion of employment or social clauses (DeFourny & Nyssens 2008; DIESIS 2009). Some countries, such as Italy, also passed their own legislation introducing social clauses into the procurement process (DIESIS 2009). In practice, however, some countries have seldom used social clauses (DIESIS 2009). In 2008, Sweden, Ireland, Portugal, Spain and the UK were interpreting EU rules to forbid any preferred treatment to WISEs in public contracting (DeFourny & Nyssens 2008).

In Italy, however, preferential contracting and social clauses are widely used to support WISEs. The 1991 law creating its WISEs specifically allowed governments to contract social cooperatives to supply goods and services without tender (DeFourny & Nyssens 2008; Loss 2004). In 1996, the law was revised to limit this practice to tenders below the EU procurement policy threshold, but governments were expressly permitted to add social clauses to their tenders specifically to favour WISEs. In the early 2000s most tenders were won by WISEs, although more contracts were going to for-profit enterprises (Loss 2004). The procurement preference given to WISEs was framed as support for the social services provided by Italian WISEs rather than as a labour market strategy (Loss 2004).

The 2004 EU Directive also prohibited the 'reservation' of contracts for WISEs and other social enterprises, interpreting such reservations as a breach of competition policy (DIESIS 2009; European Commission 2010, in Dean 2013). The only permitted exception was sheltered workshops which employ individuals with disabilities (European Commission 2010, in Dean

2013).[53] Some governments have circumvented the 2004 directive by encouraging larger contractors to sub-contract work to WISEs and other social enterprises (Dean 2013).

In January 2014, the EU introduced a new procurement Directive that allows governments to reserve contracts for economic operators whose main mission is the social and professional integration of disadvantaged persons, provided that at least 30% of the employees are disadvantaged workers (ENSIE 2014). It also explicitly allows contracting authorities to introduce social and environmental considerations into the procurement process (ENSIE 2014).

In 2010 the EU had published a guide, *Buying Social*[54], which identifies ways of taking social and environmental concerns into account in procurement. Its aim was to increase public authorities' awareness of the possibilities for including social and environmental clauses in public procurements.

Some governments that do not give WISEs and social enterprises preferred treatment in procurement, support these organizations through the tendering process in other ways. Sweden's Swedish Social Insurance Agency, for example, involves social economy organisations, voluntary organisations and SMEs in reviews of procurement practices to identify challenges faced in the preparation of bid documents. In Wales, the Welsh Assembly Government has used EU funds to improve procurement skills and capability across public services through a four to five year program involving awareness raising, skills development, a trainee procurement executive program and a program designed to facilitate new approaches to improve procurement, such as involving the social economy.

c) Other Supports

Several EU countries provide a range of program and policy supports to social enterprises other than direct funding, in some cases specifically to WISEs. These supports primarily include consultancy support for social enterprises during start-up, or scaling up; business and management training for social enterprise managers ; and social enterprise incubation programs (Heckl et al 2007). For example, Belgium has 13 regional incubators or start centres that help future social entrepreneurs set up social enterprises. The centres are 50/50 public private partnerships (Heckl et al 2007). Germany's Berlin Development Agency for Social Enterprises and Neighbourhood Economy (BEST) acts as catalyst and support to individuals and groups interested in setting up social enterprises (Heckl et al 2007). Finland's National Support Structure for Social Enterprises program helps WISEs during start-up and later development (Heckl et al 2007). In Portugal, the Programme of the Social Employment Market provides free

[53] The effect of this provision would have been limited, since the term "sheltered workshops" has disappeared from virtually all national legislations and has not been defined at the EU level (DIESIS 2009).
[54] Available at:
http://ec.europa.eu/social/main.jsp?catId=331&langId=en&pubId=606&type=2&furtherPubs=yes

training for managers setting up social enterprises, and grants for up to 50% of capital outlays (Heckl et al 2007).

Several countries also have programs to promote co-operation vertically between social enterprises and government, and horizontally among social enterprises or their umbrella organisations (Heckl et al 2007).

d) Competition Policy

Other policy measures to recognize and support WISEs and other social economy organizations, sometimes engage EU competition policy (Dean 2013; Campos & Avila 2012). For example, EU anti-trust policies appear to consider the activities of cooperatives as 'agreements' that restrict competition, and therefore need to be prohibited, and tax treatment of cooperatives have been challenged (Campos & Avila 2012). Current interpretations of competition policy directives applying to the service sector have also been considered to have damaged social enterprises (Campos & Avila 2012).

3.3.3 HOW WELL HAVE EU/MEMBER COUNTRY POLICY FRAMEWORKS SUPPORTED EU WISES?

There appears to be widespread agreement that the significant policy supports provided to WISEs and other social enterprises in EU countries, especially in older EU states, have successfully helped increase the growth and development of WISEs and other social enterprises (e.g. UNDP 2008; Dean 2013; DIESIS 2009; Rodert 2011). This said, there is also widespread agreement that government policy frameworks have shaped WISEs' development, and not always to their advantage (e.g. UNDP 2008; DeFourny & Nyssens 2008). As in the UK, the two areas of EU-level and national policies seen to affect WISEs most are labour market policy and programs, and procurement policies.

a) Integration into Labour Market Programs

Since their mission makes it difficult for them to sustain themselves by their market activities alone (e.g. Aiken & Bode 2009; Buckingham & Teasdale 2013), WISE's increasing integration into European national labour market strategies for disadvantaged populations has provided many WISEs with a certain financial stability (DeFourny & Nyssens 2008). However, the trend to integration is seen by many as a two-edged sword. First, the dominant 'work-first' mainstream labour market programs, with their almost exclusive focus on getting disadvantaged workers into regular labour market jobs, are seen to risk compromising WISEs' broader mission to increase disadvantaged individuals employability and to provide a range of useful services to the community. The philosophy of the early WISEs was to empower and integrate excluded groups through participation in organizations whose aim was to offer them a chance to reassess the role of work in their lives by supporting them while they gained control over their own personal affairs (UNDP 2008). Job creation and work integration were indirect consequences of activities set up to develop local communities, implement sustainable development, or create artistic, cultural or community links (DeFourny & Nyssens 2008). Current labour programs have created clear pressure on WISEs to make their social mission instrumental to the integration of disadvantaged workers into the mainstream labour market (UNDP 2008). In order to meet current program requirements, mainland EU WISEs, like UK WISEs, are pressured to reduce services and supports to disadvantaged workers, and in some cases, including excluding the most highly disadvantaged workers that need their help the most (Aiken & Bode 2007; DeFourny & Nyssens 2008).

At the same time, the 'institutionalization' of WISEs as labour market agents has been seen to influence labour market policies by increasing the importance of WISEs' holistic approach to work integration in policy decision-making (DeFourny & Nyssens 2012; Van Opstal et al 2009).

The trend to integration, on its current terms, is also seen to be a two-edged sword for government labour market programs. Insofar as the labour market programs fail to recognize and fully support the WISEs' hybrid missions, they are argued to diminish WISEs' original strengths such as their flexibility, and their embeddedness in the lattice of networks, trust and relationships which had been created and reproduced over many years and within which social empowerment and work integration activities (Aiken & Bode 2007; O'Shaughnessy 2008). Their program constraints also sometimes diminish WISEs' capacity to survive in the market, by imposing infeasible constraints on WISE activities (O'Shaughnessy 2008). This has been described as 'killing the golden goose' that lays the golden egg (Aiken & Bode 2009).

b) Procurement Policy

It is clearly too early to assess the new EU procurement policies' effect on WISEs. As already discussed, WISEs are often at a disadvantage in competing with regular for-profit companies for public contracts, given the productivity of their workforce in some cases(Aiken 2007), but also their commitment to providing disadvantaged workers with more than just a job and their communities with needed services and benefits. Given some countries' reluctance to give WISEs preferred treatment in procurement, it remains to be seen how much government's will exploit their new freedom to reserve contracts to WISEs. A study of French procurement policies found that only 1.9% of all public contracts signed in 2009 contained social clauses, most of them having a social inclusion purpose and obliging contractors to hire disadvantaged workers (EC 2009). In 2011, however, the Spanish Ministry of Defence announced it would require contractors to provide employment opportunities to individuals with disabilities.[55] As another example, several Dutch cities have incorporated 'social returns' into their procurement. (These add social conditions to purchasing aimed increase employment of disadvantaged workers (EC 2009)).

[55] See http://ec.europa.eu/ewsi/en/news/newsdetail.cfm?ID_ITEMS=22794

The precariousness of public sector contracts, and their high administrative burden, are other sore issues for mainland European WISEs as for their UK counterparts (e.g. Buckingham & Teasdale 2013; Dean 2013; PERSE 2005a; Heckl et al 2007). Another issue is the low quality of their jobs and their salaries (e.g. Buckingham & Teasdale 2013; Dean 2013; PERSE 2005). As discussed in the UK context, low quality and low paid jobs are endemic among WISEs, for both WISEs that rely on public sector procurement and those that rely largely on market income (Buckingham & Teasdale 2013). One UK study concluded that since it was unrealistic to expect social enterprises in deprived communities to move substantially away from charitable and public sector funding, as these sources are too closely tied to their skills, capabilities and priorities, the most obvious way to improve their sustainability is to remove some of the volatility surround public contracts (Sunley and Pinch 2012, in Dean 2013).

In addition, public contracts are seen to limit innovation by WISEs, as they focus on delivery of services according to well-defined parameters (EC 2013). Competition for public sector contracts with local authorities also often pits WISEs against each other, which reduces their negotiating power as a group (Heckl et al 2007; Dean 2013). Organizations that are very reliant on single income sources, such as government contracting, are seen to be at risk of losing their autonomy (OECD 2013), and to become creatures of government programs, in the same way as WISEs participating in labour market programs (O'Shaughnessy 2008). Commercial WISEs that rely on market income are seen to face the risk of becoming more like other private for-profit businesses (OECD 2013).

c) **Inadequate Levels of Policy Support**

Although policy support for WISEs is high in some European countries compared to Canada and the UK, there is a widespread feeling within the social economy sector and among commentators that more needs to be done to ensure WISEs' sustainability and growth in Europe. Subsequent to the introduction of the Social Business Initiative, the European Social and Economic Committee, an EC consultative body and champion of WISEs and other social economy organizations, developed an action blueprint called the Strasbourg Declaration. The Declaration called for greater involvement by civil society, as well as regional and local authorities, in development of social economy-related policies, and more partnerships among the sector, member states, and regional authorities to support social enterprises and help them build capacity (SD 2014). It also called for greater cooperation among local authorities to support social enterprise growth, and among social enterprise to share knowledge and best practices (SD 2014). It urged EU institutions and member states to reinforce the role of social enterprises in structural reforms to exit the 2008 economic crisis and subsequent austerity programs (SD 2014).

3.4 Financing Framework

While there is no funding framework at the EU specifically for WISEs, European WISEs have access to EU funds and other initiatives aimed to prevent the social and economic exclusion of disadvantaged populations. At the national level, countries support WISEs through labour market programs, as well as through social-enterprise funds and other funds and subsidies.

3.4.1 EU FINANCING FRAMEWORK

a) Funding Programs

WISEs have had access to several large EU funding programs over the last 15 years or so (Campos & Avila 2012). Despite two failed attempts, there are still no social enterprise- or social economy-specific funding regimes, but as we have seen, recent EU policies have increased the emphasis on social economy organizations within existing funds.

European Social Fund

Social economy organizations/ social enterprises and WISEs appear to use two major EU funding programs, the European Social Fund (ESF)and – primarily organizations in the new EU states – the European Regional Development Fund (Campos & Avila 2012). The ESF continues to be the most important EU-level funding program for WISEs. [56] Created by the original 1957 treaty that established the European Economic Community, the ESF promotes employment for those at risk of being excluded from the labour market, including groups such as people with disabilities, migrants, minorities, and other high need groups (EC 2007; Martinez-Fernandez et al 2011). ESF funds go to training and re-training, enhancing skills, developing careers, and promoting entrepreneurship (EC 2007). 'Entrepreneurship' includes, for example, helping unemployed and young people start their own businesses on a sustainable basis[57] (EU 2009, in DIESIS 2009). ESF funds represent nearly 10% of the EU's total budget (EC n.d.), or an estimated €75 billion over the period 2007-2013 (EC n.d.). ESF funds served five million unemployed or inactive individuals annually between 2007 and 2013 (EC n.d.). ESF funds are used to support WISEs and other social enterprises in various ways: for example, they may provide start-up funds to social enterprises, as in the Local Action for Employment and Local Social Capital programs funding streams (Campos & Avila 2012), or seed money prior to start-up, or funding to scale up existing projects (EC 2013).

The ESF funds WISEs in virtually all EU countries, and is credited as the prime catalyst in the development of social enterprises in the new Member States (Heckl et al 2007). Until 2007 some 5% of the ESF budget was allocated to a variety of community initiatives .[58] Prominent

[56] For information on other EU funds that support employment (but not primarily to disadvantaged workers) see http://ec.europa.eu/esf/main.jsp?catId=34&langId=en

[57] Op.Cit *Shared Commitment to Employment 2009.*

[58] Other important ESF funding streams for WISEs in the late 1990s and early 2000s were the Local Action for Employment and Local Social Capital programs (Campos & Avila 2012). These provided 100% funded

among these, for WISEs, was the EQUAL initiative. EQUAL was an experimental and innovative program in the 2000-2006 programming period (after which its approach was mainstreamed into ESF funding) (EC 2013; Campos & Avila 2012). It supported innovative, transnational projects addressing discrimination and disadvantage in the labour market, particularly at a local community level.[59] Its aim was to generate and test new ways to overcome all forms of discrimination and inequality within and beyond the labour market.[60] Funds supported specific enterprises directly, many of them WISEs (Heckl et al 2007), and were also used to build networks, partnerships and structures that could support and promote social enterprises (Campos & Avila 2012). Between 2000 and 2006, EQUAL invested more than € 300 million into more than 420 partnerships, which supported WISE start-ups and other social enterprises.[61]

EQUAL is credited with having a decisive impact on the development of social enterprise, including WISEs, in countries such as Poland, Austria and Ireland in particular (Campos & Avila 2012). One example is Poland's Barka Foundation, which in 1989 began integrating vulnerable individuals – former prisoners, residences of mental health institutions and orphanages, the homeless, alcoholics and long-term unemployed people into farming communities that practice mutual help, partnership and responsibility. The farms also invest in the villages where they are based, creating job opportunities for village residents and helping create an atmosphere of cooperation and respect between village residents and the formerly homeless people. The Foundation has helped build 40 new farms, each aiming to become a fully self-sufficient cooperative. Financial support from EQUAL helped Barka scale up its operations, in which more than 5 000 people are now involved (EC 2013).

Another example is the HOT project in Espoo -- part of Finland's Helsinki conurbation -- in which long-term unemployed, individual with disabilities and migrants provided personal and health services to the elderly, such as cleaning, shopping and befriending. The project also acted as a catalyst for city authorities to introduce social clauses into their procurement policies, making jobs for the unemployed and disabled one of the criteria in awarding contracts. HOT achieved two objectives at the same time – delivering better services to its elderly residents, and also creating permanent jobs for long-term unemployed (DIESIS 2009).

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micro grants for local development projects (Martinez-Fernandez et al 2011). Some other major ESF programs existing prior to 2007 included EUROFORM (new ways of vocation training and employment), HORIZON (training for people with disabilities), NOW (New opportunities for women), YOUTHSTART (assisting young people without qualifications get a first job), and INTEGRA (assisting groups e.g. Single parents, the homeless, refugees, prisoners and ex-prisoners get secure jobs, and fighting race or other discriminations in training or employment (Martinez-Fernandez et al 2011).

[59] See EQUAL website: http://ec.europa.eu/employment_social/equal_consolidated/

[60] Ibid.

[61] The full range of EQUAL activities included: (i) finding new ways to improve the regulatory conditions for social enterprises (e.g. public procurement, impact measurement); (ii) supporting the start-up of new social enterprises (especially for work integration social enterprises and in growth sectors such as the environment, tourism, care and neighbourhood services); (iii) improving quality management and access to finance; (iv) replicating successful social enterprise models; (v) contributing to local development (EC 2013).

Global Grants

The now discontinued Global Grants program, part of the ESF, is also often cited as an important funding source for EU WISEs in the early 2000s. The program provided access to funding for smaller organisations that otherwise would not be able to apply for ESF financing (Martinez-Fernandez et al 2011), by delegating management of funds to intermediary organizations closely linked to local organizations (Martinez-Fernandez et al 2011). Funds were for use in local development projects such as social integration, services to enterprises, equal opportunities, strengthening of the third sector (DIESIS 2009; Martinez-Fernandez et al 2011). The local intermediaries needed to be embedded in communities, have experience in the employment support field, and to be able to involve the populations their measures aimed to benefit (DIESIS 2009). They could be coalitions among third sector organisations, social enterprises and their representative networks, local authorities, regional bodies and credit institutions (DIESIS 2009).

Global grants represented the sole example of integrated use of EU, national and regional funds. They were also used to leverage other types of funding (DIESIS 2009; Martinez-Fernandez et al 2011). For example, in Italy, the Lombardy region and the Cariplo foundation (a bank foundation) combined funding with the ESF into the CRES global grant to support 107 projects and helped the creation of almost 450 jobs for vulnerable people in social enterprises (Martinez-Fernandez et al 2011). WISEs in Italy used global grants widely, with "Small Subsidy" global grants operating in almost every region of the country (DIESIS 2009). Funds were used for business start-up, self-entrepreneurship, self-employment, the creation of branch companies and training to increase workers' skills (DIESIS 2009).[62]

Looking forward, the Social Business Initiative and other EU policy documents have charged the ESF and the European Regional Development Fund with promoting social enterprises as a specific investment priority (EC 2013; Campos & Avila 2012; EC 2011a). For the period 2014-2020, the ESF is planning to allocate at least 20% of its roughly € 80 billion budget to increasing social inclusion of 'people in difficulties and those from disadvantaged groups' , by helping them get skills and jobs, and will spend at least €6.4 billion to combat youth unemployment.[63]

3.4.2 NATIONAL FUNDING REGIMES

At the national level, many EU countries support WISEs through WISE-specific or social-enterprise specific funds or – most often – through labour market programs and other broader funding. National and regional governments also provide tax breaks and other supports, and in some cases support development of social finance markets for social enterprises.

[62] Member states discontinued using Global Grants funding after an audit found financial problems (requirements were high) (Martinez-Fernandez et al 2011). However, evaluations found the fund's projects were successful in accessing the difficult target groups and improving capacity of locally based implementing organisations (Martinez-Fernandez et al 2011).

[63] For more detail, see http://ec.europa.eu/esf/main.jsp?catId=62&langId=en

a) WISE- Specific Funding Regimes

As indicated earlier, legal and/or policy regimes specifically for WISEs most often also have funding regimes to support the WISEs' activities. The most common of these funding regimes are attached to local labour market programs. Examples of these WISE-specific funding regimes include Portugal's *empresas de Insercaso* (integration enterprises) described above, the various types of WISE organizations registered under the new social initiative co-operative (*cooperativa de iniciativa social*) legal form introduced in Spain in 2007 (DeFourny & Nyssens 2007), and the *on-the-job training enterprises, and work integration enterprises* created for WISEs by Belgium's regional governments (DeFourny & Nyssens 2008).

Finland's *Labour Political Project Support* is another WISE-specific funding regime, but one not associated with labour market programs (Finland does not have WISE-specific labour market programs). The program provides subsidies to WISEs at start-up and as they grow and develop, and promotes the sector's development (Heckl et al 2007).

Many EU countries also have specific funding regimes for WISEs that employ individuals with disabilities. These are usually linked to their policy regimes for this population. In some countries these WISEs operate in 'sheltered workshops' outside the open market, and depend almost entirely on long-term wage subsidies (Spear & Bidet 2005; Davister et al 2004) – for example in Ireland, Portugal and, until recently, Sweden. Others, such as Spain's work integration enterprises for individuals with disabilities, provide transitory employment with a view to integrating these individuals into the mainstream market. There has been a noticeable trend towards privatizing sheltered workshops in recent years, incuding the UK's quasi-public Remploy and Sweden's Samhall (Spear & Bidet 2005).

b) Wage Subsidies

One of the most common ways for labour market programs to fund WISEs is through wage subsidies for each worker (Heckl et al 2007). Ireland's Community Employment Scheme, for example, subsidizes wages for long-term unemployed workers employed part-time on fixed contracts in community and social benefit projects (Heckl et al 2007). This is similar to the Portuguese empresas de insercao described earlier. In Slovenia, Slovakia and Sweden, wage subsidies cover part of the wage costs for individuals with disabilities, depending on their degree of disability (Heckl et al 2007). In France, WISEs have access to that country's comprehensive wage subsidy program: the Job Accompaniment Contract (CAEs) (Heckl et al 2007). The CAE subsidizes wages for disadvantaged workers working in not-for-profit enterprises (charities and associations, social enterprises, local authorities, or private or semi-public organizations managing a public service), and whose jobs serve collective social needs. Worker eligibility is determined by periodic labour market assessment. The fixed-term CAE is typically for 6-24 months full-time or part-time (minimum 20 hours) work per week, and includes training and support to workers. Workers earn at least minimum wage and, when introduced in 2005, the CAE reimbursed employers up to 95 % of the gross minimum hourly wage (subsidy levels vary across regions. In mid-2006, some 172,000 French workers had CAEs, two thirds of them female, and one-third of them youth less than 26 years of age, one quarter with very low education and 11% with disabilities. Social enterprises, largely WISEs, accounted for 43% of contracts, and 54 % of the number of earmarked future contracts, in 2006 (Heckl et al 2007).

One entrepreneurial variant on wage subsidies is the *Beschäftigungsgesellschaft* or employment companies in Austria's Styria province. An entrepreneurial interpretation of the national wage subsidy guidelines allows companies in Styria to keep any surpluses they may make from their businesses. The removal of a clawback is seen to provide these WISEs with an incentive to trade efficiently, serve their customers better, launch innovative services and offer more effective integration (DIESIS 2009). Ökoservice in Graz, for example, provided some 45 jobs in a cluster of environmental businesses in 2009. It hired out reusable drinks containers for events such as parties and football matches, it collected, shredded and composted garden waste, and it recycled electrical and electronic waste (DIESIS 2009).

c) Vouchers

Several countries also support WISEs indirectly through consumer vouchers (DeFourny & Nyssens 2008). These are usually provided for personal, health and education services (OECD 2013). In Belgium, for example, people needing personal services, principally housework, buy a voucher for €7.50 per hour of service (in 2009) from an accredited provider. The government repays the service provider €20.80 per voucher. The scheme employed about 100,000 workers over 2000 firms in 2009. Prior to the voucher system most of this work was one on a cash-in-hand basis (DIESIS 2009). The Belgian program is not WISE- or social enterprise-specific, and WISEs compete with for-profit companies and other social enterprises for businesses (DeFourny & Nyssens 2000) But WISEs appear to have been relatively successful in using it to provide work mainly to the long-term unemployed (DIESIS 2009). Recent evaluations found the social enterprise providers surpassed for-profit providers in terms of providing workers with longer term, stable contracts (DIESIS 2009). Similar schemes exist in France, Italy and Belgium (EC 2013).

Voucher programs are seen to open up new possibilities for WISEs (DeFourny & Nyssens 2008). They are seen to generate more freedom for social enterprises to innovate with new services and new service delivery strategies (EC 2013). In Belgium, accredited WISEs and other social services can combine vouchers with other labour market subsidies or social service funding schemes (DeFourny & Nyssens 2008).

d) Funding Supports to Social Enterprises

WISEs in many countries also have access to funds or programs created for the social enterprise sector. Many funds or programs are available only to not-for-profit organizations, especially those that provide social and health services. For example, the Czech Republic, Bulgaria and Romania provide subsidies to not-for-profit organizations that provide services to seniors and individuals with disabilities, or whose mission is to socially integrate these populations (Heckl et al 2007). As already mentioned, most EU states also provide tax breaks or exemptions to their not-for-profit sectors, often similar to those offered to the not-for-profit sectors in the UK and Canada. Slovakian not-for-profits, for example, benefit from the country's tax rule allowing every individual and company to assign 2% of their paid taxes to the (registered) non-profit of their choice (Heckl et al 2007).

Some countries also provide targeted funding and supports to the social enterprise sector, including WISEs. Belgium, for examples provides project funding to WISEs and other social enterprises operating in the fields of environment and work, recycling and reuse, cooperative entrepreneurship, and social cohesion (Heckl et al 2007). Belgian social enterprises can also apply for the refunding of costs for consultancy services (feasibility studies, specific audits, strengths and weaknesses analysis) from state-approved consultancy agencies for the social economy (Heckl et al 2007). Along with some other countries, Belgium also offers investment programs for social enterprises: the 50/50 public/private Flemish Participation Fund for the Social Economy provides venture capital and loans to social enterprises (Heckl et al 2007a).

3.4.3 ACCESS TO PRIVATE SECTOR FINANCING

Increasing access to capital, especially social investment, is seen as a major priority for social enterprise in the EU, as in the UK and Canada (e.g. Rodert 2012). As noted earlier, the European Commission recently announced measures to increase social enterprises' access to external financing. Its 12-point action plan for achieving a single EU market, and subsequent *Social Business Initiative* included legislation to set up a European framework to facilitate development of social investment funds, and a regulation governing these funds; increasing access to micro-finance; development of a European financial instrument; and setting up of an exchange platform for social investors and entrepreneurs (Campos & Avila 2012). As in the UK, several EU countries are actively working to develop social investment markets for social enterprise, and to develop ways to connect social enterprises to these markets.

3.4.4 HOW WELL DO EU/NATIONAL FINANCING FRAMEWORKS SUPPORT EUWISES?

In older EU states, as we have seen, national and regional governments provide significant funding support to WISEs though labour market subsidies or vouchers, through preference in procurement, or through business supports. Yet studies continue to find that financing is a major concern for WISEs and other social enterprises in these countries, as it is for the broader small and medium business sector to which most WISEs belong. Financing is a major problem for self-financing WISEs that rely largely on commercial trade, as well as for WISEs that rely on some form of public sector support (e.g. Dean 2013; Heckl et al 2007; Rodert 2011; Guerini 2012).

a) Public Sector Financing/Funding

One study of WISEs in several OECD (Organization for Economic Development and Co-operation) countries (including some non-European countries) found that 25% considered the current level of public financial resources for (re-)integration of the long term unemployed to be inadequate (Dean 2013). Anecdotal reporting suggested that public funding to (re-)integrate the highly disadvantaged had declined since 2008 (Dean 2013). This finding meshed with the finding from the 2012 *OECD Employment Outlook* (2012a) that governments after 2008 had scaled up their active labour market programs, but 'the increases were modest and resources per unemployed person decreased between 2007 and 2010 by an average of 21%' (OECD 2012, in Dean 2013).

The European Commission's Social Business Initiative can be seen as a response to this concern, insofar as it makes investment in social enterprises a priority for the ESF and other relevant structural funds, promises more micro-finance funds (of limited value to WISE businesses (Guerini 2011)), and expands the social provisions of government procurement, as realized in the new 2014 procurement directive.

As noted in Section 2, another recent study of EU WISEs has found that current government financial supports to WISEs fail to account for, and fund, the social dimension of WISEs' mission, which involves additional, intensive support over and above providing them with a job (Buckingham & Teasdale 2013). WISEs and other social enterprises participating in the most recent study called upon governments to recognize that social enterprise, including WISEs are working with low-paid individuals in fields of business activity that have little potential for significant growth or profit (Dean 2013).

To date, tax breaks and exemptions for not-for-profit organizations have been an important indirect form of public support to WISEs and other social enterprises. However, these regimes vary widely across EU states, and are considered inadequate in some if not many states (e.g. Heckl et al 2007).

b) Market Financing

Overall, there is seen to be a shortage of financial instruments developed especially for social enterprises across the EU, although a number of innovative financial instruments are emerging at the local and national levels (Rodert 2011).

The European Commission's recently announced measures to stimulate social investment in social enterprises have received lukewarm response. The EC's proposed regulation of social investment funds noted earlier is addressed primarily to professional investors and high net worth individuals – investors who are not likely to be attracted to WISEs (Rodert 2012). In fact, the EC regulation appears to exclude most WISEs, since it only applies to organizations that are privately owned and can distribute profits to shareholders without restriction (Rodert 2012). Most WISEs are jointly-owned, often by multiple stakeholders, and many cannot by law distribute profits (Rodert 2012). The new regulation also excludes public and cooperative financing sources (Rodert 2012).

The EESC has urged the EC to focus on increasing loan instruments or "patient' investment for social enterprises, rather than conventional equity investment(Rodert 2012). It also urged the EC to actively promote those instruments that social enterprises already use and which best suit their needs: " e.g. equity securities, special initiatives within the financial sector (cooperative banks[64], ethical and social banks[65] and commercial banks with social programs[66]), innovative instruments such as "social impact bonds,"[67] and favourable tax-funded solutions (Rodert 2012).

The EESC has also called specifically for the EC to explore the potential of 'hybrid capital' for WISEs and other social enterprises (Rodert 2011, 2012; Guerini 2012). This specially tailored form of capital combines a grant component (public grants, philanthropic funds, donations) with equity and debt/risk-sharing instruments. Financing instruments of a hybrid capital nature include recoverable grants, forgivable loans, convertible grants and revenue share agreements. Hybrid capital often involves both public and private capital (Rodert 2011). The EESC has argued that hybrid capital would better suit social enterprises better throughout their life cycle.

3.5 Outcomes

EU-level and some national policy and legal initiatives suggests that many European policy-makers see the WISE approach to work integration of disadvantaged workers, and to local or community development, as successful, or at least more successful than alternative approaches. The legal recognition of types of WISEs in Italy, Finland, Portugal, Belgium, France and other countries, and their integration into national and regional policy and financial frameworks confirms this. Many researchers share this view (e.g. Dean 2013; DeFourny & Nyssens 2008; Fonteneau et al 2011; Guerini 2011).

[64] For more information, see: https://www.eurocoopbanks.coop
[65] For more information, see: https://www.triodos.be.
[66] For more information see: https://www.bancaprossima.com; https://www.unicredit.it/it/chisiamo/per-le-imprese/per-il-non-profit/universo-non-profit.html; and https://www.ubibanca.com/page/ubi-comunita
.
[67] For more information, see: www.socialfinance.org.uk/sib

This view of WISEs' success applies both to those WISEs participating in labour market programs , and to WISEs that create new, often permanent, jobs through sales and services to public sector and/or commercial markets.

3.5.1 SUCCESS IN REACHING THE HIGHLY DISADVANTAGED

There is widespread agreement that WISEs, like other social enterprises, are more able to reach highly disadvantaged populations because of their embeddedness in local communities and local networks of service providers (Dean 2013). Due to their positioning, history and values, and independence from the public sector, they are in a greater position of trust with vulnerable and disadvantaged client groups (e.g. Billis and Glennerster, 1998, Borzaga et al, 2010, Mendell & Nogales 2007; Syrett 2008, in Dean 2013; Sital-Singh 2011). Successful interventions by social enterprises as a whole are characterized in part by active engagement of voluntary and community agencies working with other local partners access 'difficult to reach' groups and enhance trust in state services (Syrett 2008 in Dean 2013).

WISEs and other social enterprises also seem to play a fundamental role in providing support systems for residents in deprived neighbourhoods (Syrett 2008, in Dean 2013), or for members of marginalized populations (Sital-Singh 2011; Amin 2009 in OECD 2013).

The PERSE study found that in Spain, 37% of referrals into WISEs were from other nonprofits working, usually organizations working in poverty reduction, drug abuse reduction or some other social service area (PERSE 2005). However, many WISE workers in EU countries are referred in from public programs: as mentioned earlier, more than half were referred in from the local labour office in Germany and the UK, while social services referred individuals into Italian WISEs (PERSE 2005).

3.5.2 JOB CREATION

No recent estimate was found of the total number of WISEs in the EU, or the total number of jobs they create for disadvantaged workers. The ELEXIES study of 12 countries in the early 2000s found 1,209 WISEs, employing a total 239,977 workers (Spear & Bidet 2003). It would also be important to distinguish between transitional short-term jobs created in WISEs as bridges to integration into mainstream labour markets, and stable long-term jobs created in WISEs. Since most individual WISEs rely on a mix of resources, and often provide both transitional and permanent jobs, it is difficult to disaggregate the type of jobs that WISEs provide.

a) Labour Market Re-Entry

As already discussed, most EU labour market policy aims to (re-)integrate disadvantaged workers into mainstream jobs after a fixed period of 'transition' employment. The main measure of employment success for WISEs participating in these programs is how many of their workers graduate into mainstream labour market jobs. Significant numbers appear to do so. For example one study of Basque region work WISEs (*impresas de insercion*) found that 65% of the region's WISE workers graduated into mainstream jobs (Aretexabala 2011). Like WISEs elsewhere, Basque WISEs provide low skill work mainly in fields such as recycling, waste, carpentry, bricklaying, courier services, and personal services. Basque WISEs also seem to offer a way into the labour market for immigrants; the percentage of WISE employees who were immigrants rose from 5% in 2000 to about 40% in 2010. Another Spanish study found that 52% of workers in WISEs that provided transitional jobs funded through labour market programs, graduated into mainstream jobs (Miedes & Fernandez, 2013).

The PERSE study of 160 diverse WISEs in several EU countries in the early 2000s, for example, found that many such workers in WISEs do not make this transition, or at least not readily. The project found that 54% of the 949 workers in the 160 WISEs studied were still working in the WISE about two years after their entry (PERSE 2005). Some workers had graduated into jobs in other organizations, some had ended the project successfully with acquired professional skills and personal autonomy, and a percentage had left before the employment contract ended (PERSE 2005). Workers remaining in the WISE enjoyed higher incomes than other WISE graduates, as a result of their work experience and greater personal abilities that enabled greater personal autonomy. Those who left their WISE within two years also showed improved human capital as a result of their WISE experience, but gained less than those still in the WISE (PERSE 2005).

The largest single group of WISEs in PERSE study provided mostly transitional employment funded through labour market programs. Other WISEs provided transitional or permanent jobs funded in various other ways. The study found that workers did not generally leave the WISE voluntarily. Whether or not a worker stayed in a WISE after two years was largely a function of the type of integration scheme governing their employment, rather than of worker characteristics (PERSE 2005). This suggests that many workers may not be ready to, or want to, enter the mainstream labour market when their WISE term is over. The study concluded that states should support a variety of different types of WISEs to accommodate the wide diversity of disadvantaged workers served by WISEs (PERSE 2005).

In addition, analysis of administrative data for Belgian WISEs found that nearly one in two of the workers who were employed in a WISE or in another enterprise following their term in a WISE (47%) would not have been employed without their WISE experience (PERSE 2005).

b) Cost-Benefit Analyses

The PERSE project also used administrative data to determine the fiscal impact of employing workers in WISEs, by comparing the cost of subsidizing these jobs against the cost of supporting these workers through social assistance or unemployment benefit and the benefits of their working. The impact was found to be neutral. In fact, WISEs benefitted public bodies by €267-720 per month (PERSE 2005).

An earlier cost-benefit analysis of Type B cooperatives in Trento, Italy, between 1993 and 1999 had also found that jobs in these WISEs produced a net fiscal benefit for the province, even when taking provincial subsidies to the cooperatives into account (Borzaga & Loss 2004). As mentioned earlier, Type B cooperatives earn more than 50% of their income from sales of goods and services, some of these to local authorities.

c) Numbers of Jobs Created

As largely grass-roots, community-embedded organizations, WISEs tend to be small, and the jobs they provide tend to be few, both overall and within each WISE (e.g. OCNP 2014; OECD 2013). For example, the WISEs in the ELEXIES study of WISEs in 12 European countries employed an average 5-6 workers per WISE (Spear & Bidet 2003). Italian WISEs in 2002 averaged 13-15 workers, of which an average 5-6 were disadvantaged(Borzaga & Loss 2002). (By law at least 30% of workers in Italian WISEs (Type B social cooperatives) must be disadvantaged)(Borzaga & Loss 2002). A small study of work integration companies (*impresas de insercion*) registered in the Basque region of Spain found that they employed 6.8 workers on average (Retolaza 2010). About one third of the WISES that started up in the region in 2005/2006 went bankrupt (Retolaza 2010). The 13 rural Irish WISEs studied in 2008 employed a total 79 workers (O'Shaughnessy 2008).

Similarly, the recent OECD study of social enterprises serving disadvantaged workers (not necessarily WISEs) found that more than half of the organizations employed four or fewer disadvantaged workers (OECD 2013), although the average number of employees in the 139 enterprises surveyed was 32.7 (OECD 2013). Some 47 enterprises said they had increased the number of FTE positions for vulnerable individuals during 2011. Of these, half had created two or fewer jobs (OECD 2013). The study concluded that while these small numbers do not negate the value of such activity, they do give an important indication of its scale.

Some researchers have urged caution when considering the aggregate contribution of WISEs and other social enterprise to creating jobs for disadvantaged workers. Critical commentators argue that claims that social enterprise organizations are making major progress in moving disadvantaged unemployed people back to work are exaggerated, and reflect a tendency to aggregate positive characteristics from a small number of case studies (Teasdale, 2012 in Dean 2013). Furthermore, they suggest that analysis of the available literature shows that relatively little is known about the aggregate contribution of WISEs and other social enterprises to the creation of stable employment for marginal groups (Buckingham & Teasdale 2012, in Dean 2013).

This said, there exist many examples of WISEs that have grown to become large organizations, employing many disadvantaged workers. The 'In Concerto' consortium in

Castelfranco Veneto in north-east Italy, for example, has become the biggest business in the area (EC 2013). Founded in 2002 by local social cooperatives, many of which were just starting up, the consortium now has 1,300 employees, including more than 200 with some kind of physical or social disadvantage (EC 2013), and provides rehabilitation services to over 1000 clients. Annual turnover is €47 million. The consortium's cooperatives work in many sectors including carpentry, cleaning, and social services such as home care and elder care. It exports products to China (EC 2013). Similarly CLAROS, an amalgam of five worker cooperatives in different cities in Spain, started in 2001 with 31 women workers providing home care for the elderly, and by 2011 had 41 contracts with public authorities and a turnover of €4.5 million annually (Dean 2013).

The social cooperative ESEDRA, also in Italy, has grown steadily since the 1980s and now employs 83, mostly disadvantaged, workers producing electrical control panels, plants for energy production, and planning and maintenance of green spaces (Dean 2013). The EKON Association in Poland was established in 2003 to help and provide work for individuals threatened by social exclusion, especially due to mental health issues (EC 2013). It began by employing 56 individuals with disabilities, but by 2008 was employing 879 workers, of whom 469 had mental disabilities (EC 2013). EKON collects waste from housing estates and municipalities, collecting over 31% of Warsaw's packaging waste. In Belgium, the WISE IN-Z employs 1,200 people in long-term jobs, providing services to the elderly and others in their homes (Dean 2013). IN-Z was created in order to create new jobs for unemployed women without access to jobs, and to provide needed services to the elderly (Dean 2013). Started initially from volunteers, it later attracted mainstream funding and support.

d) Job quality

Many WISE supporters argue that WISEs empower vulnerable workers, support decent working conditions and foster democratic participation, in addition to creating jobs (e.g. Fonteneau et al 2011). However, most of the WISEs encountered in this review appear to pay minimum wage or slightly higher, and most of the work these WISEs do is low skill and in low wage sectors such as waste recycling or green space maintenance, or in low wage social services such as personal care or child care. Certainly most of the public service contracts to WISEs are for low skill, low wage services. The recent OECD study of social enterprises working with disadvantaged populations, found that WISEs and other social enterprises tend to operate in low wage sectors, which in general do not pay a living wage (Buckingham & Teasdale 2013). Short-term and low value government service contracts also contribute to the precariousness and low wages of jobs in WISEs, making it impossible for WISEs to pay their workers a living wage (Buckingham & Teasdale 2013). The authors concluded there was a wide discrepancy between claims for WISE work in the policy literature, and empirical studies (Buckingham & Teasdale 2013).

e) Job Resilience

Evidence suggests that European WISEs and other social economy enterprises have weathered Europe's 2008 economic crash and austerity aftermath more successfully than most other types of employers (EC 2013; Campos & Avila 2012). In France, for instance, the social economy (which accounts for 9.9 % of all salaried employment) has created 18 % of all new jobs between 2006 and 2008. Between 2008 and 2009, jobs in the French social economy rose by 2.9 % -- a net creation of 70,000 waged jobs – compared with a 1.6 % drop in the rest of the private sector, and a 4.2 % drop in the public sector (Fauer in EC 2013). In Italy, between 2007 and 2011, employment in type A and type B cooperatives (WISEs) rose 8 % while employed declined by 2.3% in the private sector and by 1.2 % overall. Also, a comparison of data on growth in value added between cooperatives and shareholder companies between 2006 and 2010 reveals that this indicator has grown in cooperatives four times more than in shareholder companies (+24.7 % vs. +6.5 %) (EC 2013). Over the same time span, the incomes of workers in cooperatives increased by 29.5 %, compared to 12.7 % in share companies (Euricse analysis of chambre of commerce data in EC 2013).

In Spain too, employment in cooperatives and 'sociedades laborales' has been recovering faster than in other enterprises. Following a slump in 2008-9 and stagnation in 2010, employment in worker cooperatives grew by 4.7 % in 2011, while in other companies it continued to fall for the fourth straight year (CECOP-CICOPA Europe 2012, in EC 2013). Overall, employment in cooperatives fell by 9% between 2008 and 2012 while salaried employment in the private sector as a whole fell by 19%, over twice as much (Campos & Avila 2012).

Some researchers attribute WISEs' and other social enterprises' resilience in part to their local embeddedness. "Local development allows a local society and economy to overcome market failures, to improve regional capital and local skills, and to take responsibility. It has positive repercussions on quality of life, local amenities, local social cohesion, and democracy. At the macro-economic level, the benefits of local development are apparent over the long term." Heckl et al 2007.

Section 4: WISEs in Ontario

4.1. WISES in Ontario

WISEs appear to comprise a significant proportion of Ontario social enterprises, although neither the province's social enterprise nor WISE sub-sector has been completely mapped. The most comprehensive recent survey of Ontario social enterprises indicates that over 40% of social enterprises are engaged in employment development and/or training for workforce integration, and that training and/or employing people with persistent barriers to stable employment is the main activity and mission for about 18% of social enterprises (Flatt et al 2013).[68] This is a higher proportion than in Alberta, but a lower proportion than in B.C. and Nova Scotia (Flatt et al 2013; Tarr & Karaphillis 2011).[69] The other 20% or so of social enterprises would likely train and/or employ disadvantaged individuals, but not as their main focus, or the business employing the individuals might be a minor part of a larger enterprise (Flatt et al 2013). A recent survey of *social purposes enterprises (SPEs)* – social enterprises which specialize in training and/or employing people with persistent barriers to stable employment (Langford 2013) – found that 82% of SPEs employed individuals, most also providing training (58%), and the remainder provided training only (Langford 2013).[70] So four in five social purpose enterprises would meet the criteria for being a WISE.

WISEs tend to be young organizations, although a minority is well established (Flatt et al 2013; Langford 2013). *Social purpose enterprises* are three times more likely to be urban than rural (Flatt et al 2013). In general, they are significantly more likely to operate at the neighbourhood, city or regional level than to operate over large geographical ranges (Flatt 2013).

Overall, Ontario WISEs are a diverse group of organizations in terms of mission, populations served, and types of businesses undertaken. This diversity reflects the grass roots nature of WISEs, which have developed largely ad hoc as offshoot from non-profits' and charities' other activities to alleviate poverty.

4.1.1 TYPES OF ORGANIZATIONS

[68] The study excluded cooperatives (Flatt et al 2013)

[69] The percentage ranged from 22% Alberta to 51% in B.C., and 31% in Manitoba. Some 71% of respondent organizations in a Nova Scotia survey reported this type of business activity (Tarr & Karaphillis 2011).

[70] Although SPEs are a larger group than WISEs, insofar as some do not provide jobs, but also a smaller group, insofar as they exclude social enterprises that hire some disadvantaged workers, but as a secondary or tertiary social purpose, the SPE category of social enterprises is a rough proxy for WISEs in Canada.

No studies were found similar to the European ELEXIES or PERSE studies that identify and map different types of Ontario WISEs. This said, *social businesses* employing individuals with disabilities have emerged as a distinct type of WISE, both in Canadian tax law (see below) and within the social enterprise sector (Lysaght & Krupa 2012).

Like *social firms* in the UK, Canadian social businesses sell goods and services produced by individuals with disabilities (CRA 2012). One recent scan of social businesses in Canada found the sector to be still emergent (Lysaght & Krupa 2012), but strongest in Ontario (about half of the 122 organizations identified were located there). Most of the businesses scanned were small organizations employing an average 25 workers in temporary or permanent jobs (excluding one province-wide recycling firm in Saskatchewan) (Lysaght & Krupa 2012). Non-trainee workers earned minimum wage or higher in most businesses, based on their experience, the nature of the position, and the reimbursement model (e.g. profit-share) (Lysaght & Krupa 2012). Workers also usually received job coaching and employment support.

Most of the social businesses in the scan employed and/or trained individuals from a single disability group, most often individuals with mental health problems or addictions (62%). Some firms also hired other highly disadvantaged workers, but enterprises were only included in the study if they employed at least one individual with disabilities. About half of the 122 businesses scanned were in catering/food service (33), recycling/composting (14), or retail sales (10).

Virtually all organizations operated with some type of community subsidy, whether from a partner or sponsor organization (e.g. donated space or provision of managerial/supervisory staff), from volunteers, or from other organizations (e.g. use of equipment). They also received subsidies from small business support agencies and from government directly (e.g. Emploi Quebec, the Atlantic Canada Opportunities Agency), and grants from foundations and lottery funds (e.g. Ontario Trillium Foundation), other businesses and charitable organizations, and from charitable donations (Lysaght & Krupa 2012).

4.1.2 WISES AND THE POPULATIONS THEY SERVE

a) Populations

Ontario WISEs serve a range of disadvantaged populations. Respondents to the SPE survey reported serving primarily immigrants, low income individuals and the homeless (Langford 2013). In the 2011 survey of social enterprises, SPEs were most likely to serve individuals with disabilities – (psychiatric disabilities (51%), intellectual disabilities (66%), or physical disabilities (43%) – as well as ethnic groups or minorities (32%) and refugees (20%), low income individuals (43%), the homeless (23%), and Aboriginal populations (29%) (Flatt et al 2013).

b) Types of Activities

Social enterprises in Ontario operate in a variety of sectors, including retail sales (including thrift), education, landscaping/gardening, food service/catering, janitorial/cleaning services, tourism, and sports and recreation (Flatt et al 2013). The most common business for SPEs, as for social businesses, appears to be food and catering services (Langford 2013).

c) Types and Numbers of Jobs

Most Ontario WISEs also tend to be small and to employ relatively few disadvantaged workers, similar to UK WISEs that do not participate significantly in labour market programs. Social purpose enterprises responding to the comprehensive 2011 survey employed an average of 12 workers from disadvantaged groups (Flatt et al 2013), while respondents to the SPE survey reported having six disadvantaged workers on average (Langford 2013). The survey found that older social enterprises provided the greatest number of jobs. Overall, the 363 social enterprises surveyed employed at least 5,133 people as part of their mission (Flatt et al 2013). Many or most of which would have been WISEs.

The same survey also found that most WISE/SPEs also provided training to their disadvantaged workers. The 363 social enterprises trained a minimum of 65,902 individuals from disadvantaged groups. Overall, older organizations in operation for 10-19 years trained the most individuals from targeted demographic groups – more than 356 people per social enterprise.

Since WISEs have not received the same attention in Ontario or Canada as in Europe, not much is known about the type or quality of jobs they provide. However, SPEs/WISEs provide about twice as many part-time (<30 hours per week) as full-time jobs, a higher percentage than for social enterprises as a whole (Flatt et al 2013).

d) Sources of Income

Ontario SPEs/WISEs appear to earn more than half their income (an average of 55%-65%) from their business activities (Langford 2013; Flatt et al 2013). But like the *social businesses* described above, 88% of SPEs/WISEs also rely on other income sources such as government and corporate grants and donations, individual donations and charitable fundraising (Flatt et al 2013; Langford 2013), usually on usually on several sources at the same time (Langford 2013). SPEs also use volunteers, but relatively few compared to other types of social enterprises (Flatt et al 2013). [71] Few Ontario SPEs would break even without these non-market sources of income; even with these additional sources of income, social purpose enterprises are minimally profitable on average

[71] Many WISEs also receive in-kind contributions, including goods, materials, transportation, much of it from their parent organization if they are an embedded project (Flatt et al 2013). Approximately 55% receive in-kind contributions, including 'goods, materials, transportation etc', and space. Forty-eight percent access financial services, including 'loans, grants, loss write-off etc'. Older organizations (>40 years) do not access in-kind or space support from a parent.

(Flatt et al 2013). External funding regimes are therefore important for SPEs/WISEs, as they are for the social enterprise sector as a whole (e.g. Malhotra et al 2010; McIsaac & Moody 2013; Rajotte 2009; Canadian Task Force on Social Finance 2010).

By comparison, an earlier survey of B.C. and Alberta social enterprises found that social enterprises that targeted people with employment barriers were more likely to break even than other social enterprises (Elson & Hall 2010). These enterprises were also more likely to be working with government contracts for defined services within a defined budget (Elson & Hall 2010). For the B.C. and Alberta social enterprise sectors as a whole, government was the primary source of financing, followed by individuals and foundations (Elson & Hall 2010). B.C. social enterprises had significantly greater access to credit unions, and the survey authors concluded that credit unions could represent an untapped source of financing for social enterprises elsewhere (Elson & Hall 2010).

e) Organizational Structure

While their organizational structures vary, most SPEs/WISEs in Ontario and other provinces (e.g. Elson & Hall 2010) appear to be within the non-profit and charitable sector. Some 58% of the social enterprises in the comprehensive 2011 survey were registered charities[72] (Flatt et al 2013). The two surveys found that between half and two-thirds of SPEs were programs or projects embedded in a charity or non-profit corporation (Flatt et al 2013; Langford 2013). The also comprehensive 2011 survey also found that another third were independent but to have close ties with a parent charity or – less often – non-profit (FLatt et al 2013), while about one in seven were completely stand-alone organizations (Flatt et al 2013). The study of SPEs found 33% of SPEs were stand alone organizations (Langford 2013). The environmental scan of Canadian *social businesses* also found that most were incorporated as non-profit organizations – some with charitable status – or as cooperatives (Lysaght & Krupa 2012).

Charities and nonprofits sometimes set up larger WISEs as independent arms-length subsidiaries to facilitate their operation and growth. However, the SPE study found very few SPE/WISE subsidiaries (Langford 2013).

4.2 Legal Context for Ontario WISES

There is no legal form specific to WISEs or to social enterprises in Canada, in contrast to the UK and some European countries. Instead, WISEs operate within a legal framework and use

[72] Charity is a status, and charities that incorporate typically do so as non-profit corporations. Charities comprise just over half (86,000) of Canada's estimated 161,000 non-profits. (Information retrieved January 25, 2014 from Imagine Canada http://www.imaginecanada.ca/node/2420.) In 2008, there were 83,000 registered charities in Canada, according to the CRA (CRA 2008).

legal forms designed for other types of organizations. In the not-for-profit sector where WISEs cluster, the legal form used depends in large part on the WISE's organizational structure. Embedded WISEs are legally part of the charity or non-profit corporation operating them. WISEs that are arms-length subsidiaries of charities or non-profits are typically incorporated as for-profit companies (Bridge & Corriveau 2009; CRA 2003). Standalone WISEs may incorporate as for-profit companies or as non-profits, or may be charities.

4.2.1 THE LEGAL FRAMEWORK

a) For-Profits

For-profit WISEs[73] typically incorporate as regular for-profit companies in Ontario as elsewhere. These WISEs enjoy more or less unrestricted freedom in the type of business they undertake, the amount of earnable profit, and amount of profit distributed to company owners. Like other for-profit corporations, these WISEs may attract conventional lenders and investors. They also have access to some government micro-finance and enterprise funds designed for private sector companies. To protect their social purposes and ensure that most revenues go to support their social mission, for-profit WISEs write restrictions on profit and asset distribution into their company articles. But these articles are reversible. For profit WISEs (including WISE subsidiaries) can also donate up to 75% of their annual net profits to a charity or non-profit (Randall 2013; CRA 2003).

b) Cooperatives

The provincial laws governing Canadian cooperatives permit most cooperatives to make and distribute profits, but to members rather than to external investors. This distribution is capped, however, and cooperatives are expected to reinvest most of their profit back into the organization (BCCSE 2013; Manwaring et al 2012; Bridge 2010). In addition, their governance, and profit distribution is based on democratic principles.[74] Community service cooperatives, a sub-set of cooperatives that serve the larger community rather than members, can only benefit from tax free non-profit status if they comply with the same tax rules as non-profit organizations, and do not make profits (Canadian Task Force on Social Finance 2010).

Cooperative WISEs are much less common in Canada than in Europe where, as we have seen, many WISEs are cooperatives (see Section 3).

c) Non-Profits

[73] See Appendix 3 for a thumbnail sketch of several such organizations.
[74] See the Canadian Cooperative Association: www.coopscanada.coop/en/about_co-operative/How-are-Co-operatives-Different?

As noted in Section 2, the Canadian legal framework for WISEs is distinct in having a non-profit legal form – the non-share corporation. The non-share corporation's defining legal characteristic is its prohibition on distribution of profits to private individuals for their personal benefit (such as investors). Canadian charities that incorporate typically do so as non-share corporations, although many, usually smaller, charities do not incorporate. Most incorporated Ontario WISEs are therefore non-profit corporations, or are embedded in a non-profit corporation, or are subsidiaries of a non-profit corporation. Unincorporated WISEs are very likely to be, or to be embedded in, a charitable organization.

The law governing Ontario non-profit and charity WISEs is multi-layered. Nearly all Ontario non-profit corporations are incorporated under provincial Ontario law. [75] Ontario's soon-to-be-proclaimed *Ontario Non-profit Corporations Act (ONCA) (2010)*[76] will allow these non-profits to operate any business that aligns with the organization's social mission, and will also allow these businesses to make profits as long as these are used to advance the organization's social purposes.[77] Non-profit WISEs can therefore generate revenues internally to survive and grow, but are unattractive to external investors (since these cannot receive dividends). External financing is usually in the form of debt financing (Malhotra et al 2010).

d) Charities

Ontario charities are subject to two additional layers of regulation in addition to the ONCA. Ontario's *Good Government Act (GGA)(2009)*[78] regulates when and how charities[79] may own businesses, among other things. Prior to 2009, Ontario charities could not own more than 10% of a business for more than seven years (Carter 2009). The *GGA* lifted that restriction and so removed an important barrier to the operation of WISEs by charities (Carter 2009; Carter & Man 2008).

Ontario charities are also regulated by the Charities Directorate of the Canada Revenue Agency, which assigns and regulates charitable status in Canada, as well as administering the federal *Income Tax Act (ITA)* provisions for charities. To become a charity, organizations must, among other requirements: pursue one of the *ITA*'s prescribed charitable purposes,[80] adhere to

[75] A small number of charitable non-profit corporations operating in Ontario are incorporated under federal incorporation law.
[76] *Ontario Non-Profit Corporations Act*. Available at: http://www.e-laws.gov.on.ca/html/statutes/english/elaws_statutes_10n15_e.htm. A guide to the ONCA is available at http://www.sse.gov.on.ca/mcs/en/Pages/onca7.aspx
[77] Ibid.
[78] *Good Government Act*. Available at: http://www.e-laws.gov.on.ca/html/source/statutes/english/2009/elaws_src_s09033_e.htm.
[79] Incorporated or unincorporated.
[80] Charities must pursue one or more of these purposes: relief of poverty, advancement of education, advancement of religion, and other purposes beneficial to the community in a way the law considers charitable (CRA 2008).

the non-distribution rule, and meet a public benefit test.[81][82] WISEs are seen to fit under two of the ITA's prescribed charitable purposes.[83]

4.2.2 FEDERAL TAX LAW

Ontario WISEs' tax status is largely governed by federal tax law, (the *ITA*[84] administered by the Canada Revenue Agency (CRA)), whatever their legal form. Federal tax law confers significant benefits on WISEs in the non-profit and charitable sector, exempting non-profits and registered charities from federal income and other taxes, and allowing charities to issue tax receipts for donations (CRA 2001; CRA 2008). In return, tax law restricts non-profits, and especially charities, in how and when they can operate businesses, and in how much profit they can make without losing their tax exempt status. These restrictions limit the size and potential growth of many WISEs, both stand alone and those embedded in charities and non-profits.

a) Non-Profits

In 2009 the CRA severely curtailed non-profits' ability to make profits.[85] Prior to 2009, it permitted profits as long as these were used to advance the organization's social purposes (CRA 2001). In 2009, however, the CRA issued an Opinion Letter allowing non-profits can make only 'unanticipated and incidental' profits (CRA 2009, in Bridge 2010); anything more would be construed as intent to make a profit (CRA 2009, in Bridge 2010). The new ruling appears to rule out even 'profit' from mid-year markups that are spent by year-end, or 'profit' from a single one of several programs run by a non-profit (Corriveau 2010; Blumberg 2013). Other recent CRA rulings on individual cases have also heavily restricted non-profits' ability to accumulate reserves for any purpose except specified (usually capital) projects (Broder 2010; Drache 2013; Drache 2012; Tzannidakis 2013; Drache 2012a).

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81 The public benefit test requires that the organization provide tangible benefits to the public, and that these benefits must be made available to a sufficiently large section of the population so as to be considered a public benefit (CRA 2008).

82 In addition, charities must devote substantially all their resources to charitable activities carried on by themselves(CRA 2008). At common law, in addition, they must have 'exclusively and legally charitable' purposes.

83 Relieving and preventing unemployment is considered to be a charitable purpose under the first and fourth prescribed charitable purposes. However, providing employment per se is not considered a charitable purpose, though on occasion it can be a way to achieve a charitable purpose (Bridge 2012.).

84 *Income Tax Act(1985).* Available at: http://laws-lois.justice.gc.ca/eng/acts/i-3.3/

85 CRA rules permit some surplus revenue for non-profits as long as the use of resources is reasonable and excess income is not greater than the reasonable needs of the organization (CRA 2001; Mason & Blatchford 2011). And income from investments is generally permitted (CRA 2001; Mason & Blatchford 2011).

Some legal experts question the legal force of the 2009 Letter, which is also challengeable in the courts (Elson[86]; Mason & Blatchford 2011). Moreover, the CRA estimates that 75% of Canadian non-profits are currently in violation of the 2009 Letter (BCCSE 2013). However, the CRA ruling is widely viewed as a major handicap for WISEs and other nonprofits seeking to grow or sustain their business through internal revenue generation (Bridge 2010; Broder 2010).

b) Charities

While CRA rules confer significant tax benefits on charities, they also severely constrict charities' scope to run businesses. Charities can operate only '*related*' businesses directly (CRA 2003). To be *related,* the business must directly pursue the charity's charitable ends, and must also be subordinate and linked to those ends (CRA 2003).[ii] This rule allows many charities to operate embedded WISEs – for example, a charity serving the homeless would be allowed to operate a cleaning service that employed the homeless. But such businesses can only form a small part of the charity's core activities. In addition, while embedded WISEs can make tax exempt profits (Corriveau u.d.), and can receive donations and issue tax receipts (CRA 2003; Corriveau u.d.), their profits are expected to go directly to the charity's charitable activities, rather than to growing the business (CRA 2003; Carter & Man 2008).

Moreover, any prosperous and highly profitable related businesses are expected to be hived off into arms-length subsidiaries (Corriveau n.d.), along with any *unrelated* businesses the charity may wish to operate (CRA 2003; Bridge 2010). These arms-length business subsidiaries are typically taxable corporations (Bridge & Corriveau 2009), which then can then donate up to 75% of their profits to the parent charity (CRA 2003; Randall 2013; Corriveau 2010). (Subsidiaries can be set up as non-profits only if the CRA does not consider them businesses seeking to make a profit (Bridge & Corriveau 2009)).

The arms-length for-profit subsidiaries operate as regular for-profit corporations, able to make unrestricted profits, and to distribute them to external investors/owners (in this case the parent charity) (CRA 2003; Bridge 2010). WISEs and other businesses set up as arms-length subsidiaries also have the advantage of insulating the parent charity from any losses. Parent charities are allowed to finance the subsidiary's initial start-up (CRA 2003), as long as the investment is a 'prudent use' of charity funds (CRA 2003). While arms-length subsidiaries may seem an attractive option for charities, the Canadian Task Force on Social Finance concluded that such subsidiaries are costly and onerous to set up and run, and beyond the capacity of many smaller charities to manage (Canadian Task Force on Social Finance 2010). In practice, most *related* businesses are run as embedded enterprises within charities (Corriveau u.d.).

c) Community Economic Development charitable WISEs

[86] Personal Communication with Peter Elson, senior research associate, Institute for Non-profit Studies, Mt. Royal University.

While some Ontario WISEs are subject to the foregoing CRA restrictions on charity-run businesses, many WISEs benefit from special CRA rules that treat certain types of businesses as charities, for tax purposes (Corriveau 2012; CRA 2012). These special rules allow many stand alone WISEs to qualify as charities, as well as WISEs associated with a 'parent' charity.

The special rules treat as charities for tax purposes a range of *community economic development* businesses (and other activities) that provide certain prescribed services to four prescribed populations: the unemployed, people living in poverty, people living with a disability, and peopleliving in depressed neighbourhoods (CRA 2012). The rules permit a range of CED businesses, but specifically single out two important types of WISEs as eligible: *social businesses* employing individuals with disabilities, and *on-the-job training* for disadvantaged workers. *On-the-job-training* enterprises provide jobs, training, and placement services to the target populations (Corriveau 2012; CRA 2012). To qualify, at least 70% of the organization's employees must be from the target population, and all jobs must be temporary (Corriveau 2010; CRA 2012). Eligible s*ocial businesses* must employ only individuals with disabilities, except for supervisors and trainers (CRA 2012; Corriveau 2012). They may also provide self-employment supports to individuals (Corriveau 2012), to help individuals with disabilities to earn their own living. Not required but generally expected is related training programming (Corriveau 2012).

Recently, this tax 'niche' for Canadian WISEs has been enriched. Prior to 2012, the rules prohibited CED 'charities' from making any profits; indeed, s*ocial businesses* were explicitly expected to rely on ongoing (largely government) funding support (Corriveau 2010, 2012). In 2012, the CRA allowed profits as long as these continue to be used to 'help eligible beneficiaries', rather than to generate revenue (CRA 2012). At the same time, the CRA Guidance also widened financing opportunities for WISEs and other businesses qualifying for CED charitable treatment, by making it easier for foundations to invest in these businesses. It broadened the kinds of investments foundations can make, and allowed them to invest in a wider range of organizations (CRA 2012; Bridge u.d.).

The social enterprise sector has received these new changes warmly (e.g. Corriveau 2012; Man et al 2012). They are seen to signal significant federal interest in helping grow and develop this sub-group of social enterprises. Indeed, the 2012 CRA guidance is the first CRA guidance to use the term 'social enterprise', suggesting it puts CED 'charity' WISEs at the heart of the social enterprise sector.

One reason the CRA is thought to be reluctant to relax restrictions on charities operating businesses, and on non-profits making profits, is the fear of permitting 'unfair competition to the private sector. The 1949 law that preceded Ontario's *Good Government Act* explicitly prohibited Ontario charities from operating long-term businesses to prevent such 'unfair competition.'[87]

[87] Charitable Gifts Act (1990, c.8). Retrieved from Province of Ontario website: http://www.e-laws.gov.on.ca/html/repealedstatutes/english/elaws_rep_statutes_90c08_e.htm.

However, the CRA does not extend this reluctance to WISE *social businesses* and *on-the-job training* enterprises. This may be because it does not think these WISEs will create significant competition for the private sector. *Social businesses*, for example, cost 33% more to operate than other social enterprises (BCCSE 2013), although, as noted earlier, in B.C. and Alberta, social enterprises employing people with barriers to employment were more likely to break even than other organizations (Elson & Hall 2010).

4.2.3. HOW WELL DOES ONTARIO'S LEGAL FRAMEWORK SUPPORT ONTARIO WISES?

The absence of a unified legal framework for WISEs or for social enterprises precludes a common strategy among some EU countries of building policy and funding frameworks on the legal infrastructure. Instead, as in the UK, Ontario WISEs and social enterprises operate within legal frameworks designed for other types of organizations. Overall, the more the legal form protects the social purpose of the enterprise – by restricting or prohibiting the distribution of profits and assets, as in the case of charities and non-profits – the less the WISE is able to finance its business through conventional lending and investment sources, and, depending on the WISE's organizational structure, the less freedom it may have to operate the type of business it wants and generate profits from that business.

The restrictions on charities operating a business may hamper some charities in establishing WISEs in-house, although the WISEs they establish appear able to flourish under the rules. Many of the enterprises in the social businesses survey noted earlier said they operated within the framework of a larger parent organization because this allowed them to be subsidized by other businesses/activities run by the parent, if they failed to break even (Lysaght & Krupa 2012).

In terms of financing, given that WISEs tend not to be highly profitable in virtue of their missions, they are unlikely to attract conventional investors in any case. But the existing types of financial and other resources available to many or most WISEs in the nonprofit and charitable sector– tax exemptions, donations, in-kind supports, volunteering – are not designed to support the needs of running and growing a businesses. This would be particularly the case for non-charitable nonprofit WISEs, which can no longer generate any surplus revenue – though how many WISEs are in this legal position is unclear. Conversely, for-profit WISEs have access to conventional lending and investment sources only and, given their mission, would seem to be relatively unattractive to conventional sources of financing.

The 'branding' problem faced by many UK WISEs also confronts Ontario for-profit WISEs, including those operating as for-profit arms-length subsidiaries of charities. The difficulty is that for-profit WISEs have difficulty distinguishing themselves from profit-maximizing competitors in the marketplace, and clearly signaling their social purposes.

More broadly, the regulatory framework may be pushing development of Ontario's WISE sub-sector in one way rather than another. It may be reinforcing the concentration of WISEs in the charitable sector, for example, because that is where it can exploit tax and other revenue benefits.

Finally, the legal framework governing WISE nonprofits and charities in Ontario as elsewhere in Canada is complex and widely viewed as outdated, inadequate and in need of reform (e.g. Bridge & Corriveau 2009; Chenier 2012, Mulholland et al 2011; Canadian Task Force on Social Finance 2010). For example, while Ontario's soon-to-be-proclaimed incorporation law, the ONCA, will allow Ontario nonprofits to make profits as long as they are used to advance the organizations' social purposes, the CRA appears to have taken the position that nonprofits cannot make profits and remain tax-exempt.

4.3 Policy Framework

Ontario has no WISE-specific policy framework, nor a single policy framework for Ontario social enterprises as a whole. One challenge for policy makers is the heterogeneity of social enterprises, which range from businesses whose primary aim is to generate income for their charity parent, to enterprises taking market-based approaches to tackling 'new' or 'intractable' social, environmental and cultural problems. These different types of social enterprises inhabit different policy spheres: the former is usually discussed within social policy frameworks, as an strategy for nonprofit sustainability, and the latter is usually discussed within an economic development framework, as a means to fill the gaps left by state and private sector failure(e.g. GO 2013). [88] These different types also face somewhat different challenges: external financing is seen as a major challenge for the latter (Bridge & Corriveau 2009; Bridge 2010; Mulholland et al 2011; Treurnicht 2011; McIsaac & Moody 2013; Rajotte 2009; Malhotra t al 2010; Flatt et al 2013; Canadian Task Force on Social Finance 2010); the rules governing charities and non-profits' operation of a business is seen as a major challenge for the former.

Within this complex terrain, WISEs are discussed – to the extent they are discussed at all -- primarily in the context of social policy frameworks, like Italy's type B social cooperatives. Ontario policy-makers tend to see WISEs as innovative extensions of charity/non-profit sector aid to impoverished and disadvantaged groups. Their role as labour market agents is underdeveloped at the policy level, as is their – potential – role as agents of economic development.

[88] Certainly, non-profits and charities may also address broader social problems, and these 'new' category of social enterprises may address traditional social purposes, such as the alleviation of poverty.

4.3.1 SOCIAL ENTERPRISE STRATEGY

In 2013 Ontario unveiled its first social enterprise strategy for Ontario (GO 2013). The strategy is facilitative: it promises to begin reducing administrative and regulatory barriers for social enterprises, to facilitate networking and communication among social enterprises, and to promote social enterprise to the public (GO 2013). Its other primary focus is to 'create a vibrant social finance marketplace' to increase social entrepreneurs' access to social investment capital (GO 2013). To do this it proposes to launch a $4 million Social Enterprise Demonstration Fund to pilot social enterprise projects through loans or grants, and to work with the private sector to 'unlock more capital for social entrepreneurs' (GO 2013).

In addition, the Strategy promises to integrate social enterprises into government procurement, and it promises funding for a cluster of programs to promote social entrepreneurship among youth. The Strategy is clear in supporting non-profits as well as for-profit social enterprise, but its heavy focus on equity financing indicates a primary concern with the for-profit social enterprise sector since, as we have seen, nonprofits and charities are unable to distribute profits to investors. Overall, the Strategy promises to increase the number of start-ups, raise more private sector investment for social enterprises, and create 1,600 new jobs, especially among 'Aboriginal people, persons with disabilities and other marginalized populations' (GO 2013). Since the Strategy is still in its infancy, it is too early to determine its impact. The strategy does not discuss WISEs specifically.

Prior to announcement of its strategy, the government had begun to acknowledge and promote social enterprises in several ways. Its 2008 Poverty Reduction Strategy made several commitments to enhance the opportunity and impact of social enterprise in Ontario (GO 2008). These included examining the feasibility of a Social Venture Exchange (SVX) and a Community Interest Company (CIC) model based on experiences in the United Kingdom, and investment in a Social Venture Capital Fund, a Sustainable Procurement Strategy, and a website to profile social businesses.

In 2011, a social innovation summit organized by MaRS in partnership with three Ontario ministries resulted in a publication of a Social Innovation Policy Paper in October 2012 (MaRS 2012). The paper highlights a number of innovative strategies to address challenges in funding, measuring outcomes, and the regulatory environment for social enterprise. That year the government also created a Special Advisor and an Office for Social Enterprise within the now Ministry of Economic Development, Trade & Employment. The Office aims to leverage existing capacity to respond to the needs of social entrepreneurs and examine government's potential role in developing the sector (Flatt et al 2013).

4.3.2 NON-PROFITS AND CHARITIES: POLICY FRAMEWORK

a) Policy Coordination

To date, the Province's policy approach to non-profits and charities has been fragmented. Thirteen individual ministries provide dedicated or targeted programs for specific types of organizations and activities (Elson et al 2009; GO 2012), but there is no policy arena in the government specifically for the not-for-profit sector (non-profits and charities). This situation has begun to change, in part in response to the creation of not-for-profit umbrella organizations that can speak to the provincial government on behalf of the sector. Most prominent among these are the Ontario Nonprofit Network (ONN)[89] and Social Economy Roundtable[90], both funded by the Ontario Trillium Foundation (Elson et al 2009).

In 2010, the government initiated the Partnership Project in response to sector concerns raised by the ONN. The project's final report recognized a need to support social enterprise and the development of social finance markets for not-for-profit social enterprises (GO 2011). It promised, among other things to provide the not-for-profit sector with 'an identifiable, central and authoritative point of contact within government'; to streamline and modernize the funding relationship between not-for-profit sector organizations and all ministries in the Ontario government; and to make social financing available to the sector, and 'identify new vehicles to encourage innovation' (GO 2011).

b) Government Procurement

As we saw earlier, WISEs depend more than other social enterprises on government grants and procurement (Flatt et al 2013), and the latter can be an important lever in supporting WISEs, as we saw in Sections 2 and 3. Procurement is also an issue for Ontario WISEs, with 53% of the respondents in the recent SPE study, for example, citing contract procurement from government as a major challenge (Langford 2013). This issue ranked slightly lower than SPEs' market concerns, such as selling their goods and services (63%), advertising their business (59%), and getting access to customers (54%) (Langford, 2013). Three quarters of social purpose enterprises in the SPE survey indicated that capital and social purpose investment opportunities were helpful or very helpful (Flatt et al 2013).

Some Ontario authorities have begun to explore social procurement as an employment strategy. For example, the City of Toronto developed a social procurement framework in 2013, and aims to develop a social procurement policy by 2015, in time for the PanAm Games. The policy's goal is to "….provide unemployed/underemployed residents and more diverse and small businesses with equal opportunities to share in the City's growth and prosperity" (Toronto 2013). Strategies to achieve this goal include, for example, having employers provide advance notice of

[89] See http://theonn.ca/

[90] See http://seontario.org/home/about-social-enterprise-ontario/strengthening-the-social-economy-in-ontario/

jobs, support local hiring, or participate in customized initiatives to interview and recruit pre-screened candidate referred through the city, as ways to "increase the chances of success for under and unemployed residents seeking to connect with opportunities helping them gain the requisite skills and knowledge" (Toronto 2013). This approach is much more limited than that of the new EU Procurement Directive.

Similarly, procurement policies for the 2015 Pan/Para Pan Am Games have been designed so as to increase access to employment and training opportunities for underemployed and unemployed Toronto residents (Toronto 2013).

4.3.3 LABOUR MARKET POLICY

The WISE approach to work (re-)integration) appears to have no significant presence within Ontario labour market policy and programs at present. Ontario provincial labour market policies focus on supporting unemployed workers to find jobs in the mainstream market. This approach extends to some of the disadvantaged populations served by WISEs. The Ontario Disability Support Program Employment Supports, for example, helps individuals with disabilities become market ready, and to find and keep a job. It also provides them with training and work supports such as interpreters, and equipment, transportation and clothing subsidies.[91]

The provincial government also offers more than 35 government job funds, programs and online tools to help unemployed youth enter the labour market.[92] These include tax credits and subsidies to businesses and other organizations, and micro-loans. The Youth Employment Fund provides transitional employment to youth in the form off 4-6 month job placements, but is not targeted to disadvantaged, low education youth.[93]

Similarly, the Ontario Works program in Toronto, which provides some of the richest program supports in the province, offers participants 18 week unpaid co-op programs to gain work experience, or paid 4-12 month internships if they are youth. Otherwise, programs largely help prepare participants for work, and help them search for jobs.[94] Community agencies provide skills training and related supports.

4.3.4 HOW WELL DOES ONTARIO'S POLICY FRAMEWORK SUPPORT ONTARIO WISES?

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[91] See: http://www.mcss.gov.on.ca/en/mcss/programs/social/odsp/employment_support/available_Supports.aspx
[92] See: https://www.ontario.ca/jobs-and-employment/youth-jobs-strategy
[93] http://www.tcu.gov.on.ca/eng/eopg/publications/yef_2013_sp_q_and_a.pdf
[94] See: http://www1.toronto.ca/wps/portal/contentonly?vgnextoid=e531d08099380410VgnVCM10000071d60f89RCRD

The social enterprise sector has argued the need for a coordinated, focused policy framework to support the sector, that would remove legislative, program and policy barriers to the sector's development, and actively promote it, possibly through targeted programs and policies (e.g. Malhotra et al 2010; McIsaac & Moody 2013; Mulholland et al 2011; Elson et al 2009). Publication of the Province's Social Enterprise Strategy, and creation of sector-wide umbrella organizations such as the Social Economy Roundtable, indicate government's interest in the sector, and in developing coordinated policies to serve it. Whether such developments will support WISES more effectively is not yet clear.

4.4 Funding /Financing Framework

As intimated earlier, there is no funding or financing framework specifically for WISEs, or for social enterprises, in Ontario. WISEs typically cobble resources together from a range of sources, but almost 9 in 10 depend on at least some non-market income to survive (Langford 2013; Flat et al 2013).

4.4.1 GOVERNMENT AND NON-PROFIT FUNDING SOURCES FUNDING/FINANCING SOURCES

Ontario WISEs depend somewhat more than other social enterprises on government, foundation and charitable funding to supplement their earnings from market sales (Langford et al 2013; Flatt et al 2013). These declining income sources (e.g. Mulholland et al 2011; Flatt et al 2013) are felt by the social enterprise sector as a whole to be increasingly "difficult to access' and 'dissatisfactory' (Malhotra et al 2010).

a) Direct Government Funding

Ontario government funding programs/funds for WISEs and other social enterprises appear to be highly fragmented and siloed, and they lack a central portal through which organizations can access the funds that exist (Elson et al 2009). Government capital support was described a few years ago as "a game of snakes and ladders", with initial start-up funds for dedicated purposes available from some funders, and others investing only in more established enterprises (Elson et al 2009). Funding instruments do not systematically foster sustained growth through start-up, growth, and maturation stages of development (Elson 2009). Thirteen Ontario ministries manage service contracts and/or grant streams or granting relationships with nonprofit organizations; however, different funding administrative and accountability practices exist across or even within ministries (GO 2012).

Capital funds for social enterprises divide into three categories: micro-finance and enterprise funds, social enterprise funds, and government funds (Elson et al 2009). Funds in the first category have been established to pursue a social mission through private enterprise, and are dominated by micro private enterprises. Social enterprise funds provide explicit support for social enterprise, providing either secured or unsecured capital, or both (Elson et al 2009). In 2009, no funding through these funds appeared to involve patient capital[95] or quasi-equity shares (Elson 2009). State programs include on-going support for social enterprise that serve a particular group of marginalized people, or which are designed to be organizationally transformative (Elson et al 2009). Social enterprises are not eligible for many of the government's conventional enterprise funds (Elson et al 2009).

The single most important source of government funding for social enterprise is the Ontario Trillium Foundation (OTF), a provincially-funded foundation. OTF has provided substantial financial support to organizations developing and gr owing social enterprises in all areas of Ontario as well as to several of the province-wide projects described in the community supports section below (Flatt et al 2013). Its approach has been described as 'politically sensitive' and 'cautiously progressive' (Elson et al 2009).

As described earlier, the federal and provincial government indirectly support many Ontario WISEs through the tax benefits provided through the tax system.

b) Foundation Funding

The extent to which Ontario WISEs depend on grants and investment from private foundations is unknown. Until recently, foundations have only been permitted to fund charities (Elson 2009). The 2012 expansion of permissible foundation Program Related Investments [PRIs] to CED charitable businesses (CRA 2012) may increase some WISEs' access to this type of funding, as the CRA appears to hope.

4.4.2 EXTERNAL FINANCING

The provincial government's Social Enterprise Strategy does promise several initiatives to increase social enterprises' access to financing, especially equity financing.

The social enterprise sector has complained about lack of access to financing for several years, seeing it as perhaps the most important barrier to the sector's growth (e.g. Canadian Task Force on Social Finance 2010; Malhotra et al 2010; Treurnicht 2011; Mulholland et al 2011; Flatt et al 2013). One survey estimated sector demand for start-up and growth capital at $90 million, $40 million from for-profit social enterprises and $48 million from non-profit social enterprises (Canadian Task Force on Social Investment 2010). The government's new social enterprise

[95] Patient capital is capital that is willing to wait to see a return on investment because its purpose is to advance the enterprise's social ends.

strategy promises several initiatives to increase social enterprises' access to external capital, especially social investment. Recent discussion suggests that social investment is more available than once thought, and that the primary challenges are to connect social enterprises with capital, and to make social enterprises investment-ready (e.g. Mulholland et al 2011).

The extent to which WISEs stand to benefit from this strategic thrust is not clear. Given their mission, most WISEs would not seem attractive to conventional investors and lenders, although they could be candidates for social investment.[96] Moreover, over half of the WISEs (63%) responding to the recent SPE survey also said access to external capital was a challenge (Langford 2013). At present, few social purpose enterprises seek external financing, and those that do tend to use non-traditional financing, such as loans from private donors with zero-interest rates, or lines of credit (Langford 2013). Other social enterprises' use of external financing, including loan financing, is also low (Flatt et al 2013; Malhotra et al 2010).

4.4.3 HOW WELL DOES ONTARIO'S FUNDING/FINANCING FRAMEWORK SUPPORT ONTARIO WISES?

Lack of access to capital, and the siloed and fragmented character of government funding and other supports to social enterprise are both seen as major barriers that hold back the growth of Ontario's social enterprise sector (e.g.Malhotra et al 2010; Mulholland et al 2011). For WISEs in particular, the precariousness and strenuous demands of government procurement processes, and the lack of WISE-specific funding streams and public programs have contributed to the organizations' ongoing struggles to survive. At the same time, it is not clear how much WISEs stand to benefit from development of a social investment market in Ontario providing patient or angel capital to social enterprises, or more accessible loan financing.

Debate on the social enterprise sector's financial needs have sparked various proposals to expand Ontario social enterprises' sources of financing or revenue. These include tax breaks for Ontario social enterprises similar to those recently introduced in the UK, and already present in Nova Scotia (e.g. Canadian Task Force on Social Finance 2010). Nova Scotia provides a 35% tax break to investors in certain types of social purpose organizations. Arguably an investor tax break would need to be restricted to asset-locked organizations, as in the UK, to prevent gaming of the system. However, Ontario WISEs that are embedded in charities might be eligible to receive these tax breaks.

[96] Its availability might encourage charities to hive off more WISEs into taxable arms-length subsidiaries.

Section 5: WISEs' Potential

There appears to be widespread enthusiasm for the potential capacity of WISES to re-integrate disadvantaged populations into existing labour markets, or to create long-term new jobs for such populations (e.g. Guerini, 2012; Rodert 2011, 2012; DeFourny & Nyssens 2008; UNDP 2008; EC2013; Aiken & Bode 2009; Bidet & Spear 2003), and, more broadly, to increase the employability of disadvantaged populations. The evidence presented in this report suggests that, given the small and local nature of most WISEs in most European countries at present, the quantitative dimensions of the sector's potential to achieve these goal should not be overstated. (This could change with recent and potential changes in policy and funding frameworks, of course.)

As we have seen, however, there is also concern among researchers and practitioners that the more that WISEs mature, institutionally-speaking, and become integrated participants in countries' labour market policy and programs, the harder it is becoming for them to sustain the characteristics that make them effective in the first place – that is, embeddedness in local communities and local networks, a holistic approach to increasing workers' employability through such things as supporting their social integration, and interest in supporting the highly disadvantaged (Aiken & Bode 2009; Aiken 2007; DeFourny & Nyssens 2008). Current labour market program approaches, and tendering approaches, discussed here mainly in the UK context but proliferating within mainland Europe as well, appear to be central to this issue.

Yet labour market programs do provide many WISEs with at least a certain level of income – inadequate though the wage subsidies are generally considered to be. WISEs' ability to realize their apparent potential also depends very much on their ability to generate sustainable financial resources to do the work they do. Many WISEs participate in labour market programs in part because, given the challenges experienced by many of the individuals they employ, and thus their consequent low productivity relative to other workers, it is difficult to sustain themselves through market activity alone (e.g. Langford 2010; Aiken 2007), and unrealistic to expect them to do so. In addition, it is just generally difficult for any small and medium businesses to survive, in Europe and in Canada.

While some WISEs have been able to survive and grow through market sales alone, they tend to do so by operating in niche markets that are undeveloped, or unattractive to regular commercial companies, and/or by marketing themselves *as* social purpose organizations, thus capitalizing on the 'social consumption market' of consumers who are willing to pay a little extra to support social purpose organizations (Aiken 2007; Aiken & Bode 2007). Another successful strategy for WISEs operating in commercial markets or selling their services to the public sector is to absorb small numbers of disadvantaged people into a larger prosperous organization; in the case of some UK cooperatives, to accept low wages as an expression of their social commitment;

or to cross-subsidize WISE activities from other more profitable business lines) (Aiken 2007). The last is generally not permitted among non-profits in Canada according to recent CRA opinions.)

Contracting with the public sector has become another way for WISEs to pursue their mission and survive financially. As we have seen, current procurement policies and tendering processes raise significant challenges for many WISEs which must compete with regular for-profit companies. Where WISEs have been able to sustain themselves successfully through public procurement, it is most often because they are supported through social clauses or other provisions that add the social value of what they produce into the contract calculus, as in Italy. This said, some WISEs have also been able to grow significantly, using generic public contracts as their bread and butter – for example the UK community business ECT (Ealing Community Transport). The unfortunate fate of ECT – financial straits led to the bulk of its business being sold off to a commercial company – underlines the commercial precarity of WISEs (like other small and medium sized businesses) that earn their income through sales in either the public or commercial markets.

Some experts insist that there is an assumption that social enterprises 'offer the triple benefits of financial sustainability, integration of disadvantaged people, and a social or environmental benefit. Such a message holds out a pledge that there will be little or no drawing on the public purse" (Aiken 2007). There is a widespread view among researchers, and at least some policymakers, that this is not so, and that a successful WISE sector needs some kind of policy and financial support.

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APPENDIX 1: Modes of Integration Among EU WISEs

Figure 1: WISEs in the EU, by Country and by Mode of Integration

WISEs by Country	WISEs by Mode of Integration								
	A. Transitional[97] **Employment or On-the-job training**	**Mixed A&B**	**B. Permanent Self-Financing Jobs**	**Mixed B&C**	**C. Professional Integration with Permanent Subsidies**	**Mixed C&D**	**D. Socialization through Productive Activity**	**Mixed D&A**	**TOTAL By Country**
Belgium	**EFT**[98]- On-the-job training		**EI**- Work Integration Enterprises **IB**- Integration Enterprises	**SOLIDR** – SOLID'R Wises	**BW**-Sheltered Workshops **SSW**-Social Workshops **ETA**-Adapted Work Enterprises	**AZC**- Work Care Centres	**ESR** –WISEs with recycling activities		**9**
Finland	**LCO** – Labour Cooperatives	**CSFDP**- Cooperative Social Firms for Disabled People							**2**
France	**AI**- Intermediate Associations **ETTI**- Temporary Work Integration Enterprises **GEIQ**- Employers'	**RQ**- Neighbour-hood Enterprises	**EIN** Long-term Work Integration Enterprises				**CAVA**- Adaptation to Work Life		

[97] See Section 3, sub-section 31.2, pages 33-35, for descriptions of each mode.
[98] See page 4 of this Appendix for names of the individual types of WISEs in the language of their country.

WISEs by Country	**WISEs by Mode of Integration**								
	A. Transitional [97] **Employment or On-the-job training**	**Mixed A&B**	**B. Permanent Self-Financing Jobs**	**Mixed B&C**	**C. Professional Integration with Permanent Subsidies**	**Mixed C&D**	**D. Socialization through Productive Activity**	**Mixed D&A**	**TOTAL By Country**
	groups for work integration & training **EI**- Work integration enterprises								**7**
Germany	**BW**- SEs Organized by Welfare Organizations **KB**- Municipally-Owned SEs **BLUI**- SEs Organized by Local Initiatives		**SBG**- Social Firms and Cooperatives						**4**
Ireland	**LD**-Local Development Work Integration Social Enterprises	**SEW**- Social Economy (National Programme) Work Integration SEs			**SE**- Sheltered Employment				**3**
Italy		**COSO**- Type B social coops							**1**
Portugal	**EI**-Integration Enterprises				**EP**-Sheltered Workshops				**2**
Spain		**ONCE**-Enterprises of the						**CO**-Occupation Centres	

WISEs by Country	WISEs by Mode of Integration								
	A. Transitional [97] Employment or On-the-job training	Mixed A&B	B. Permanent Self-Financing Jobs	Mixed B&C	C. Professional Integration with Permanent Subsidies	Mixed C&D	D. Socialization through Productive Activity	Mixed D&A	TOTAL By Country
		Spanish Organizatio n for the Blind **EI**-Social Integration Enterprises for people at Risk of Social Exclusion **CEE**-Special Employment Centres							4
Sweden					**SH**-Samhall (Sheltered Workshops for the Disabled)	**SOCO**-Social Cooperatives			2
UK[99]	**ILMO**-Intermediate Labour Market Organizations		**WCO**-Worker Cooperatives **CB**-Community Businesses	**SF**-Social Firms **R**-Remploy					5
TOTAL by Mode	12	7	6	3	6	2	2	1	39

Source: Adapted from Davister et al 2004

[99] A sixth type of UK WISE discussed in Section 2.1 is "Charities, community organizations, and local authorities with embedded or arms-length employment incentives". It is excluded from the types of WISEs identified by Davister et al 2004, and so not included here.

2. Names of Each Type of WISE, in the Language of its Country (where not English).

Belgium

1. **EFT**- Entreprises de Formation par le Travail
2. **EI**- Entreprises d'Insertion
3. **IB**- Invoegbedrijven
4. **ETA**- Entreprises de Travail Adapté
5. **BW**- Beschutte Werkplaatsen
6. **SW**-Sociale Werkplaatsen
7. **ESR**-Entreprises Sociales d'Insertion Actives
8. dans la Récupération et le Recyclage
9. **SOLID'R**-SOLID'R
10. **AZC**-Arbeidzorgcentra

France

1. **EI**- Entreprises d'Insertion
2. **AI**- Associations Intermédiaires
3. **ETTI**- Entreprises de Travail Temporaire d'Insertion
4. **GEIQ**-Groupements d'Employeurs pour l'Insertion et la Qualification
5. **EIN**-Entreprises Insérantes
6. **CAVA**-Centres d'Adaptation à la Vie Active
7. **RQ**- Régies de Quartier

Germany

1. **BW**-Beschäftigungsgesellschaften von Wohlfahrtsverbänden
2. **KB**- Kommunale Beschäftigungsgesellschaften
3. **BLUI**- Beschäftigungsgesellschaften von Lokalen, Unabhängigen Initiativen
4. **SBG**-Soziale Betriebe und Genossenschaften

Italy

1. **COSO**-Cooperative Sociali di tipo b

Portugal

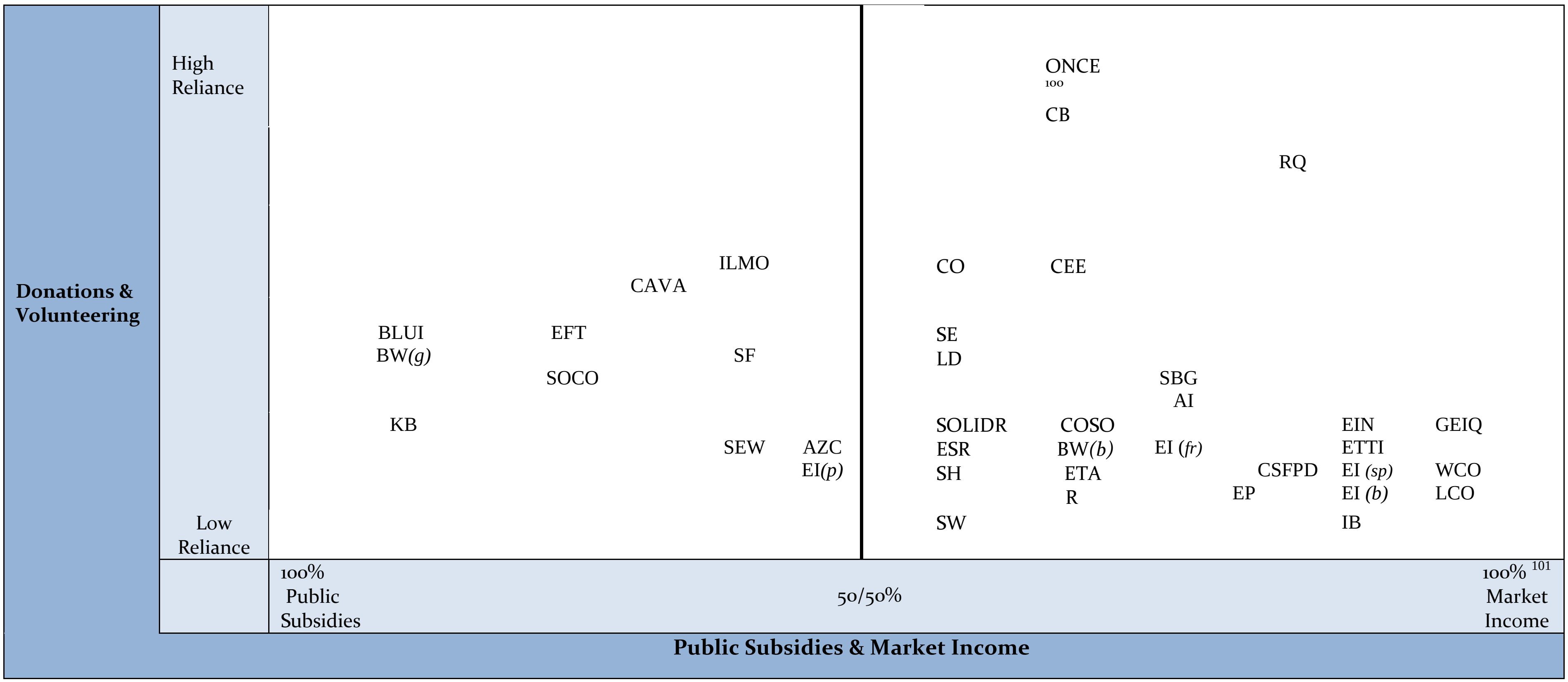
2. **EI**-Empresas de Inserção
3. **EP**-Emprego Protegido

Spain

1. **ONCE**-Empresas de la Organización Nacional de Ciegos de España
2. **EI**- Empresas de Inserción
3. **CEE**-Centros Especiales de Empleo
4. **CO**-Centros Ocupationales

APPENDIX 2. Resources used by EU WISEs

Figure A2.1: Resources used by WISEs, by Resource Type



Source: Adapted from Davister et al 2004, Figure 5.

[100] See Appendix 1 for the names of each type of WISE, in English and in the language of their country.
[101] Including those linked to public markets.

Table A2. 1. Summary of Resources used, by Country.

Country	Summary of Resources Used
Belgium	All but two of Belgium's nine types of WISEs derive more than 50% of their income from market income, compared to public subsidies (ESR, SOLIDR, SW, BW, ETA, EI, IB). Two of these rely overwhelmingly on market income. One of the types of WISEs that derive more than 50% of their income from public subsidies also relies moderately on donations and volunteering (EFT). (EI, IB, BW, ETA, ESR, SOLIDR, SW, AZC, EFT)
Finland	Finland's two types WISEs rely primarily on market income compared to public subsidies. Reliance on donations and volunteering is low. (LCO, CSFPD)
France	Six of France's seven types of WISEs derive more than 50% of their income from market income (RQ, AI, EF, EIN, ETTI, GEIQ), with three of these relying almost exclusively on market income. One relies on public subsidies for more than 50% of its income (CAVA). Reliance on donations and volunteering is moderate for this type of WISE, and moderately high for another WISE (RQ). (CAVA, RQ, AI, EF, EIN, ETTI, GEIQ)
Germany	Three of Germany's four types of WISEs rely heavily on public subsidies rather than market income (BLUI, BW, KB), with two of these also relying somewhat on volunteering and donations. One type of German WISE derives more than 50% of its income from market income, and also relies somewhat on donations and volunteering (SBG). (BLUI, BW, KB, SBG)
Ireland	Two of Ireland's three types of WISE derive just over 50% of their income from market income (SE,LD). The third type relies primarily on public subsidies (SEW). Reliance on donations and volunteering is low for all three types of WISEs. (SEW, SE, LD)
Italy	Italy's one type of WISE derives more than 50% of its income from market income, and also relies modestly on donations and volunteering. (COSO)
Portugal	One of Portugal's two types of WISEs relies on public subsidies for just over 50% of its income (EI), and the other relies primarily on market income (EP). Reliance on donations and volunteering is low for both types. (EI, EP)
Spain	All of Spain's four types of WISEs receive more than 50% of their income from market income rather than public subsidies (ONCE, SEE,

	CO, EI), one relying overwhelmingly on this income source (EI). One type of WISE is also highly reliant on donations and volunteering (ONCE), and two others are moderately reliant on such resources. (ONCE, SEE, CO, EI)
Sweden	One of Sweden's two types of WISEs relies primarily on public subsidies rather than market income (SOCO) – with modest reliance on donations and volunteering -- while the other receives just over 50% of its income from market income (SH), and has low reliance on donations or volunteering. (SOCO, SH)
UK	Two of the UK's five types of WISEs derive more than 50% of their income from public subsidies rather than market incomes (ILMO, SF). One of the three remaining types of WISEs relies almost exclusively on market income (WCO), and one of this group (CB) is also highly reliant on donations and volunteering (CB). (CB, ILMO, R, WCO, SF)

Source: Davister et al 2004.

End Notes

[i] Specific research questions addressed by the study include:

1. Within what regulatory, policy, organizational and financial frameworks/ contexts do WISEs operate in the E.U., UK and U.S.? What does the 'sector' look like in these jurisdictions as a result?
2. How conducive are these frameworks/contexts to WISEs' flourishing? How do they support or hinder development of effective WISEs in their jurisdictions, and what improvements are proposed?
3. What is considered to be the potential scope of WISEs' contribution to the (re-)integration of at risk populations in the EU, UK and U.S.?
4. Within what regulatory, policy, organizational and financial frameworks/contexts do WISEs currently operate in Ontario?
5. How conducive are Ontario's current regulatory, policy and other frameworks to the flourishing of effective WISEs in Ontario, in light of other jurisdictions' experiences?
6. What do we know about WISEs' effectiveness in reaching at risk populations and (re-)integrating them into the labour market in the EU, UK and U.S., and in Canada at present?

[ii] A *related business* is either one run by volunteers (90% of workers), such as an Opportunity Shop, or is a business linked to a charity's purpose and subordinate to that purpose (CRA 2003; Carter & Man 2008). (Case law on what counts as a 'related business' is inconsistent (Bridge & Corriveau 2009)).

a. To be linked, a business must be either: 'a usual and necessary concomitant' of a charity's programs (e.g. a hospital parking lot); an offshoot of a charitable program (e.g. church sales of recorded church services, for a small fee); one that uses excess capacity (e.g. charging for after-hours use of facilities; or one that involves the sale of items that promote the charity (e.g. T-shirts) (CRA 2003; Carter & Man 2008; Corriveau 2010). It is not enough that the business direct all its profits to the charity (Corriveau 2010).
b. To be subordinate, a business must be subservient to a dominant charitable purpose, as opposed to becoming a non-charitable purpose in its own right (CRA 2003). The CRA uses a range of considerations to determine when a business is subordinate. For example, the CRA expects that the first call on any business profits should go to the charity, rather than to growing the business (CRA 2003; Carter & Man 2008).