

The State of Social Entrepreneurship in Spain

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The State of Social Entrepreneurship in Spain

SEFORIS Country Report

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About SEFORIS: Social Enterprise as FORce for more Inclusive and Innovative Societies

SEFORIS is a flagship multi-disciplinary, multi-method international research project on social enterprise funded by the European Commission. Through the generation of robust evidence and internationally leading research, SEFORIS aims to better understand the role that social enterprises play in the EU and beyond in the development and evolutions of inclusive and innovative societies.

SEFORIS will investigate key processes through which social enterprises deliver inclusion and innovation (spanning a range of domains, from organisation and governance, over financing and innovation to behavioural change) as well as the contexts in which social enterprises thrive. In terms of methodology, we will start from policy and social enterprise practitioner questions and challenges together with critically scrutinizing existing academic literature. We use this first step to develop theoretical frameworks that then serve as a basis for thinking systematically about innovation and inclusion processes in context. This is followed by field and lab experimentation with social enterprises and in-depth case studies to expand and enrich our understanding of social enterprises. Unique longitudinal survey data will be collected across 9 distinct countries to test new (and at times counterintuitive) hypotheses to reach novel insights and generalizable conclusions. We engage policy makers and social enterprises throughout the research process to ensure that our research is relevant for them and can inform their practice.

The SEFORIS partnership

SEFORIS is a consortium of 12 organisations from 10 countries including Belgium, China, Germany, Hungary, Portugal, Romania, Russia, Spain, Sweden, and the UK.

Academic partners and research institutes:

KU Leuven (Belgium), Hertie School of Governance (Germany), Autonomous University of Barcelona (UAB, Spain), University of Aveiro (Portugal), Centre for Economic and Financial Research (CEFIR, Russia), Stockholm School of Economics (Sweden), Aston Business School (United Kingdom)

Social entrepreneur support and financing organisations

Oksigen Lab (Belgium), i-propeller (Belgium), Non-Profit Incubator (NPI, China), Nonprofit Enterprise and Self-sustainability Team (NESsT, Hungary & Romania), and The Foundation for Social Entrepreneurs - UnLtd (United Kingdom)

Advisors

Organisation for Economic Co-operation and Development (OECD, France), Harvard Business School (HBS, USA) and the European Venture Philanthropy Association (EVPA, Belgium)

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Executive Summary

The effects of the economic crisis have reshaped the economic and societal landscapes of Spain and for the past 5 years, the Government has adopted several heavy reforms. Over the period 2000 – 2008 Spain's economy was growing fast and significant investments were made in the health, education and social services. The social expenditure increased with almost 6% (20,2% to 26%) and the Spanish government launched several initiatives to support social entrepreneurship or social economy oriented organizations.

The main societal challenges affecting Spain are unemployment and immigration. Consequently, the at-risk-of poverty and social exclusion rates have been increasing.

Some percentages demonstrate the importance of these societal challenges:

- Youth unemployment has reached the highest rates in the European Union (54.6%). Since the crisis, there has been an increase of the number of young people who continue their studies (university or post-secondary education), but the education budget has been reduced and the fees for public universities have risen.
- Long term unemployment is affecting almost 50% of the unemployment population. Due to the lack of qualifications and skills, untrained people, who used to have part-time or seasonal jobs, are having more and more problems rejoining the labor market. Long term unemployment is having a negative effect on social exclusion and poverty risk, as people who have been out of the labor market for more than one year, are no longer benefiting from social aid (unemployment pay or social pay).
- 22% of the Spanish population is at-risk-of-poverty or social exclusion. If it is harder than never for average Spaniard to get a job, the situation is even more difficult for immigrants, disabled, ill or elderly people.

Social innovation and social entrepreneurship have definitely an important complementary role to play in our economy and society in tackling these major societal challenges. Pursuing social goals in an entrepreneurial way, combining societal and economic progress, stimulates a "shared value" economy which contributes positively to society and its challenges.

This Spain SEFORIS country reports highlights below 7 remarkable questions, findings, topics of debate to illustrate the current status of social entrepreneurship.

1. Awareness about social entrepreneurship is rising

Spain was the first European country to adopt a law on Social Economy, identifying three main legal forms for social enterprises to operate. Following the lead of the European Commission, the Spanish government (the national government and individually, the government of each autonomous community), along with institutions and organizations, are developing policies and proposals to change the legislation in order to facilitate social entrepreneurship and innovation. Practitioners and academics are focusing their attention on the understanding and scaling up of this new concept in the Spanish societal and economic landscape.

2. Majority of social enterprise population is not brand new

Historically, worker-owned cooperatives have played an important role in addressing and promoting social needs. Autonomous communities have empowered the solidarity and cooperation spirit. In the recent years, many work integration program-based social enterprises have been emerging. The results of the SELUSI project show that almost 65 % of the Spanish social enterprises included in the study were active for more than 10 years.

3. Large diversity of sectors and activities in which social enterprises are active – as an answer to the societal challenges

Spanish social enterprises span over a diverse area of industry and social services. Nevertheless, a certain trend can be spotted: social enterprises activities revolve around the current societal challenges, in the attempt to lower the levels of unemployment and social exclusion. Work-integration-programs, training/retraining and education programs have been developed to ease the process of work reintegration.

4. Shift taking place towards (even) more market-orientation

Almost 62% of annual revenues on average were generated from selling products or services on the market. Saving banks were one of the most important financial supporters for social enterprise initiatives. Their recent transformation into commercial banks has caused a significant rate of failure among social enterprises. Moreover, in their desire to become independent, social enterprises undertake more market-oriented activities, but still focus on important social matters, such as recycling, ecologic products, retail reuse etc.

5. Struggling to capture “social entrepreneurship” in a definition, differentiating it from pure not-for-profit organizations and CSR

Spain, as many other European countries, is having a hard time to differentiate between social entrepreneurship and pure not-for-profit organizations. The lack of a specific legal form and the diversity of legal entities identified make it harder for academics and practitioners to frame the concept. Important steps have been already made in Spain in the attempt to identify and scale up social actors and their profiles.

6. Employment model & fee for service/product model are by far the two most popular operational models for social enterprises

This confirms that work integration remains a key model in the sector and that plenty of Spanish social enterprises generate their revenues by creating economic activities to employ or train specific target groups.

7. Landscape of financing institutions in movement

BBVA – Momentum Project, LaCaixa – Emprenduría Social Program, Banesto – Entrepreneurship platforms, are the most active financial institutions in movement, promoting and supporting social entrepreneurship and innovations initiatives. Noteworthy initiatives are: StoneSoup Consultancy is a pioneer of the social impact bonds market in Spain and UpSocial through their proposal to create a fund for social R&D in Spain.

1. Key facts and figures on social entrepreneurship

1.1 Definition and common understanding of social enterprise

- For the last four decades, the term of “social economy” (*economía social*) was generally used to refer to income-generated business with social purposes, such as cooperative firms, voluntary organizations, foundations and pure not-for-profit organizations;
- The Spanish government has played an important role in promoting social economy, by creating key-institutions, like the General Directorate for the Promotion of Social Economy and the European Social Fund and by formalizing agreements on social economy with each of the 17 autonomous communities. At the regional level, there have been recorded activities to raise awareness on this topic. For example, in Catalonia, the regional government (Generalitat de Catalunya) represents an active actor in identifying and supporting social entrepreneurs, aiming to scale up the social enterprise activity in this region. Recently, many financial institutions (banks like LaCaixa, BBVA – Momentum Project, Banesto) have developed projects to promote and sustain social entrepreneurship;
- The 2011 Law on Social Economy¹ (No. 5/2011) defines social enterprise as part of social economy and not as a distinctive institutional form. According to this law, social enterprises should be guided by the following principles: (1) primacy of mutual or public benefit (social) statutory goals over generating profits; (2) democratic, transparent and participatory governance; (3) benefits generated from the organization's economic activity principally distributed based on the work performed and services rendered by their members, or based on public benefit (social) goal of the organization, where appropriate; (4) independence from public authorities (i.e. voluntary, private legal entities); (5) commitment to internal and external solidarity, local development, social cohesion, inclusion and sustainability²;
- The Spanish legal framework for social enterprise distinguishes between 3 institutional forms: Social Initiative Cooperatives, Labor Insertion Companies and Public Benefit Organizations. Nevertheless, there are many types of legal entities that act under these three main legal forms;
- Nowadays, the term of “social entrepreneurship” (*emprendimiento social*) is being used by different actors from academics to public institutions or financial institutions. There are an increasing number of studies and projects designed to enrich the understanding of this concept, such as the SELUSI and WILCO FP7 projects.

1.2 Size of social enterprise

- According to the data gathered by CIRIEC International³ (2012), for the project “The Social Economy in the European Union”, there are approx. 200 768 social economy organizations, Spain ranking 3rd in the European Union, with a social entrepreneurship employment share between 2% and 5%.⁴
- According to GEM, in 2009, Spain recorded one of the lowest rates of social entrepreneurship among adult population (0.53%).

¹ This was the first European law on Social Economy.

² European Center for Not-for-Profit Law, September 2012, “Legal Framework for Social Economy and Social Enterprise: a Comparative Report”.

³ International Center of Investigation and Information on Public, Social and Cooperative Economy

⁴ Social economy and social entrepreneurship Social Europe guide | Volume 4

Table 1: Social Entrepreneurship Rates in Spain (GEM report on Social Entrepreneurship)

Spain 2009 - Social Entrepreneurship Prevalence Rates as a Percentage of the Working Population ⁵				
Nascent Social Entrepreneurship	New Social Entrepreneurship	Early-Stage Social Entrepreneurship	Established Social Entrepreneurship	Total Social Entrepreneurship
0.37	0.19	0.55	0.39	0.91

- According to the SELUSI project, the majority of the social enterprises active in Spain are mature organizations and 33% of those function on a small personnel basis, employing less than 10 FTEs.

Table 2: Key data on size of social enterprises (SELUSI Project, N=136)

Key Data		
Organizational age	Number of employees	Revenues
1.48% - less than 1 year 9.55% - between 2 and 4 years 23.52% - between 5 and 10 years 31.61% - between 11 and 20 years 33.82% - more than 20 years ⁶	33% - less than 10 FTE 27% - 10 to 49 FTE 20% - 50 to 250 FTE 20% - more than 250 FTE ⁷	54% above 1 mil € revenues

1.3 Sectors and regions in which social entrepreneurs are active

Industrial sector

According to the data gathered during the SELUSI project, Spanish social enterprises identify their primarily business activities with three main industrial sectors: business activities, health and social work and education services. 94% of the organizations interviewed declared that they have more than one activity. Almost 22% declared having up to 4 main activities.

The “business activity” and “health and social work” sectors are on top for social enterprise activity amongst all the countries included in the SELUSI project (United Kingdom, Sweden, Romania and Hungary).

As we see from the SELUSI data, many social enterprises belonging to the “business activities” sector channel their activities towards social or environmental goals such as: recycling cooking oil, commercializing ecologic products, selection and waste management, gardening and socio-ambient care or legal consulting.

⁵ “Global Entrepreneurship Monitor 2009 Report on Social Entrepreneurship”, accessed on March 21st 2014.

⁶ SELUSI FP7 Project, 2010, “Country report for Spain” (N=136).

⁷ Idem (N=139).

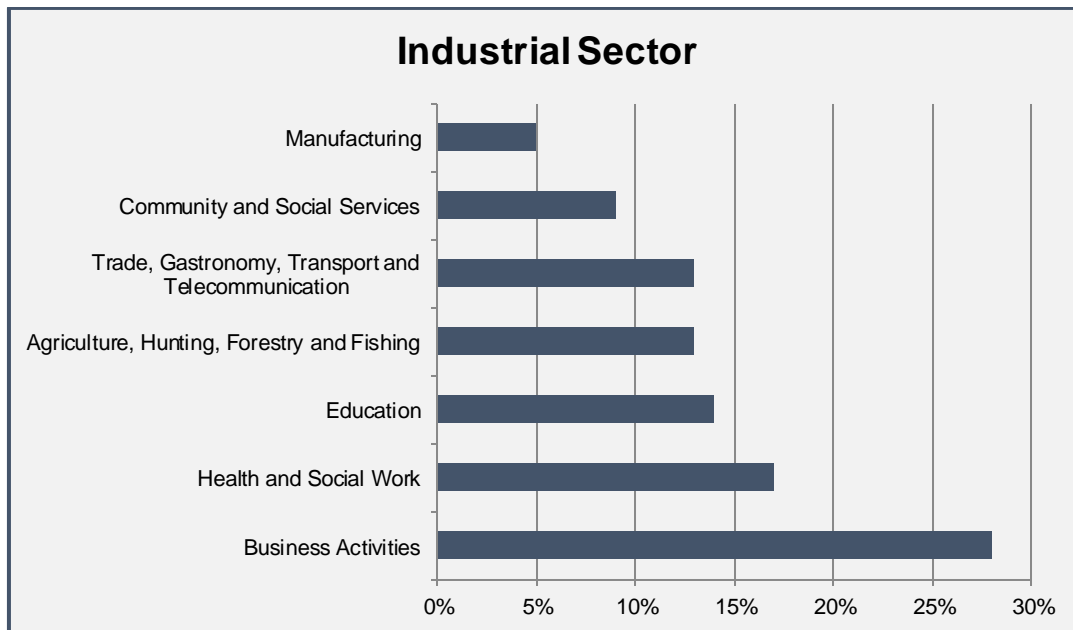


Figure 1: Distribution of industry presence (SELUSI Project, N=78)

Social sector

22% of social enterprises interviewed are active in employment and training sector. The high level of unemployment (especially youth unemployment and long term unemployment) and the large number of immigrants Spain has been facing during the economic crisis have led to an increase of the number of work integration-based organizations.

Before the crisis, Spain was confronting with a high level of school drop-outs (young people who were dropping school to go work in constructions). According to a CCOO⁸ study: the dropout rates have lowered: for 18-year-olds it went down from 25.5% to 15.7% between 2008 and 2012, and for 24-year-olds, it went from 34.3% to 31.2%. Therefore, more and more centers for employment and training have been opening.

Regional level

There are 17 autonomous communities in Spain, each with significant social enterprise active organizations present. Nevertheless, it seems that the most active regions are: Cataluña, Madrid, Andalucía and País Vasco⁹.

⁸ Confederacion Sindinca de Comisiones Obreras.

⁹ According to several articles and checking their level of representations for Momentum Project, Obra Social LaCaixa.

1.4 Recent developments in social entrepreneurship

“ I believe it is very important to be able to exchange experiences, knowledge and wisdom ... it would be great to know how other entities work and be able to learn from them. There is a need for a transnational and European knowledge exchange.”


- SELUSI interview (2010)

- The 2011 law on social economy provided a legal framework for social enterprises to operate and at the same time, recognizing that there are also other institutional forms of choice for social entrepreneurs, apart from cooperatives. Still, a specific regulatory framework for social insertion companies at the national level is needed.
- At the end of 2011, UpSocial, together with a number of organizations and institutions, presented to all representative parliamentary groups a proposal regarding the legislation for social entrepreneurs and for the promotion of innovation. The text included three recommendations:
 - The creation of an institutional form, *Sociedad Limitada de Interés General* (Limited Society of General Interest) as a new juridical form that combines the advantages of a traditional Limited Society regarding access to financing and capital, with the fiscal advantages of entities with social goals.
 - The creation of fiscal incentives for “impact investors”, in order to transform them into a catalyst for social entrepreneurship and social innovation.
 - The creation of a fund destined to finance social R&D in Spain, in areas such as employment, health, education or social inclusion.
- There has been an increasing interest in social entrepreneurship from public authorities, especially at a regional level. Several communities, like Cataluña (“Emprenduria social”) or the Basque Country (“Silicon Valley of Social Innovation”) have developed ongoing projects aiming to identify and connect social entrepreneurs.
- Moreover, academics and researchers have been designing master’s programs and curriculum in order to address the concept of social entrepreneurship and to get a better understanding of its actors and landscape. Some examples:
 - the project “Doing good, doing well”, by IESE
 - the foundation of the Social Innovation Institute, by ESADE
 - the MBA on Social Entrepreneurship, by UOC (Open University of Catalonia).

2. General country context

2.1 Number of inhabitants and size of country

Table 3: Number of inhabitants and size of country

Number of inhabitants	47.129.783 (2013)	
Size of country	504,645 km ²	

2.2 Top 5 societal challenges

“ I believe that social entrepreneurship is the key driving force to end the unemployment issue we are currently facing.(...) Diversity bring innovation in an enterprise, well managed diversity can be a fundamental strategy weapon for enterprises.”

- Javier Benavente, Alares Founsdation

Table 4: Top 5 societal challenges

Labour market: unemployment, youth unemployment
Unemployment represents one of the most difficult challenges Spain has been facing for the last 4 years, reaching peaks of 25.8% of population unemployed and of 54.6% of youth unemployment (2014). The Spanish Government action plan, 2013-2016 Strategy for Youth Employment and Entrepreneurship aims to increase job quality and stability and support entrepreneurship. Another crucial issue for Spain is long-term unemployment (almost half of the unemployment population). Both at EU and Spanish levels, policies are issued, aiming to gradually reintegrate the long-term unemployed by participating in training, retraining, work practice, or other employability measures.
Immigration and work integration issues
Spain reported the third largest number of immigrants in 2011 (457.649), after UK and Germany. Also in 2011, the Spanish government introduced working restrictions for Romanian and Bulgarian citizens (which lasted until 01.01.2014) and changed the labour regulation for seasonal workers, resulting in an increase of the unemployment level and the risk of social exclusion and poverty (27% of population in 2011). The unemployment rate of the foreign population in the fourth quarter of 2012 was of 36.53% while for the Spanish citizens it was 24.23% ¹⁰ .
The transformation of savings banks
Since their creation, Spanish saving banks have played a crucial role in each autonomous community, supporting charitable and social initiatives and fighting against social exclusion from the financial system. Saving banks (<i>cajas de ahorro</i>) have undergone a massive transformation in the past 5 years, most of them disappearing from the financial market and others choosing to merge with bigger, more stable financial entities. Once transformed into commercial banks, they were not able to pursue social goals anymore; therefore, many social enterprises that were financed by savings banks were also closed.

¹⁰ European Commission, 2013. “Country Factsheet: Spain 2012 – European Migration Network”, accessed on March 21st, 2014.

http://extranjeros.empleo.gob.es/es/RedEuropeaMigraciones/Informe_Anual_Políticas_Inmigración_Asilo/country_factsheet_spain_2012_en_400004.pdf

Increasing social gap and poverty

According to the latest FMI report, Spain reaches the biggest increase regarding social gap (Gini coefficient) within the European Union, over the period 2007-2011¹¹. The study shows that the gap tends to grow when reforms on reducing social spending are made. Subsequently, the at-risk-of-poverty rate increases, Spain recording the 3rd place in the EU (22,2%)¹². Moreover, the risk of poverty and social exclusion for older working age people is on the rise in several EU member states.

Community autonomy

There are 17 autonomous communities in Spain, each one with a self-governing body and specific legislation or policies. In the recent years, several conflicts have emerged to the public attention and many protests and manifestations have been organized in Catalonia and the Basque Country to express the desire for these communities to become independent communities.

¹¹ "España sufre el mayor aumento de la brecha social en Europa por la crisis", *El País*, 13th March 2014. Accessed on March 21st, 2014.

http://economia.elpais.com/economia/2014/03/13/actualidad/1394732075_347846.html

¹² "Eurostat, 2013 – People at risk of poverty of social exclusion", accessed on March 21st, 2014.

http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/People_at_risk_of_poverty_or_social_exclusion

2.3 Overview of (social) policy, entrepreneurial and civil society landscape

Table 5: Overview of landscape

(Social) Policy Landscape	Entrepreneurial Landscape ¹³	Civil Society Landscape ¹⁴
<p>SOCIAL EXPENDITURES¹⁵ 24,7% of GDP (2013)</p> <p>POLITICAL STABILITY AND ABSENCE OF VIOLENCE Rank 43 globally (0=lowest; 100=highest)¹⁶</p> <p>Rank 21/23 for Western Europe (13=lowest; 98=highest)¹⁷</p> <p>RULE OF LAW¹⁶ Rank 83 (0=lowest; 100=highest)</p> <p>Rank 17/23 for Western Europe (56=lowest; 100=highest)</p> <p>CONTROL OF CORRUPTION Rank 81 (0=lowest; 100=highest)</p> <p>Rank 16/23 for Western Europe (51=lowest; 100=highest)</p>	<p>HIGH Global Entrepreneurship Monitor (GEM) SCORE</p> <ul style="list-style-type: none"> - International orientation - Fear of failure - Necessity– driven entrepreneurship <p>LOW GEM SCORE</p> <ul style="list-style-type: none"> - Entrepreneurial employee activity - Expectation of at least 5 employees - Perceived capabilities - Belief in high status to successful entrepreneurs - Rate of new business owners - Innovation orientation <p>EASE OF DOING BUSINESS¹⁸ Rank 52 (0=lowest; 183=highest)</p> <p>BUSINESS OPENING Rank 142 (0=lowest; 183=highest)</p>	<p>Third sector</p> <ul style="list-style-type: none"> - Represents less than 1% of GDP - More than 20% of the private funding comes from <i>Cajas de Ahorro</i> or <i>Obra Social</i> programs. - High dependency on public funding (>70%) - Socio-cultural, environmental, education, work integration and well-being organizations

Note: GEM stands for Global Entrepreneurship Monitor. The scores indicate nationwide attitudes, activities and characteristics which have a positive or negative influence on entrepreneurship. The scores for Spain are compared with the mean scores of the *innovation-driven* countries comparison group.

For the case of Spain, we can observe an increasing trend regarding the public social expenditure percentage of GDP over the period 2000-2009. During this period, Spain experienced economic prosperity and invested significantly in health, education and social services. Many worker – owned cooperatives were opened in the health sector and law projects, such as the Dependency Law presented earlier, were implemented. Since 2009, as an effect of the economic crisis, we notice a small decrease (until 2011) followed by a

¹³ “Global Entrepreneurship Monitor 2013 Global Report.” GEM Consortium 2013.

¹⁴ “Het Economische Gewicht van Instellingen Zonder Winstoogmerk in België.” King Baudoin Foundation 2013.

¹⁵ “Social Expenditures - Aggregated Data.” OECD 2013. Accessed March 14, 2014.

<http://stats.oecd.org/Index.aspx?QueryId=4549>

¹⁶ “Worldwide Governance Indicators.” The World Bank Group 2013. Accessed March 14, 2014.

<http://info.worldbank.org/governance/wgi/index.aspx#home>

¹⁷ “Worldwide Governance Indicators - list of Western Europe countries”, accessed on March 21st, 2014.

<http://www.quandl.com/browse/worldbank/worldwide-governance-indicators>.

¹⁸ “Doing Business 2014 – Economy Profile: Spain”, The World Bank, Accessed on 21st of March 2014.

<http://www.doingbusiness.org/data/exploreeconomies/spain/~media/giawb/doing%20business/documents/profiles/country/ESP.pdf>

significant increase, reaching 27,4% of GDP. The last increase reflects also the EU approaches for the promotion of social inclusion and youth employment. The main components for social expenditure: social services (16.9%) and health (6.3%).

At the end of 2013, the Spanish public debt reached an astonishing value of 94,2% of the Spanish GDP. According to the estimates for the State Budget for this year, the value of the public debt will become 99,8% of the GDP. Moreover, the interest to be paid for the debt is valued at 15% of the GDP. The biggest increase in the public debt/GDP ratio was recorded by the local governments (comunidades autonomas), the most indebt regions being: Valencia (32,9% of GDP), Castilla-La Mancha (31, 6% of GDP) and Catalonia (29,9% of GDP). The budgetary deficit foreseen for Spain for 2014 is of 5,9% of GDP, still, there are concerns from the European Commission that Spain will not comply will the measures from the Stability and Development Pact.

3. Social enterprises in (an institutional) context

3.1 Institutional and stakeholder landscape of social enterprises

- **Banks (Cajas)**

Cajas represent an important source of finance and support for social entrepreneurship. Their annual funding programs have become true social enterprise competitions. Moreover, Cajas play an essential role in promoting and connecting social entrepreneurs.

- **Public authorities – policy makers**

Spanish Government and the governments/governing institutions for each autonomous community have a variety of grant-based programmes tailored for social entrepreneurship and social innovation projects. Each community can organize its grant-based programmes in response to the main social issues affecting the community (work integration, shelter for risk-at-poverty population environmental, cultural activities).

- **Third sector: Associations, Foundations and other not-for-profit organizations**

The third sector regroups organizations that rely mostly on public funding. They act as a support network for social entrepreneurs

- **Cooperatives**

They represent an important reference point in the history of Spanish social entrepreneurship. Cooperatives like Mondragón Corporation in Basque Country, Almería Agricultural Cooperative in Andalucía, who are still active, have developed a legacy of experiences for this sector.

- **(Social) Business support organizations/project (Hubs)**

More and more platforms are available for social entrepreneurs in Spain and knowledge sharing is the key component. As social entrepreneurship is still under shaping, support organizations play an important role in identifying new actors and creating contact networks. (e.g. <http://www.2pueblo.com/>, Flexitalent-Madrid, Bilbao, Innovalab-Basque Country, SocialNest, UEIA, Ashoka Spain, Schwab Foundation, Social Innovation Institute - ESADE).

- **Consumers-clients-general public**

Many social enterprises belonging to the “business activities” sector channel their activities towards social or environmental goals such as: recycling cooking oil, commercializing ecologic products, selection and waste management, gardening and socio-ambient care or legal consulting.

- **Academic world**

In the last years, different business schools, research institutions and university have designed bachelor and master courses, trainings, workshops on social entrepreneurship. Some universities are currently offering master's degree programs that focus on social entrepreneurship as an emerging business trend.

- **International connections**

The support offered by international social entrepreneurship actors such as: European Venture Philanthropy Association and Philanthropic Intelligence, Ashoka Foundation or Skoll

foundation plays a crucial role in the development of Spanish social entrepreneurship. Furthermore, European research projects, such as SELUSI and WILCO, or other collaboration projects promote knowledge transfers between European countries.

3.2 Key context dimensions for social entrepreneurs

- **Social enterprise specific legislation**

Apart from the 2011 Law on Social Economy, each autonomous community can elaborate norms and regulation regarding social entrepreneurship. Depending on the number of communities it operates in, a social enterprise can be characterized by a different framework.

- **Cultural norms - Solidarity**

Historically, the cooperative movement has played an important role in addressing social needs and shaping the social economy in Spain.

- **Support**

There is an increasing interest in social entrepreneurship and more and more projects are emerging, still it is crucial for the success of each project that training, collaboration and financial support are available and accessible.

3.3 Linkage between social entrepreneurs and inclusive society

“[When I started, I said to Olot's mayor], hello, I'm Cristóbal Colón, I'm from a mental hospital and I'm with 14 mentally challenged people and we want to start a business...”

- Cristóbal Colón, La Fageda

As we mentioned before, unemployment represents one of the biggest societal challenges for Spain, considering the high rates it has reached in the past years and the subsequent issues it has fuelled. In this context, the number of work integration program – based social enterprises has increased. Moreover, the massive reform that the Dependency Law has undergone, determined the creation of work integration programs targeted for disabled, ill or elderly people. The Fageda Cooperative, a Catalan worker-owned cooperative, is a perfect illustrative case. The company, specialized in the production and distribution of yogurt, is owned by a group of 270 workers, from which 160 are mentally challenged. Since 2010, the cooperative has reinvested more than 400.000€ in improving the therapeutic facilities for the mentally challenged workers. Their finance sources were: the Catalan Government (Generalitat de Catalunya) and the profits made from yogurt sales.

Another example, the Bidesari association and their project focused on the reintegration of the people after prison. Their work starts in the prison, offering training and counseling for inmates. Also, the association offers temporary accommodation and support to ease the reintegration process.

The high rates of education dropouts recorded before the crisis are reflected now by the large number of long term unemployed. The lack of skills and qualifications has affected in a drastic way the labour market. Therefore, many work integration program-based organizations have developed training and education programs, focusing on the key areas that are lacking personnel. Moreover, the Spanish government, through the Employment and Work Occupation Service, offers training courses and internship programs for the unemployed, especially in the service sectors.

4. Organization of social enterprises in market and society

4.1 Legal form of social enterprise

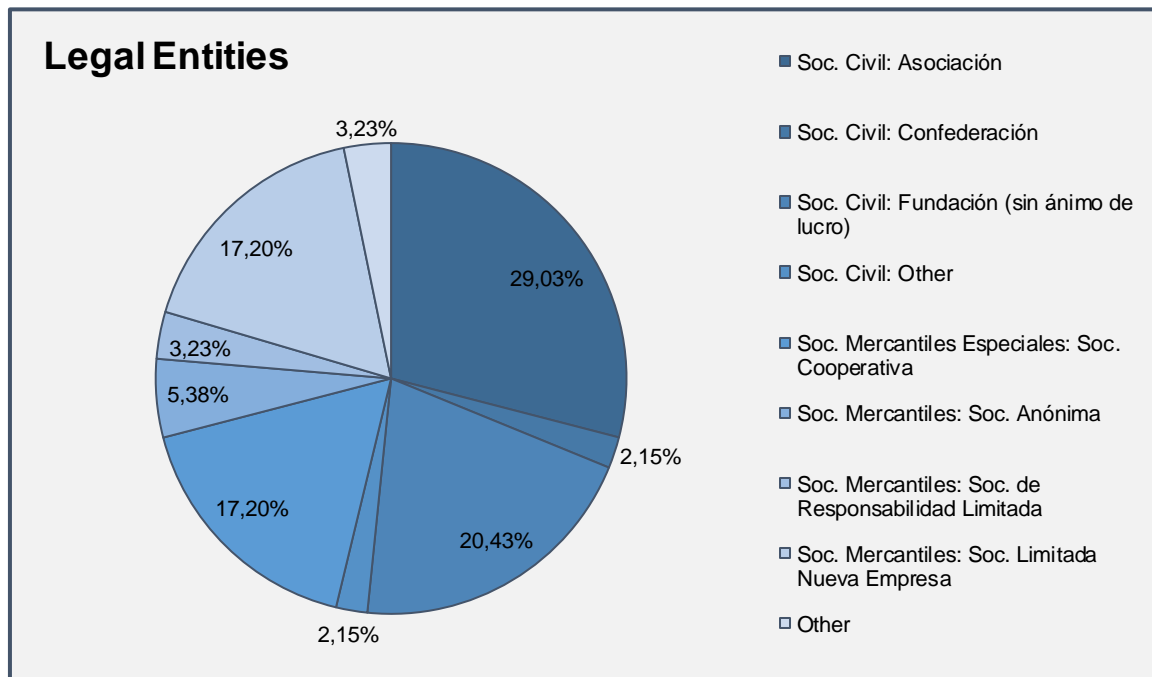


Figure 2: Legal entities (SELUSI Project, N=93), some organizations were actually composed of several legal entities but the above figure shows only the primary legal entity

- The Spanish legislation recognizes three legal forms for social enterprises. Still, in reality, there are many other legal entities for social enterprises to operate under the three main forms. When picturing the Spanish framework, it is important to have always in mind the traditional, dominant role of cooperatives, as many social enterprise organizations emerged from this typology.
- Until recently, as there was no specific legislation for social enterprises, most organizations were identifying themselves either as cooperatives, social integration companies, or not-for-profit companies. With the ongoing modification of the social economy legislation in Spain, it is possible for this graph to contain new or modified legal forms.

4.2 Operational model of social enterprises

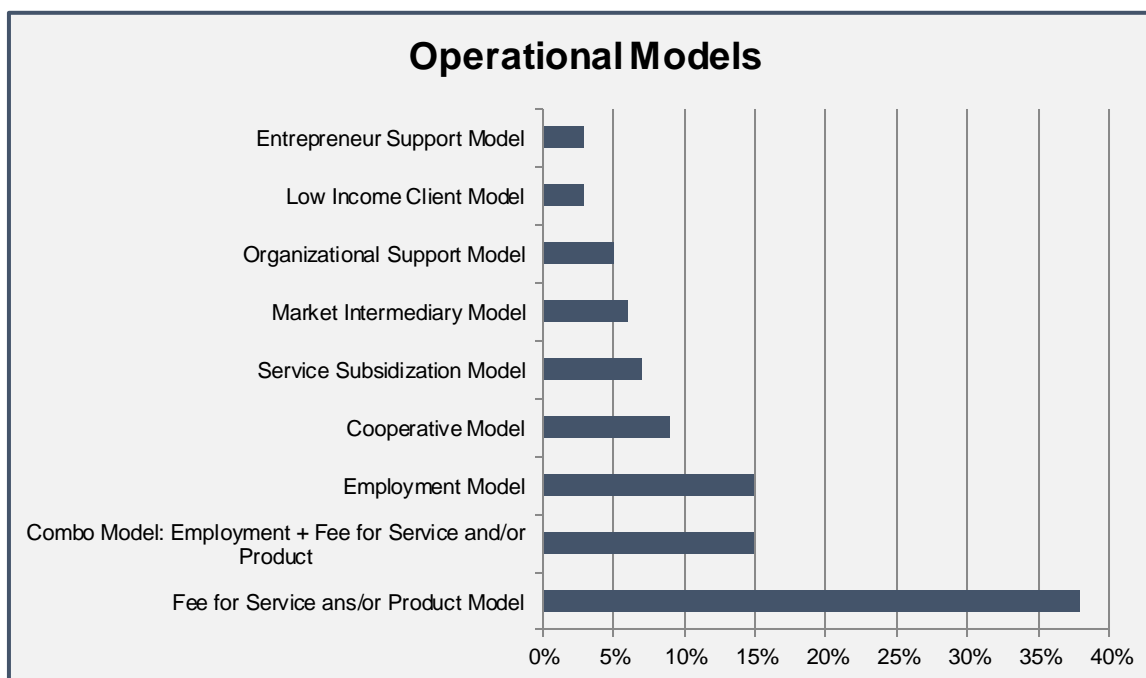


Figure 3 Operational Models (SELUSI Project, N=139). See Annex for explanation of the different models.

According to the SELUSI data, there are three dominant operational models in Spain. The *Fee for service/or product* model account for 38% of the sample, focusing on commercializing social services and/or products and selling them to a targeted group. It comprises social enterprises with activities related to environment, community aid, recycling, education. The second dominant model is the *Employment* model, including organizations that provide work integration programs for targeted populations, such as disabled, homeless, at-risk-of-poverty youth or ex-offenders. The third dominant operational model identified for Spain was the cooperative model, reflecting the traditional role cooperative firms have in shaping the social environment.

4.3 Important values for social entrepreneurs

“Because this sector (social entrepreneurship) is facing many difficulties, the social entrepreneur obtains resources from places others don't imagine and, because of his social goal; he succeeds in involving people who would not get equally involved if it were only business initiatives”.

- Marta Solórzano, Professor at UNED

The graph below shows the results of the SELUSI Spanish sample (including only social ventures with 10 or more FTEs), on four main components of the entrepreneurial orientation: Innovation, Experimentation, Proactiveness and Risk-taking. On average, Spanish social ventures reported that they tend to be relatively innovative and experimenting, as indicated by an average score above the scale mean of 4, but less risk-taking (score below 4).

Furthermore, Spanish social entrepreneurs reported that they typically take a rather proactive stance in the sense that they are typically introducing product, service and process ahead of similar organizations and/or competitors.

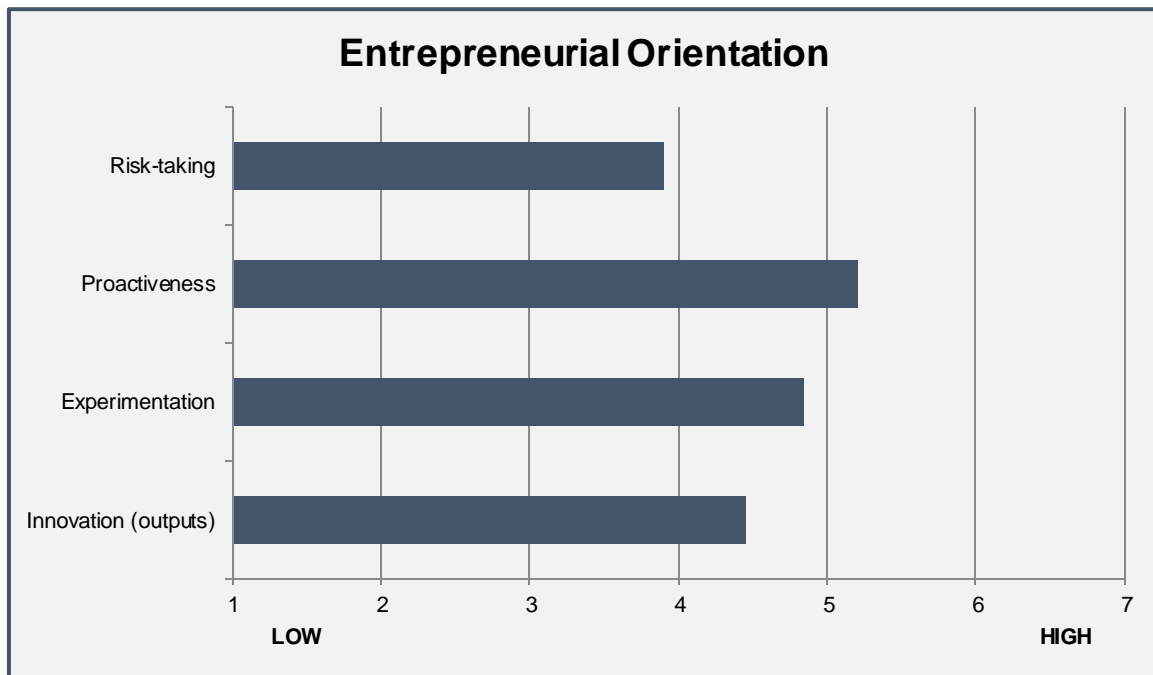


Figure 4 : Breakdown Entrepreneurial Orientation in its Four Components. (SELUSI Project, N=139)

- According to the 2012 GEM report on social entrepreneurship, people aged between 18 and 24 are more likely to engage in social entrepreneurship projects. This trend has been observed in several member states of the European Union.

5. Financing of social enterprises

“A social entrepreneur is not concerned about getting resources, because what motivates him is solving the problem. Whether they finance him or not, he is going to do it anyway.”

- Josep M. Miró, entrepreneur and social innovator

5.1 Sources of revenue and funding for social enterprises

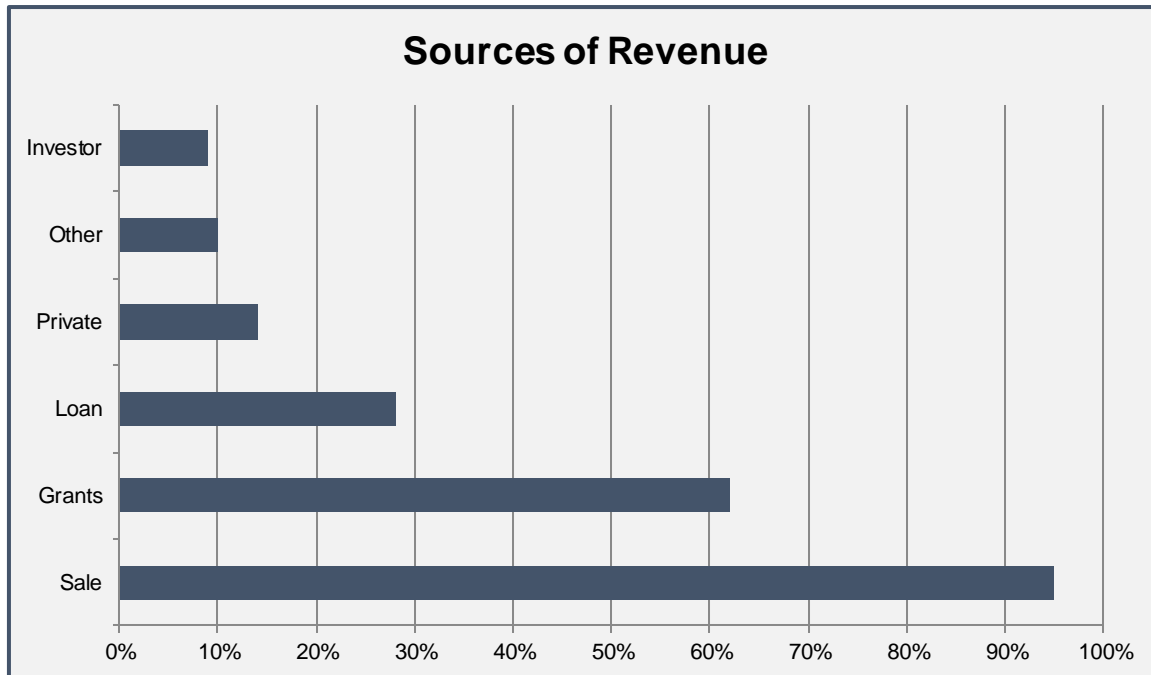


Figure 5: Sources of Liquidity over the Past 12 Months (SELUSI Project, 2011, N=104)

- The graph above represents the main sources of finance for the SELUSI Spanish sample. 15% of the respondents declared that more than 90% of their financing comes from sales of products or services. Participants declared they rely mostly on sales for financing their projects as there is very difficult to raise money during the crisis and they cannot rely on fundraising.
- The concept of “grant” is particularly important in the Spanish social entrepreneurship context as many financial institutions and the local governments use grants to promote and support social enterprise initiatives. The Spanish governments has a special type of grants for delivering social service benefits for socially excluded groups (elderly people, disabled or immigrants), for companies that offer employment for disabled people or offering temporary housing for the homeless. The competition is very high and some grants are exclusively for new projects, rather than existing ones.

5.2 Financial Crisis

Before the crisis, there were many initiatives from the Spanish government to promote and sustain social entrepreneurship. Two examples are noteworthy to mention.

1. The first is the “Dependency Law” (*Ley de Dependencia*), whose main objective was to guarantee public support for disabled, ill or elderly people, i.e. dependent,

subsequently creating employment and promoting health education and training. The cost of the implementation was supposed to be carried out by the autonomous communities, who, in the context of the crisis, could not guarantee it. Since 2006, the law has undergone massive reforms and budget cuts, making it not viable¹⁹.

2. The second example represents the “One-off Payment” (Pago Único) scheme implemented by the Spanish Government to encourage social economy growth. This way, an unemployed person could apply for the full or partial payment of unemployment benefits, and use the payment to create a social economy enterprise or invest in such an enterprise as a partner (in the case of worker owned cooperatives).

As a consequence of the economic recession, the Government was required to cut back on the budgets/projects focusing on social economy.

During the last 6 years, the Spanish banking system has undergone a difficult reform due to the economic crisis and to the crisis of the Spanish saving banks. Ever since their appearance in the XVIIIth century, saving banks (*cajas de ahorro*) have played a crucial role in promoting and funding social, cultural and charitable projects, fighting against social exclusion. They evolved into not-for-profit financial institutions, participating actively in development of social and economic sectors. The constructions boom has led saving banks to overinvest in the real estate sector, approving loans in excess. Also, they were having difficulties raising equity capital. The first approach to restructure the banking system took place in 2009 with the creation of the *Fondo de Reestructuración Ordenada Bancaria* (FROB). FROB had the purpose to provide guarantees to cajas that were likely to default, aiming to improve solvency and cleaning up the balance sheets of entities.²⁰

There were 47 saving banks in 2007. Gradually, the majority of them have disappeared either through mergers with stronger banks, either by transforming into commercial banks, leaving 12 bank entities.

Due to the significant financial aid that saving banks were transferring to social enterprises, the Spanish government was spending a low percentage of GDP on social entrepreneurship. Once these banks were transformed into commercial banks, they were not able to maintain the financing of social enterprises. Many social enterprises were financed by several smaller *cajas*, and when the funding stopped, they were not able to continue their activities and were forced to close.

5.3 (New, dedicated) players

- Fellowships: Ashoka Spain
- Funds: Creas (www.creas.org.es) - pioneers in Spain in the use of social equity [investment instrument](#) ensuring the economic and social impact. They manage two funds, [CREAS Inicia \(Seed capital\)](#) and [CREAS Desarrolla \(Growth capital\)](#), supporting social entrepreneurship and investing in business projects whose priority is creating social and environmental value.
- Prizes: Premio Jóvenes Emprendedores (offered by the European University of Madrid), Premio Emprendimiento Social (for students and alumni of Instituto de Empresa –

¹⁹ “Government cuts to dependency law most barbaric of all measures yet”, *El Pais*, 18th July 2012, accessed on 21st of March 2014. http://elpais.com/elpais/2012/07/18/inenglish/1342622879_143861.html

²⁰ International Monetary Fund, May 2012, “Spain: The Reform of Spanish Savings Banks Technical Notes”.

sponsored by Mutua Madrileña), European Award for Social Entrepreneurship and Disability: Promoting Social Investment (ONCE)

- Obra Social - LaCaixa Bank program for social enterprise funding early steps (seed funding).
- Banesto Bank - offers several platforms for entrepreneurs (e.g. Guadalquivir).
- Networks: RUES – Red Universitaria de Emprendeduría Social – a University project focusing on strategy sharing in order to improve social entrepreneurship practices. The program focuses on research of initiatives, offering support and training for social innovation.
- Associations: Association of Social Entrepreneurs, Spanish Association of Social Entrepreneurship
- UpSocial – a group of social entrepreneurs created to promote and scale up social innovation. Their initiative, *Social Innovation for Communities*, aims to identify successful innovations and implements them in new contexts. Following the lead of the European Commission regarding the promotion of social entrepreneurship and innovation, in November 2011, they presented a proposal to change the current Spanish legislation on social entrepreneurship.
- Momentum Project – represents the initiative of BBVA Bank, together with ESADE Business School and PWC to promote and extend the activity of social entrepreneurs, offering them training and support. The project aims to create an ecosystem of support for all social enterprises. Each edition of Momentum Project lasts one year.
- ENISA Emprendedores Sociales Program – a public enterprise, fostered by the Ministry of Industry, Energy and Tourism and the General Directorate for Industry and SME who finances social innovation programs.
- Emprenduría Social Program – initiative of the Catalan Government (Departament d'Empresa i Ocupació) to bring awareness on social entrepreneurship and innovation. Another purpose of the program is to create a map of the social enterprise actors active in Catalonia.

6. Innovations of social enterprises

6.1 Innovation drivers and barriers

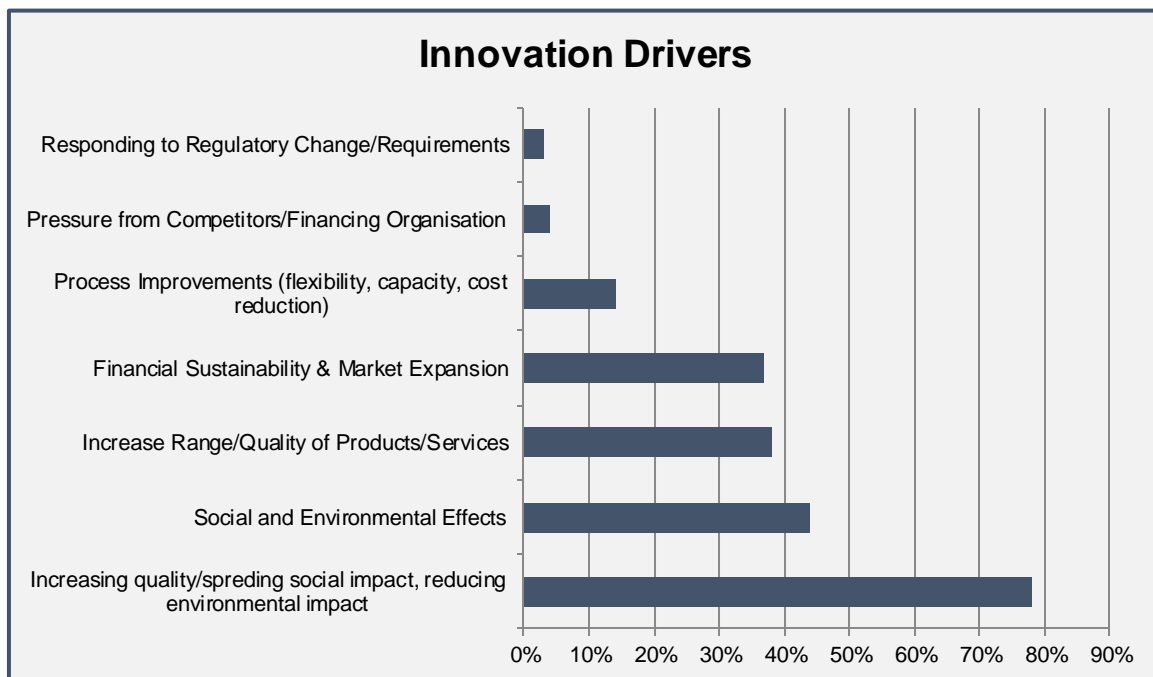


Figure 6: Innovation drivers (SELUSI Project, N=136)

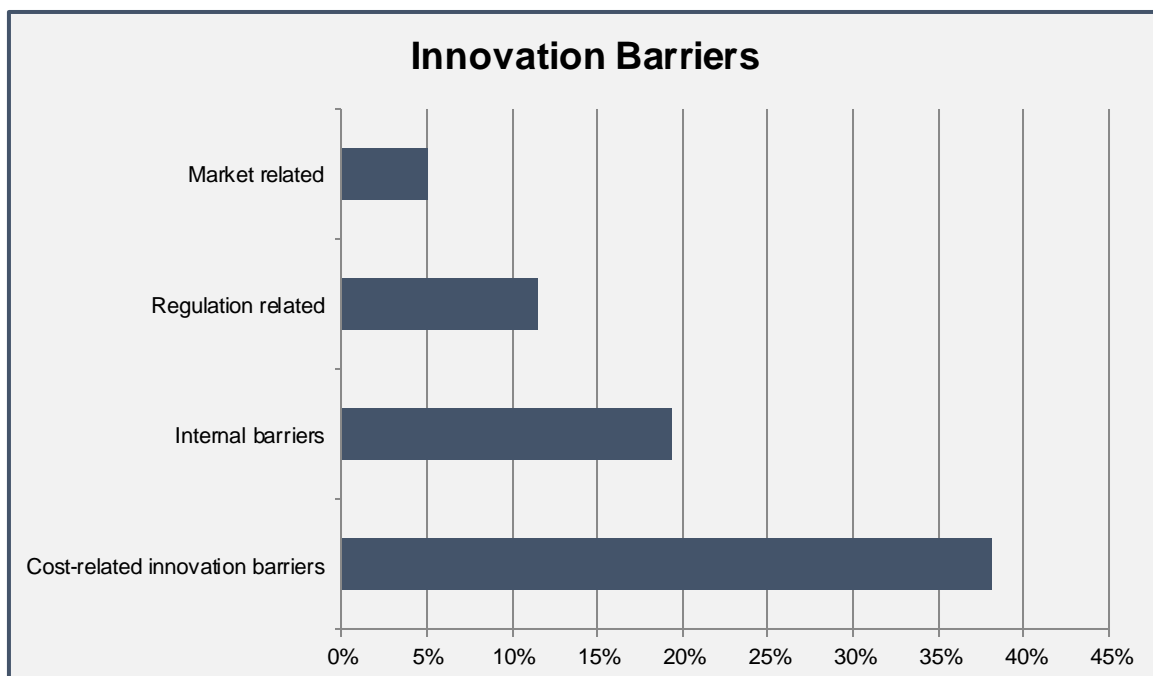


Figure 7: Innovation barriers (SELUSI Project, N=139)

The main driver for innovation activity was to achieve the organization's social goal: for example, to improve the quality of how they deliver social impact and/or increase the spread of social impact by increasing the number of people they reach. Other social entrepreneurs

declared they innovate in order to reduce the negative environmental impact of their organization's activity. Previous studies showed that commercial enterprises's main innovation driver has been to increase the quality and/or range of their products and services (Eurostat, CIS 2006; Parvan, 2009).

The data collected during the SELUSI project showed that cost-related innovation barriers were most frequently mentioned (most like with commercial enterprises), whereas market-related barriers were the least frequently raised (unlike with commercial enterprises).

6.2 Typology of innovations

“ We need to strengthen our capacity to enjoy, surprise, to be humble and simple minded. It is difficult to innovate (socially) when nothing surprises or amuses you, when you think you have seen it all. Innovation, like creativity, is a process that begins outside of us, so we have to learn to see.”

- Manuel Calvillo, Ideas Poderosas

- 91% of Spanish social enterprises reported having introduced at least one new or significantly improved service, product and/or service to their organization in the past year. Moreover, 64% of those ventures had introduced at least one “new-to-the-market” innovation, i.e. a “radical” innovation over the past year.

6.3 Innovation process

The Spanish SELUSI research suggests that Spanish social enterprises widely prefer to follow the recommendations of internal advisors (board, other owners) or funding agencies (financing bodies) when it comes to innovate.

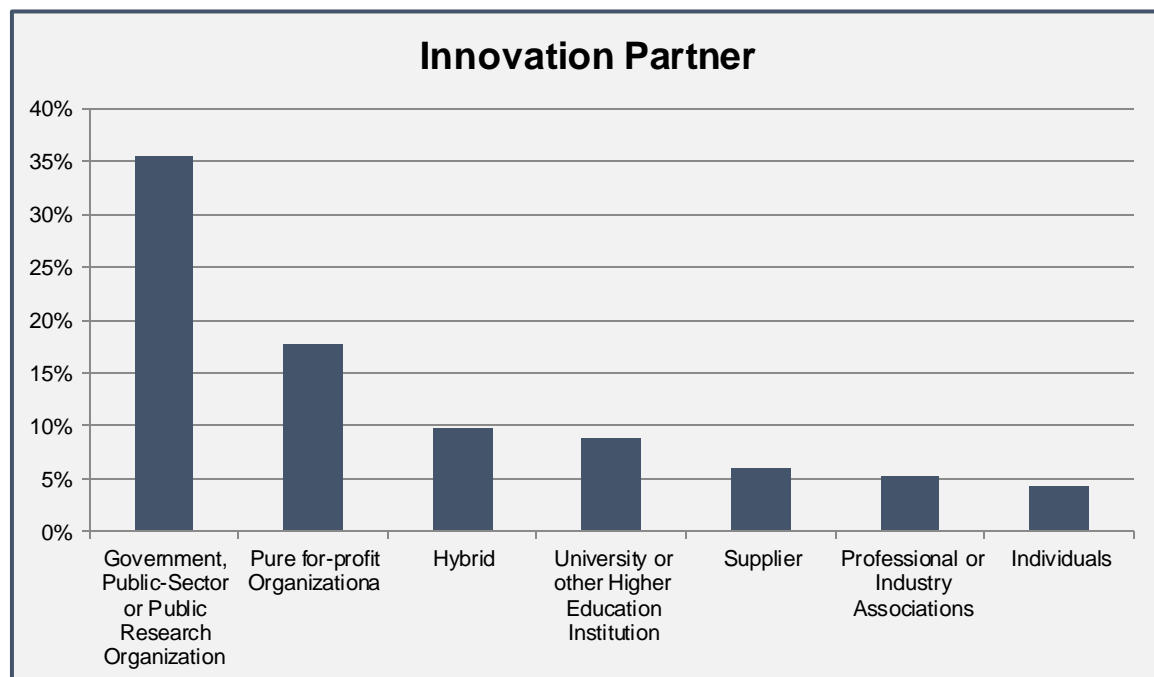


Figure 8: Innovation partner (SELUSI Project, N=118)

7. Impact of social enterprises

7.1 Impact measurement: does this take place?

- Almost 54% of the social enterprises interviewed reported that they have at least one indicator to track their social impact.
- As we can see from the graph below, the main social performance indicator mentioned was employment, i.e. number of beneficiaries employed and number of beneficiaries placed in external jobs. This illustrates once more the high representation of social enterprises targeted on social inclusion and work integration, in Spain.

7.2 Impact results and dimensions

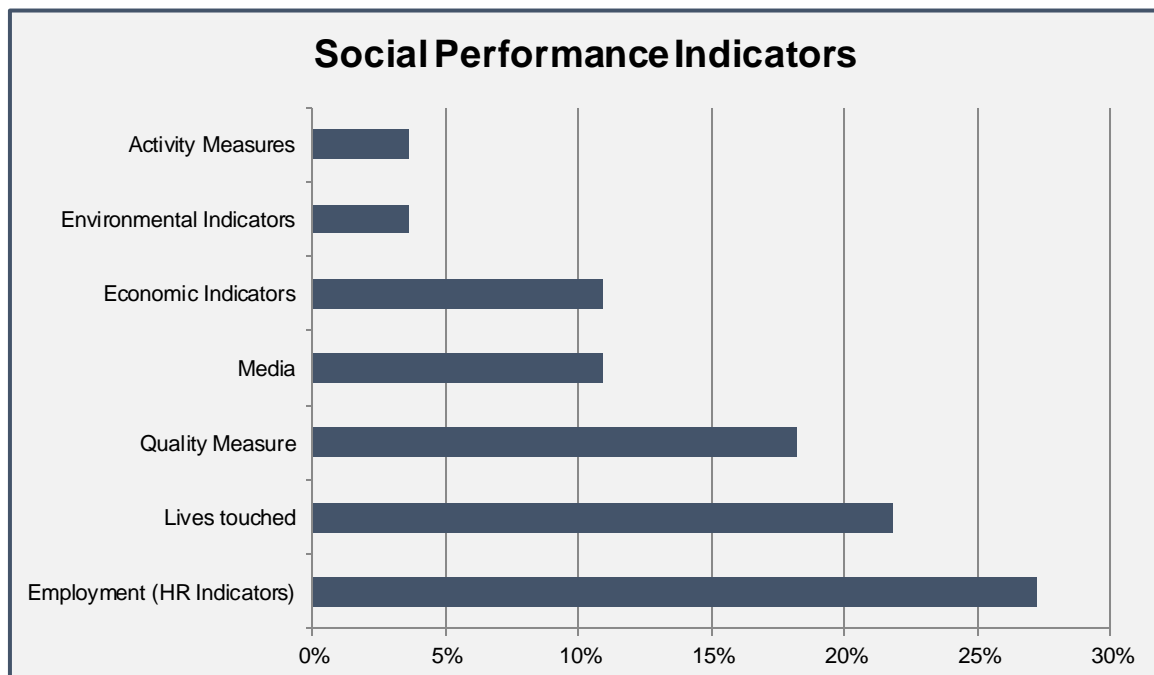


Figure 9: Overview of the relative weight of different social impact metrics (SELUSI Project, N=55). See Annex for explanation of the Main Social Performance Indicators.

7.3 Trends and developments related to social impact

Nowadays, there are many funding programs from banks like LaCaixa, BBVA, Banesto targeted to social enterprises. The programs are initiated on an annual base and a limited number of social enterprises are included, after a rigorous evaluation. Therefore, the level of competition is rising among social enterprises.

A trend can be noticed, reflected by the emerging initiatives to support social investment and support for social entrepreneurs. These changes are illustrated by examples like StoneSoup Consultancy, who offer tailored consultancy services to social institution and social initiatives and UpSocial, who direct their advocacy work to promote changes in the legal, economic frameworks, in order to facilitate entrepreneurship and social innovation. StoneSoup Consultancy, Philanthropic Intelligence and The Spanish Association of Foundations have reported early stage work on Social Impact Bonds development.

8. Overview of studies

- SELUSI Research Consortium. 2010. "Social Entrepreneurs as Lead Users for Service Innovation."
<http://www.selusi.eu> (14/03/2014)
- "Legal Framework for Social Economy and Social Enterprise: a Comparative Report."
European Center for Not-for-Profit Law. September 2012.
- "Estudio sobre el presente y futuro del Tercer Sector social en un entorno de crisis."
ESADE, PWC & LaCaixa. 2013.

9. Annex 1: Operational models explained

Operational models describe how social enterprises align social and economic value creation²¹.

1. Employment model

The organisation provides employment opportunities and job training to its target population or people with high barriers to employment.

2. Cooperative model

The organisation provides direct benefits to its target population or clients through member services: market information, technical assistance, collective bargaining power, economies of bulk purchase, access to products and services, etc.

3. Market intermediary model

The organization provides services to its target population or clients, usually small producers to help them access markets.

4. Entrepreneur support model

Similar to the market intermediary model, the organisation sells business support and/or financial services to its target population or clients, which are self-employed individuals or firms. Its mission centers on facilitating the financial security of its clients by supporting their entrepreneurial activities.

5. Fee for service and/or product model

The organisation commercialises its social services and/or products, and sells them directly to the target population or clients, individuals, firms, communities, or to a third party player.

6. Low-income client model

The low-income client model is a variation of the fee for service and/or product model. The organisation designs and sells services specifically to low-income clients.

7. Service subsidisation model

The organisation sells products or services to an external market and uses the income it generates to fund its social programmes. Social and business activities may only align weakly.

8. Organisational support model

The organisational support model is similar to service subsidisation model, but the business activities are separate from the social programmes through different legal entities.

²¹ Based on **Alter, Sutia K.** 2006. "Social enterprise models and their mission and money relationships." In *Social Entrepreneurship: New Models of Sustainable Social Change*, edited by A Nicholls, 205–232. Oxford: Oxford University Press.

10. Annex 2: Main social performance indicators

1. Lives Touched

- Number of beneficiaries and/or clients served/attended
- Number of volunteers
- Number of member organizations
- Number of people empowered
- Other lives touched

2. Employment

- Number of beneficiaries employed
- Number of beneficiaries placed in external jobs
- Other employment indicator

3. Economic indicators

- Productivity
- Sales
- Revenues
- Profitability/surpluses
- Other economic indicator

4. Environmental indicators

- Amount recycled
- Carbon footprint
- Other environmental indicators

5. Activity measure

- Number of projects, services and/or products provided to clients/beneficiaries
- Number of new projects, services and/or products provided to clients/beneficiaries
- Other activity measure

6. Quality measure

- Success of projects, initiatives, etc
- Client and beneficiary satisfaction
- Quality of participation or involvement of beneficiaries and/or volunteers
- Other quality measures

7. Social audits (SROI etc.)

8. Media

- No. of website visits
- No. of appearances in the media
- Other media indicators

9. No. of public policy changes that we have influenced

10. No. of other organizations replicating our model

11. Other



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