

Economy & Transport, Third Sector meeting

The foundational economy and social businesses in Wales

Social businesses are an important part of the foundational economy but while the foundational economy and social businesses in Wales share many characteristics there are also some significant differences. The purpose of this paper is to demonstrate the close relationship between social businesses and the foundational economy policy agenda as well as to highlight the differences so that the interests of the social business sector are not overlooked in this evolving policy area.

Scope of the foundational economy and social business sector

The foundational economy includes activities that provide the essential goods and services for everyday life. Social enterprises often have different organisational and legal structures. The term social enterprise refers to a wide range of potential organisational models including co-operatives, mutual and social firms as well as legal models such as industrial and provident societies, community interest companies and companies limited by guarantee.

Our recent mapping survey of the social enterprise sector in Wales showed that many operate in foundational sectors. Social businesses operate across a broad range of sectors including the arts, entertainment, recreation, health and care, education, community centres, social spaces and youth club services. Many of these are an important part of the foundational economy within Welsh communities. But social enterprises are not restricted to foundational sectors providing daily essentials. For example, within Wales, social enterprises can be found making luxury toiletries and beers as well as running graphic design studios and media production companies.

Grounded businesses

Foundational economy businesses are grounded in local communities and decision making rooted firmly in our communities. This is a key characteristic that foundational businesses share with social enterprise. Social enterprises are anchored in their communities. For example, our recent mapping survey found that improving a particular community remains the primary objective for social businesses in Wales. Social enterprises can also be key employers in their local area. The most recent survey of the sector found that 57% of respondents' workforce live within 10 miles of the business.¹ Investment in them stays in the community and is recycled for wider economic and social benefits.

¹ Mapping the Social Business Sector in Wales 2019, <https://wales.coop/sbw-mapping-report-2019/>

Compared to mainstream businesses in the foundational economy, social businesses deliver added social value. Like mainstream foundational businesses they aim to make a profit but they reinvest or donate profits to create positive social change. Unlike mainstream foundational businesses, Social enterprises have a clear social and/or environmental mission set out in their governing documents. By selling goods and services, social businesses create employment and reinvest their profits back into their business or the local community. This allows them to tackle social problems, improve people's life chances, provide training and employment opportunities for those furthest from the market, support communities and help the environment.

Social businesses are also multi stakeholder businesses that are democratically controlled by their members. They include worker co-operatives and employee owned businesses which increase employee engagement and result in surpluses being shared more evenly.

There are also indicators to suggest that the social business sector is a fair work sector. For example, around a quarter of all businesses invest their profits in their social objectives and more than three-quarters pay the Living Wage to all their staff, compared to 48% of Welsh SMEs.² The majority of social enterprises (86%) report that, to at least some extent, their staff are actively involved in decision-making. The majority of social enterprises (86%) report that, to at least some extent, their staff are actively involved in decision-making.³

While social enterprises face many of the same challenges as any mainstream, foundational business, they also face particular challenges too. They have different drivers and need to balance environment, and social objectives with economic ones. They can find access to finance more difficult because of their ownership structures. They are multi stakeholder businesses with staff, community and member involvement, which requires a different approach to running a business. For these reasons they need specialist business advice and support and bespoke funding systems. These businesses need to be supported in ways which are sympathetic to the means of delivery and the social impact.

Questions for discussion

- What policy levers and interventions are being looked at to support the Foundational Economy that will benefit social businesses?
- What proportion of applications to the Welsh Government's Foundational Economy Challenge Fund involved social businesses?

² Mapping the Social Business Sector in Wales 2019, <https://wales.coop/sbw-mapping-report-2019/>

³ Capitalism in Crisis? Transforming our economy for people and planet, <https://www.socialenterprise.org.uk/wp-content/uploads/2019/10/Capitalism-in-Crisis-State-of-Social-Enterprise-Report-2019-1.pdf>

- Social businesses are an important part of the foundational economy but to fully realise their potential contribution need specific and specialist support and advice. Can the Minister provide an update on plans for business support arrangements post Structural Funds?