

Market Failure, Peak Oil and Global Insecurity: Can social enterprise respond?

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Vancouver, 10 April 2008

Sustainable Communities Act 2007 (England and Wales)

- Private members bill introduced by Local Works campaign backed by 85 NGOs
- Aim: to promote sustainability of local communities, based on idea that 'local people know what is best' and the 'well being powers' of local authorities (Local Government Act, 2000)
- Project ideas proposed by communities and selected by the Local Government Association – final decision on projects, central Government
- Linked with Local Spending reports and local area agreements – participative budgets

Sustainability and Well-Being

- 1. Well-being focus of SCA:** to encourage economic, social and environmental well-being of local area.
- 2. Local Spending reports:** to be introduced providing information to citizens about public expenditure in local areas.
- 3. Duty to Involve:** Act to lead to 'sustainable community strategies informed through local consultation.

Sustainability – Proxy Indicators

SCA schedule: local authorities must regard

- (i) Provision of local services
- (ii) Local jobs & production growth (30 mile area)
- (iii) Growth of local & organic food sector
- (iv) Green energy – 50 mile regional radius
- (v) Greenhouse gas reduction measures
- (vi) Reduction measures for road traffic
- (vii) Measures of local democracy growth
- (viii) Measures to increase mutual aid and health

Global Crisis – Pervasive Insecurity of Essentials

- Food
- Fuel
- Water
- Shelter
- Health Services
- Employment
- Banking
- Pensions

Fatal Design Faults

‘Men are forever creating such organisations for their own convenience and forever finding themselves the victims of their home-made monsters.’

Aldous Huxley

Defective Property Rights – Exponential Rates of Inequality

- (i) 1% of US households own 20% of GDP, 35% of assets (\$17 trillion), 51% of stock and 70% of bonds.
- (ii) 50% of low and moderate income US households own 2.5% of assets. Real wages less than 1980 for 100 million workers.
Transfer rate of £1 trillion a year to the top 1%.
- (iii) 500 American billionaires own more wealth than half the earth's population.

Ends and Means Dysfunction

'Money is everywhere conceived as purpose and the countless things that are real ends in themselves are thereby degraded to mere means.'

Georg Simmel, The Philosophy of Money

Monetisation and Industrial Serfdom – Cultural Destruction

‘The necessary matrix of the accumulation of economic value, the very character of a successful modern society is the principled devolution of traditional cultures.’

Example: 1939 - 96% of food grown locally

Ivan Illich, *Shadow Work* (1981)

Comprehensive Monetisation

Social and Economic Diversity	Economic Formula
1. Vernacular cultures	C-C
2. Gothic (Just Price)	c-m-c
3. Industrial society	M-C-M
4. Global economy	M-M

Substantivism – Cultural Economic Theory

Karl Polanyi's theory:

- (i) *The Great Transformation (1944)* –
Liquidation of Organic Society
- (ii) Critique of free market economics
- (iii) Homo economicus – contrived through
enclosure of the commons
- (iv) Social reciprocity: repressed
undercurrent but the norm in vernacular
cultures

European Social Economy – Past and Present

First wave: early guild period (1100 to 1350)

Second wave: Pre-modern period of Co-ops and Mutuels (1825 to 1925)

Third wave: Globalisation period (1975 onwards.....)

Social Change Groupings

- **Social Economy:** mutuals, co-ops and associations
- **Solidarity Economy:** social justice, fairtrade and new trade union movement
- **Ecological Economy:** green decentralists, permaculture, local trade & organic

Decline of Mutuality in the UK

1908	2008
43,000 friendly societies	180,000 charities
2800 building societies	60 building societies
1400 local co-operative societies	40 co-operative societies

Death of Local Economies

Most marked in rural parishes of England:

- 91% have no bank branch
- 83% have no local health centre or doctor
- 75% have no local public transport
- 70% have no general store
- 43% have no Post Office

Tesco v. The Co-op

Retail market share - the Co-op: 29% (1929)

Retail market share – Tesco: 29% (2008)

Social Reconstruction Agenda

'Communism forgets that life is individual. Capitalism forgets that life is social, and the Kingdom of Brotherhood is found neither in the thesis of Communism nor the antithesis of Capitalism, but in a higher synthesis. It is found in a higher synthesis that combines the truths of both.'

Dr. Martin Luther King Jr. (1967)

Where do we go from here: Chaos or Community?

Middle Pathway between Charity and Commerce

Mutuality Bridge

Charity	Social Enterprise	Co-op Enterprise	Small Business
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Enterprise Hierarchies

Private Business	Social Enterprise
2450 on the stock exchange (0.07%)	
12,000 plus PLCs (0.3%)	1300 housing associations
3.67m small businesses (under 100 jobs)	5000 small social enterprises
3.5m micro-businesses (under 5 jobs – 94%)	600,000 plus micro-social ventures
2.4 million sole traders (67%)	

Routes into Social Enterprise

1. Bootstrap community enterprises
2. Public service contractors (care services, health services, job training, etc)
3. Trading arms of charities
4. Employee and community buy-outs
5. Fair Trade and Local Trade Links
6. Community development finance
7. Community Land Trusts and workspace

Social Enterprise – Barriers to Growth: nef research findings

- (i) Social enterprise and charity – grant dependency syndrome
- (ii) Social financing arts and traditions lost
- (iii) Third sector competition adverse and solidarity weak: little inter-trading or market nous
- (iv) Inappropriate legal structures and lack of knowledge of equity and seed capital
- (v) Management, marketing and skill gaps
- (vi) Social dividend: lack of social booking measures (need for proxy indicators for GVA)

Social Enterprise: The 5Ms

Vital ingredients for success:

- Moral motivation
- Market intelligence (is there a gap in the market and a margin in the gap)
- Management
- Monies (alchemy of revenue, seed capital, equity and debt)
- Mouth (to attract members, sales and social investors)

Socially Directed Investment

Social investment: forgotten history

- Usury laws, Just Price, Islamic banking, Co-op principle on limited return on equity. Credit unions.
- Keynes: defined public investment as social investment
- SRI movement today, micro-credit and community development finance

Social Enterprise: Legal Structure is Critical to Growth

- 1. Company limited by Guarantee or Community interest company:**
 - 90% use these structures
 - Inexpensive and quick to set up
 - Impossible or difficult to raise equity
- 2. Industrial and Provident Society (BenCom or Coop)**
 - 10% use this form
 - More expensive to register
 - Unique ability to raise low cost, member equity

Self-help and Mutual Aid Matrix For Member Stakeholders

Input from stakeholder members	Output for stakeholder members
Shared Responsibility	Shared Rights
Shared Risk	Shared Rewards

Industrial & Provident Society (IPS): Original Co-op Law (1852)

Withdrawable Share Capital

- Simple form of member share capital
- Notice period for withdrawal (set by the prospectus – should be renewed yearly)
- Maximum investment is £20,000 for individual or corporate members
- Unlimited limit on investment of an IPS in other IPS companies
- Enterprise Investment Scheme Tax Relief

ViRSA – Village Retail Services Association

1. Developed successful **social enterprise rescue model** for village shops, pubs and Post Offices
2. Industrial and Provident Society model
 - Member shares of £5 to £50
 - Interest-free or low interest bonds for community buyout
 - Other finance from community loan funds

Case Study: The Phone Co-op

1. Established as a worker co-op in 1997 as a company limited by guarantee
2. Converted to an IPS consumer co-op in 1999 and raised £53,000 in withdrawable share capital
3. Equity injection leveraged turnover from £166,000 to over £500,000 in 2000
4. Dividend payments to members of up to 4%

Case Study: Ethical Property Company – a PLC prospectus

1. Established in 1998 to provide good quality workspace for social enterprises
2. EPC provide facilities for social change agent in buildings with high environmental standards
3. Ethical share issue in 1999 as PLC raised £1.4 million with £88K at risk in compliance costs
4. Capital provided equity for five new workspaces from 1200 to 18,000 square feet

Support Models – USA and UK

1. Nonprofit Financial Fund (USA)

- Comprehensive Capitalisation Programme for social enterprises
- Invested over \$160 million and leverage over \$1 billion

2. Charity Bank (UK)

- Diverse portfolio of investment services
- Venturesome – linked risk capital fund

Social Co-operatives: Italian Partnership Model

1. Social co-operative law in 1991
 - Type A: provide health, social or educational services
 - Type B: integrates disadvantaged people into the labour market
2. Social co-operatives are democratically controlled by staff, users and volunteers
3. Trading surplus: up to 80% can be shared with members

Italian Social Co-operatives

- Value Added Tax lower (4% v. 20%)
- Corporation Tax lower
- Type B employees exempt from national insurance contributions (paid by the State)
- Tax relief for investors: both gift-aid providers and 'solidarity bond' lenders

Social Co-operative Consortia

1. **Secondary co-operative** – over 70 in Italy
2. **Example: SIS in Milan**
 - 60 social co-op members
 - 1200 employees
 - 10,000 plus service users
3. **SIS consortium services**
 - Payroll, accountancy and training support
 - Joint marketing and joint tendering
 - Loan and contract guarantees
 - Rescue and intervention services

Mutual Aid Fund - London

1. **Innovation by London Rebuilding Society** – social enterprise finance provider
2. **Mutual Aid Fund** – Solidarity Fund for micro-social enterprises
 - Services include: advice, training, legal guidance and peer support facilitated by LRS
 - Loans borrowed so far by 10 Apex groups – mainly African immigrant associations (1500 members) - £350,000 plus in loans
 - Loans based on a multiple of 4:1 shares in the MAF

Community Land Trusts

Mutual system for democratic, community ownership of land for a diversity of local needs including:

- (i) affordable housing to rent or to buy
- (ii) affordable workspace and retail units
- (iii) providing community facilities
- (iv) managing allotments/farms, co-housing projects, conservation areas, community woodlands, windfarms, micro-hydro and CHP

CLTs – Past and Present

- Reverses enclosure, first proposed by Thomas Spence (1775) as 'Parish Land Trusts'
- Developed by Robert Owen, Chartists and John Ruskin 1830 to 1890
- Letchworth Garden City (1903) 'Co-op Land Society' – Ebenezer Howard
- Gandhi, Bhave and Gramdan movement
- US civil rights movement – Bob Swann
- Isle of Eigg buy-out and Scottish Land Reform Act 2003

Community Land Trust Movement

- Young movement – most development in the past ten years
- First CLT in USA in 1968 - but most projects since 1990 (200 CLTs in 40 American states)
- Scotland: active developments in rural areas with support from Scottish Parliament (20 CLTs)
- England and Wales: first projects being set up now, mostly rural

Four steps to affordability

1. Gifted or heavily discounted land
2. Gifted and discounted professional services (eg. involve as Board members)
3. Cost-effective, energy efficient design and economical construction techniques
4. Reducing the need for bank borrowing and minimising interest payments

CLT Target Housing Costs

- 3 bedroom house: £120,000 (£220,000)
- 2 bedroom house: £100,000 (£168,000)
- 1 bedroom flat: £70,000 (£100,000)

Mutual Homeownership (MHOS)

- Housing Co-op owns the dwellings
- Separate CLT company owns the land
- New members make a 5% deposit
- Mortgage is corporate
- Full repairing lease based on 30% to 37% of household income
- Lease payments convert to equity stakes
- Co-op pays members leaving their equity less 10%

Gloucestershire Land for People

- Piloting the first MHOS project in Stroud
- Cashes Green, former hospital site
- Participatory planning with 200 local residents
- Development of 77 Eco-Homes: 50 MHOS and 27 open market to cross-subsidise
- Community centre and health centre
- 25 allotments and nature area
- £8.8 million mortgage – CDS Co-operatives

Social Enterprise Innovation

1. **Co-production enterprises:** co-partnership models which worked in the past
2. **Co-operative Land Banks:** large CLTs for new towns on mutual land
3. **Inter-trading networks** and local trade fairs
4. **Mutual for self-employed people**
5. **Secondary market for shares**
6. **Cigales (French social enterprise investment clubs)**

Missing Ingredient – Mutual Development Banking

‘The trouble with banks is they only lend you money when you don’t want it!’

Groucho Marx

‘In future the question will not be, “Are people credit-worthy?”, but rather, “Are banks people-worthy?”

Muhammed Yunus, Grameen Bank