

Growth Areas in the UK Social Economy

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Summary

The 'social economy' encompasses a wide range of initiatives that embrace a dual social and economic function. The first survey of practitioners and opinion leaders in this field indicates that at present:

- ➊ two issues, care and the environment, are the key growth sectors for the social economy;
- ➋ a 'care economy' includes new opportunities for childcare, care for the elderly, home-based services and will benefit from recently introduced government tax credits;
- ➌ an 'ecological economy' is emerging that focuses on new patterns of consumption, including recycling and energy efficiency, rather than end-of-pipe treatment that has dominated the environmental services industry to date;
- ➍ an important need in these emerging markets is patient and appropriate capital; social investors could play a key potential role here; new social investment savings vehicles will continue to emerge;
- ➎ social investment targeted towards the UK social economy ('community finance') is estimated by the New Economics Foundation to have an asset value of £268 million;
- ➏ six other growth areas for the social economy are: micro-finance, ethical retailing, social housing, contracted out public services, agriculture, new technology including internet services;

Methodology

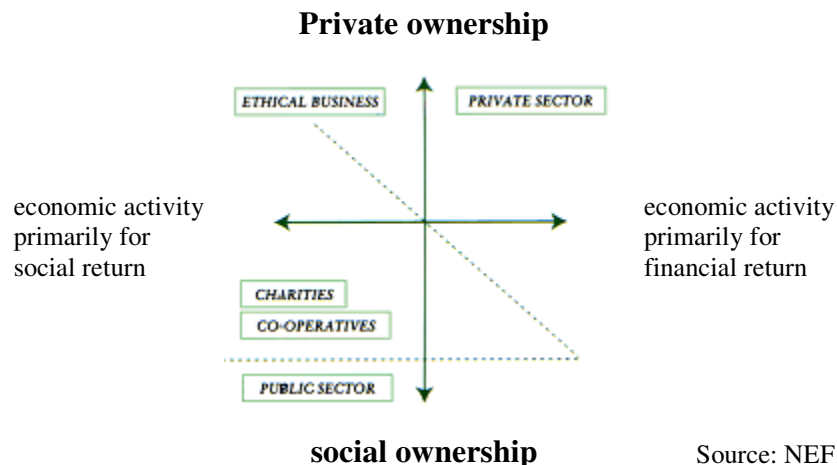
A qualitative survey of twenty eight opinion leaders and key practitioners in the social economy was commissioned by the UK Social Investment Forum with funding from the Network for Social Change. Data was collected in telephone interviews, using two schedules, one for key informants and social investment organisations and a second sector-specific questionnaire. This briefing draws on this survey as well as background work by a specialist working group of the UK Social Investment Forum.

What is the social economy?

The social economy is a term typically seen as a relatively recent arrival to the UK. Samuel Smiles in fact used the concept in the last century to describe Victorian brands of self-help and mutual aid. The use of the term in continental Europe encompasses, most typically, co-operatives, mutuels and voluntary organisations.

However, this description has been seen by some as overly focused on an institutional form. Many of the most energetic areas of social action in the economy of recent years in the UK, including, for example, ethical business and charity trading, do not necessarily fit well within this framework. Chart 1 sets out some of the typical parameters of a definition of the social economy.

Chart 1: Ways of thinking about the Social Economy



The question of whether there are common characteristics which social economy organisations share is not a casual one. If, in practice, we are talking about a completely diverse grouping of initiatives, there seems little point in seeking to understand or support them as a group. On the other hand, if there are some basic similarities, then the likelihood of effective public policy, finance or simple joint action, to support common needs is enhanced.

Recent experience within the UK would suggest that there are three overlapping ways of understanding the social economy (see Chart 2). These suggest that there is purpose and benefit to the term as a shorthand way of certain types of economic activity, but that this should not obscure the more detailed understanding of the sector required for effective intervention.

Chart 2: Definitions of the Social Economy

The Three 'I's

IDENTITY - covering those for whom there is a convergence of interest and sense of identity as a social economy sector distinct from other sectors of the economy

INSTITUTIONS - covering the three main institutional categories of co-operatives, mutuals and voluntary associations

INTENTION - covering economic activities pursued with a social or ethical intention

Source: NEF

Growth Sectors

Eight growth sectors were identified in the UK social economy. A 'care economy' includes new opportunities for childcare, care for the elderly, home-based services and will benefit from recently introduced government tax credits.

An 'ecological economy' is emerging that focuses on new patterns of consumption, including recycling and energy efficiency, rather than end-of-pipe treatment that has dominated the environmental services industry to date.

Chart 3: Growth sectors

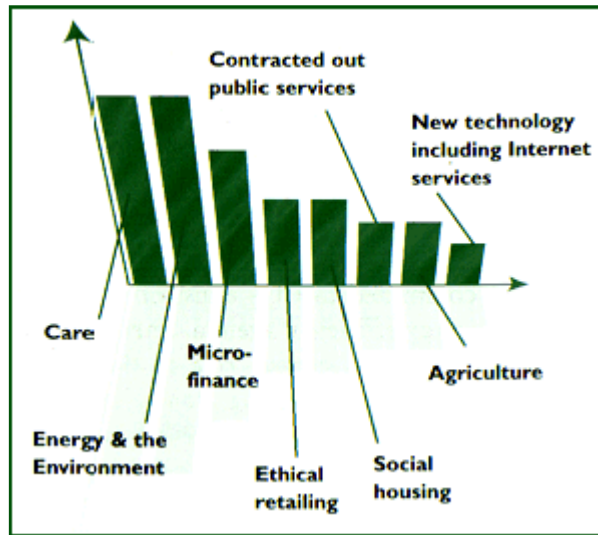


Chart 4: Change Factors

	Government policy	Demand/Social need	Social movements	Market change	Effective models
Care	●	●			
Energy & Environment	●	●	●		
Microfinance		●	●		●
Ethical retailing			●	●	
Social housing	●	●	●		
Contracted out public services	●				
Agriculture	●		●		●
New technology				●	

The factors driving the process of change

Government policy was felt to be a leading factor behind change in the social economy, despite the social economy not being explicitly recognised in government policy. The reform of the welfare state was specifically mentioned as important.

General social movements and public concern followed this as a driver, along with demographic change. Credit unions, for example in the field of microfinance, have developed in particular out of the early efforts of immigrant communities from the Caribbean and Ireland. Fair trade has grown in the context of an active development movement and particularly through church networks.

Better developed social economy institutions e.g. development trusts, were also seen as important. There is a model there that works.

Finance Trends

These growth areas are where there is currently a finance gap needing social investors, either as offering below market return investment (particularly where innovation and development are required), where areas and / or organisations are at an early stage of development or where the market is not proven.

"You simply have to recognise that the return required for equity investment is not achievable in the social economy, by and large. Some businesses don't deliver (financial) returns, but 'wash their own face,' and it is these that need below market capital to deliver social returns." - Survey respondent.

There was an overall feeling that conventional lenders will move into areas of the social economy as they grow and the market is proven. Much will depend on the knowledge and commitment of the staff in conventional lenders on the ground. At the same time, new social investment savings vehicles will continue to emerge.

Conventional finance organisations will lend to the sector in five years but only if growth continues. They will include mainstream banks, individually by developing specialist units, or in co-operation with social investment specialists. In some specialist sectors, it remains to be seen if a substantive market exists over this time-frame.

Individuals will continue to underlie social investment in this sector. The large banks in particular have the potential, untapped to date, to mobilise enormous numbers of customers as social investors. At the same time, recession will shake out some of the social economy businesses and lenders.

Social investment targeted towards the UK social economy through credit unions and community loan funds ('community finance') has been estimated in 1998 by the New Economics Foundation to have an asset value of £268 million.

However, mainstream ethical investment funds are not yet active in financing social economy activity. Some of the reasons for this appear to be:

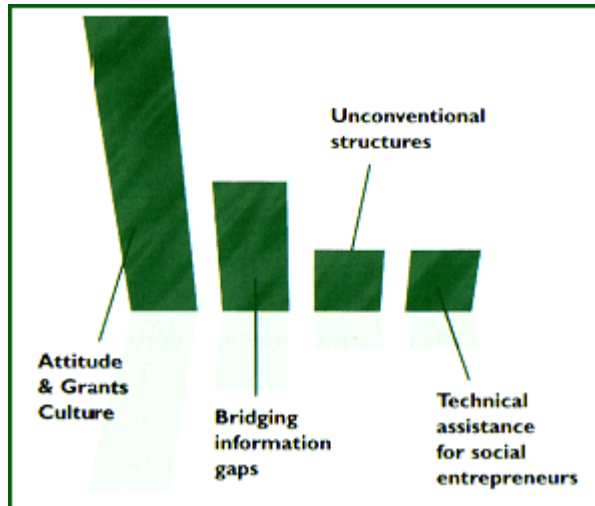
- **information:** like other financial institutions, barriers to doing business are not necessarily the issue of financial return but the issue of information, whether the institution is willing and able to get to know new markets.

- **legal restrictions:** for example limitations on the direction of funds into non-quoted companies. There are, for example currently few quoted companies dedicated to sustainable energy.
- **financial returns:** the rate of return on social economy ventures varies widely.
- **risk:** there are clear elements of risk in emerging new markets.

Further barriers to investment arise from attitudes and skills in the social economy itself and in shortfalls in assistance to the sector compared with for-profit business.

Not all social investment is below market capital rates and respondents stressed the need to conserve scarce and limited low return social investment capital. More specialisation by social investment organisations was predicted. Lending to people on low incomes was seen as a market gap, with some evidence of the withdrawal of financial services from low income consumers.

Chart 5: Four Barriers to investment



Opportunity Sectors

Chart 6 identifies sectors that had not yet emerged as growth sectors, but which were felt to be areas of opportunity.

Chart 6: Opportunity Sectors

- ✓ Producer responsibility industries driven by legislation e.g. product and packaging recycling.
- ✓ Residents / community service companies.
- ✓ Car sharing and community transport.
- ✓ Employee share ownership companies.
- ✓ Leisure and sustainable tourism
- ✓ Pink pound
- ✓ Social firms
- ✓ Overseas aid provision

Growth Sectors: Key facts

Growth Sectors: Key facts on Care

- ✓ There are 400,000 people in the childcare industry, in one form or another, and some ten million pensioners.
- ✓ Over six million people are estimated to provide care for relatives, close family and friends.
- ✓ Large mutuals provide the majority of the non-state healthcare to 11% of the population.
- ✓ Inhibitors are availability and affordability of childcare services and the size of capital needed to set up facilities.
- ✓ Much of the childcare sector is in the informal economy.
- ✓ Currently 90% of childcare is financed by parents (the new tax credit proposed by government will change this and employers will play an increasing role).
- ✓ Low cost loans could play an important part in establishing childcare facilities. Areas for finance would include buildings, equipment and working capital.

Growth Sectors: Key facts on Energy and the Environment

- ✓ The state has supported NFFO (Non-Fossil Fuel Obligation), a price related initiative to stimulate renewable energies. Wind is one of the most developed along with landfill gas followed by wood coppicing and other biomass. As yet, there is no support for solar or wave power.
- ✓ Sustainable energy also promises to remain high on the public policy agenda, as all political parties are committed to CO2 emission reductions and an energy efficiency agenda. Energy conservation may play a central role in the government's Welfare to Work programme, inspired by the example of community initiatives such as the WISE group.
- ✓ Local authorities are now in a position to take an enabling role in relation to energy conservation, following the introduction of the Home Energy Conservation Act (HECA). Starting first in England, the Act requires local authorities to survey its local housing stock and develop a strategy to reduce carbon emissions over time.
- ✓ The local authority in Leeds has developed a comprehensive strategy for energy efficiency in the city. This costs £775 million per annum, of which there is at present a 50% shortfall.
- ✓ Private companies are involved in the field of sustainable energy both as financiers and developers, but also as users of energy. For example, the energy offset purchasing scheme is a voluntary initiative taken up by companies such as Body Shop which is designed to compensate for carbon emissions.

Key facts on Micro-finance

- ✓ Two hundred thousand people now benefit from the services of 585 credit unions in England, Scotland and Wales. 152 credit unions serve a further two hundred thousand members in Northern Ireland which has seen the fastest growth of credit unions.
- ✓ Community finance initiatives attempt to tackle this financial services gap. There are four models: credit unions, community loan funds, micro-finance and mutual guarantee schemes.
- ✓ These have a total asset value of around £268 million. The number of initiatives has grown fourfold over the last five years.
- ✓ There are now nine community loans funds providing community finance in the UK of £17 million and helping to lever in sums many times this level.
- ✓ Over the last four years, eight mutual guarantee societies have developed in the UK.

Key facts on Ethical Retailing

- ✓ The retail plus mail order fair trade sector has a turnover of some £20-£25 million per annum.
- ✓ Wholesalers to the wholefood market turn over around £40-£50 million per annum.
- ✓ Mainstream retailers are shifting into the ethical arena. The Ethical Trading Initiative aims to produce a number of practical and cost-effective tools for eventual use to improve working conditions and human rights in relation to production trade and investment. It has the support of

Key facts on Social Housing

- ✓ A large growth is predicted in social housing.
- ✓ Estimates are that four million new homes will be needed by 2020; 40% of these will be "social".
- ✓ Over £13 billion of private sector finance has been invested in social housing since 1988.

Opportunity Sectors: Key facts

- ✓ Opportunities in the field of Social Firms are trading activities run by, or using the labour of, people with disabilities. Economic activities by social economy organisations in this sector have traditionally been seen as having a therapeutic function. However, the income generating possibilities of products and services supplied by groups of people with disabilities is becoming more widely recognised.

Conclusion

Long-term care and environmental sustainability are arguably the two of the most central challenges facing the UK economy and society. While relatively marginal in terms of turnover, the social economy appears able to innovate, to develop viable markets and to create new work in these areas. It therefore acts as a 'pilot light' for a 21st century economy.

June 1998

People interviewed

Richard Adams, Steve Bendle, Philippa Birtwell, Roger Brocklehurst, Jonathon Brown, Pat Conaty, Mike Daligan, Stuart Field, Mike Franks, Martin Hockly, Patrick Green, John Jopling, Lucy Lloyd, Malcolm Lynch, Mark Mansley, Ed Mayo, Ian McNeil, Susanna McCorie, Angela Monaghan, Paul Monaghan, Graham Pinfield, Perri 6, Andrew Robinson, Glen Saunders, Alan Sinclair, Stephen Withers.

Authors

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Further Information

Social Economy, bulletin, [Malcolm Lynch Solicitors](#) £20 subscription.

Short Circuit by Richard Douthwaite (£16.50) and Community Works! (£3.00) including p&p from [New Economics Foundation](#)

Credit Where It's Due, video on social investment and the social economy, from July 1998, £11 include p&p from [New Economics Foundation](#).