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THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE
AND THE COMMITTEE OF THE REGIONS**

Social Business Initiative

**Creating a favourable climate for social enterprises, key stakeholders in the social
economy and innovation**

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1. WHY IS THE COMMISSION TAKING THIS INITIATIVE?

The single market needs new, inclusive growth, focused on employment for all, underpinning the growing desire of Europeans for their work, consumption, savings and investments to be more closely attuned to and aligned with 'ethical' and 'social' principles.

In order to promote a 'highly competitive social market economy', the Commission has placed the social economy and social innovation at the heart of its concerns, in terms of both territorial cohesion and the search for new solutions to societal problems, in particular the fight against poverty and exclusion, under the Europe 2020 strategy,¹ the flagship initiative 'The Innovation Union',² the European Platform against Poverty and Social Exclusion³ and the 'Single Market Act'⁴ (SMA).

The public consultation for the SMA⁵ revealed high levels of interest in the capacity of social enterprises and the social economy in general to provide innovative responses to the current economic, social and, in some cases, environmental challenges by developing sustainable, largely non-exportable jobs, social inclusion, improvement of local social services, territorial cohesion, etc.

A social enterprise is an operator in the social economy whose main objective is to have a social impact rather than make a profit for their owners or shareholders. It operates by providing goods and services for the market in an entrepreneurial and innovative fashion and uses its profits primarily to achieve social objectives. It is managed in an open and responsible manner and, in particular, involve employees, consumers and stakeholders affected by its commercial activities⁶.

The Commission uses the term 'social enterprise' to cover the following types of business:⁷

- those for which the social or societal objective of the common good is the reason for the commercial activity, often in the form of a high level of social innovation,
- those where profits are mainly reinvested with a view to achieving this social objective,
- and where the method of organisation or ownership system reflects their mission,

¹ Europe 2020 – A strategy for smart, sustainable and inclusive growth, COM(2010) 2020.

² Communication on the Innovation Union COM(2010) 546 final, 6 October 2010.

³ Communication on the 'European Platform against Poverty and Social Exclusion: a European framework for social and territorial cohesion', COM(2010) 758 final of 16 December 2010.

⁴ 'SMA – Twelve levers to boost growth and strengthen confidence', COM(2011) 206 final of 13 April 2011.

⁵ http://ec.europa.eu/internal_market/smact/consultations/2011/debate/index_en.htm.

⁶ For the purposes of this Communication, the terms 'social business' and 'social enterprise' are equivalent.

⁷ Under the rules of the Treaty on the functioning of the European Union and the case-law of the Court of Justice of the European Union.

using democratic or participatory principles or focusing on social justice.⁸

Thus:

- businesses providing social services and/or goods and services to vulnerable persons (access to housing, health care, assistance for elderly or disabled persons, inclusion of vulnerable groups, child care, access to employment and training, dependency management, etc.); and/or
- businesses with a method of production of goods or services with a social objective (social and professional integration via access to employment for people disadvantaged in particular by insufficient qualifications or social or professional problems leading to exclusion and marginalisation) but whose activity may be outside the realm of the provision of social goods or services.

The social economy employs over 11 million people in the EU, accounting for 6 % of total employment.⁹ It covers bodies with a specific legal status (cooperatives, foundations, associations, mutual societies), many of which are also social enterprises in terms of the characteristics referred to above, as well as social enterprises in the form of an ordinary private or public limited company. The specific legal statuses of the social economy are particularly suited to social enterprises as their method of governance favours participation and openness.

A 2009 study¹⁰ assessed the share of the population involved in social entrepreneurship¹¹ as 4.1% in Belgium, 7.5 % in Finland, 3.1 % in France, 3.3 % in Italy, 5.4 % in Slovenia and 5.7 % in the United Kingdom. Approximately one in four businesses founded in Europe would therefore be a social enterprise. This figure rises to one in three in Belgium, Finland and France.¹² These companies are often more productive and competitive than one might think. This is due to the very high level of personal commitment on the part of their employees and the better working conditions that they provide.¹³

Social enterprises contribute to smart growth by responding with social innovation to needs that have not yet been met; they create sustainable growth by taking into account their environmental impact and by their long-term vision; they are at the heart of inclusive growth due to their emphasis on people and social cohesion. In other words,

⁸ For example, with a reduced range of pay.

⁹ CIRIEC 'The Social economy in the European Union', page 48.

¹⁰ Terjesen, S., Lepoutre, J. , Justo, R. and Bosma, N. 2011. Global Entrepreneurship Monitor Report on Social Entrepreneurship.
http://www.gemconsortium.org/about.aspx?page=pub_gem_special_topic_reports

¹¹ Defined here as 'an activity with a social, environmental or general interest objective. This can include provision of services or training to socially disadvantaged or disabled persons, the use of profits for social purposes, organisation of mutual assistance groups for action in the general interest', etc., *ibid.*, p. 44.

¹² Terjesen, S., Lepoutre, J. , Justo, R. and Bosma, N. 2011. Global Entrepreneurship Monitor Report on Social Entrepreneurship.
http://www.gemconsortium.org/about.aspx?page=pub_gem_special_topic_reports

¹³ For example, in France, absence due to sickness is significantly less than in companies in general: 5.5% as opposed to 22%, '*Absence from work for health reasons in the social economy*', Chorum, April 2011, <http://www.cides.chorum.fr>.

their key aim is to effect social and economic transformation which contributes to the objectives of the Europe 2020 Strategy. This Communication is part of the promotion and development of social innovation initiated by President Barroso in 2009.¹⁴

The various characteristics of social enterprises mean that, for the most part, they exhibit an especially high level of social and environmental responsibility. The social business initiative supplements the Communication of the Commission on Corporate Social Responsibility (CSR) adopted on the same day,¹⁵ and will also help them to assert their social added value.

Some examples of European social businesses:

In Italy, a medical centre provides high-level specialised assistance, including cultural mediation, particularly in areas poorly served by public services, with a particular emphasis on people in fragile socio-economic situations (such as immigrants).

In Romania, a company with 5 members of staff and 5 volunteers has been working since 1996 to provide cultural services in the Romanian language to blind people by adapting media (especially audio books and adapted films) for an estimated 90 000 people.

In France, a business launched an innovative concept of water-free car washing services in 2004 using biodegradable products and employing unqualified or marginalised staff in order to reintegrate them in the labour market.

In Hungary, a foundation set up a restaurant employing disabled staff (40 employees) and provided training and childcare to ensure the transition to stable employment.

In the Netherlands, a company teaches reading using innovative digital tools and a method based on play. This method is particularly suitable for hyperactive or autistic children but can also be used for illiterate people and immigrants.

In Poland, a social cooperative comprising two associations employs long-term unemployed and disabled staff and provides a variety of services: catering and food services, small construction and handicraft jobs and employability training for disadvantaged people.

In its approach to this varied sector, the Commission does not seek to provide a standard definition which would apply to everyone and lead to a regulatory straitjacket.

It offers a description based on principles shared by the majority of the Member States, while respecting their diversity of political, economic and social choices and the capacity for innovation of social entrepreneurs.

This is why the Commission will only adopt a more specific definition, as required, if regulatory measures or incentives require the scope of application to be precisely set out, with the representatives of the sector being closely involved in the process.

¹⁴ Empowering people, driving change: Social innovation in the European Union, Bureau of Policy Advisers (BEPA), European Commission, July 2010, pages 11 and 109.

¹⁵ COM(2011) 681 final

The Commission seeks to support the development of social enterprises and to learn from their experiences in support of the whole of the economy. In this Communication, the Commission is pursuing two aims:

- To introduce a short-term action plan to support the development of social enterprises, key stakeholders in the social economy and social innovation.
- To prompt a debate on the avenues to be explored in the medium/long term.

2. SOCIAL BUSINESSES: PARTICIPANTS WHO COULD DERIVE A GREATER BENEFIT FROM THE SINGLE MARKET

The growth and distribution potential of the social enterprise model in the internal market has still not been explored in full and is coming up against obstacles identified by several reports,¹⁶ the most recent being the BEPA report¹⁷ in mid-2010.

Most often, they face the same challenges as any SME and therefore can benefit from the initiatives of the *Small Business Act* for Europe.¹⁸ However, they also face their own particular problems.

Social enterprises should be able to benefit from the advantages of the internal market just as much as other businesses. This applies, of course, to large enterprises which may be able to expand at continental level or even only across the borders of their country, but small social enterprises, which mainly have their roots solely in local activities, are also directly affected by the rules of the internal market on bank regulation, access to structural funds or public procurement.

Above all, social enterprises have difficulty finding **funding**, for which their needs vary according to their level of development (conceptual support, development of pilot projects or prototypes, large-scale development). Constraints concerning redistribution of profits or employment of vulnerable workers often give the impression to creditors or potential investors that they are higher-risk and less profitable than other businesses. More so than other businesses, social enterprises are confronted with the imperfections in the financial markets (fragmentation, absence of pan-European platforms for lending, etc.). Investors therefore do not have a clear enough idea of the real social impact of some solidarity investment funds. Access to public funds is frequently impeded by systems that are too rigid or too bureaucratic. For example, social enterprises may find it difficult to obtain access to structural funds if the managing authorities finance only short-term projects. The large number of different programmes at both national and European level makes them difficult to access for small organisations.

This phenomenon is reinforced by the **low degree of recognition** of social entrepreneurship. The lack of interconnection between stakeholders from different regions or countries prevents dissemination of best practices, creation of partnerships and

¹⁶ Study on Practices and Policies in the Social Enterprise Sector in Europe, Austrian Institute for SME Research and TSE Entre, Turku School of Economics, Finland Vienna, June 2007, a report compiled for the European Commission.

¹⁷ Empowering people, driving change: Social innovation in the European Union, Bureau of Policy Advisers (BEPA), European Commission, July 2010.

¹⁸ Re-examination of the 'Small Business Act' for Europe, COM(2011)78 final.

discovery of new opportunities. In European education systems, social entrepreneurship is still under-promoted, although its integration into initial and ongoing training is a prerequisite for reinforcing its credibility. An increasing number of young graduates opt to work in social enterprises, but traditional businesses do not value their experience because they are unfamiliar with the sector. This phenomenon is accentuated by the range of definitions in Europe which explains the variety of available data. Social entrepreneurship is often not defined and, if it is, it does not mean exactly the same thing from one country to another. The data are often old, piecemeal and unharmonised, making it difficult to adapt and coordinate public policies.

For this reason, it is hardly surprising that the **regulatory environment** at European and national level does not always take sufficient account of the specific characteristics of social enterprises in particular with regard to the rules on public procurement or existing statutes. This complicates mobilisation of investors and access to grants or public contracts and sometimes forces them to use complex legal arrangements. Social enterprises which are not associations are thus sometimes unable to take advantage of the facilities offered by local authorities to associations.

3. AN ACTION PLAN TO SUPPORT SOCIAL ENTREPRENEURSHIP IN EUROPE

In order to meet these challenges, the European Union and international organisations are already developing horizontal policies in the context of the social economy and targeted programmes to support social enterprises and social innovation. A Commission staff working paper, published at the same time as this Communication, contains a summary of all the existing measures as well as some experiences in other countries which might inspire the European Union.

In addition, to enable social enterprises to use their full potential, the Commission proposes an action plan in general support of social innovation to help create a favourable climate, in close partnership with stakeholders in the sector and the Member States.

The Commission therefore proposes eleven key actions to be launched before the end of 2012.

3.1. Improving access to funding

3.1.1. Facilitating access to private funding

The Commission considers that the funding system for social enterprises is underdeveloped in relation to that used by other businesses.

Increasing numbers of investors are seeking to combine social or environmental results with their legitimate concern of obtaining a financial return on the investment, while pursuing long-term objectives in the general interest.

In addition to socially responsible investment, which is the subject of proposals in the Communication on the Responsible Business Initiative,¹⁹ a European instrument

¹⁹ COM(2011) 681 final

supporting funding of social enterprises would provide an impetus to private and public sector stakeholders to invest more in these enterprises, via a stake in the capital or loans.

A regulatory framework designed to create such investment vehicles at European level might be desirable.

Furthermore, the Commission welcomes the action of the European Investment Fund²⁰ in exploring the possibility of setting up an equity window (ESIEF²¹) dedicated to investment in funds with the objective of generating a social impact. This pilot action could pave the way for the new European financial instrument proposed by the Commission on 6 October 2011 (Key action No 3).

For many social enterprises, start-up and development is dependent on access to credit. However, as they are not well-known or are deemed more risky, they have more difficulty than SMEs in finding the necessary funding.

The Commission also notes that the two regulatory pillars of the 2007 Communication on the micro-credit initiative²² (improvement of the legal and institutional environment and creation of a favourable climate for entrepreneurship) have not been sufficiently developed at national level.

Key action No 1.

- As set out in the SMA, **to propose a European regulatory framework for social investment funds before the end of 2011 to facilitate access to the financial markets for social enterprises**, taking into account the public consultation carried out and the impact assessment. The objective will be to stimulate creation of dedicated funds, enabling them to be active across the whole of the single market.

Key action No 2.

- In addition to continuing to ease access to micro-credits through the **Progress Microfinance Facility** and developing this instrument by strengthening institutional capacities under the European Union Programme for Social Change and Social Innovation for 2014-2020²³, **to improve analysis, promotion and development of the legal and institutional environment for micro-credits.**

3.1.2. Mobilisation of EU funds

Practical experience of structural funds should be summarised, assessed and discussed with the national management authorities in order to encourage Member States to develop wider and more effective support for social enterprises in the next programming period. In addition, the Commission will take specific action to fund social enterprises.

²⁰ European Investment Bank Group.

²¹ European Social Investment and Entrepreneurship Fund (ESIEF), which would invest in 10 to 15 vehicles across the Member States.

²² European initiative for the development of micro-credit in support of growth and employment, COM(2007) 708.

²³ COM (2011) 609 final of 6.10.2011.

Key action No 3.

- **The Commission has proposed that a 90-million euro European financial instrument be set up to facilitate access to funding** for start-up, development and expansion of social enterprises by way of investment in solidarity investment funds, which provide own-capital and debt-financing instruments, under the European Union Programme for Social Change and Social Innovation.

Key action No 4.

- **The Commission has proposed that an investment priority for 'social enterprises' be expressly introduced in the ERDF and ESF regulations from 2014²⁴** in order to provide a clear legal basis and enable the Member States and regions to include targeted activities in their ESF and ERDF programmes for 2014-2020.

3.2. Increasing the visibility of social entrepreneurship

3.2.1. Developing tools to gain a better understanding of the sector and increase the visibility of social entrepreneurship

One of the things all stakeholders say they need is simple and fast access to the available information concerning social enterprises, enabling discussion in order to share best practices. In particular, this concerns the need to have ways of assessing and evaluating the impact and social performance of these activities (e.g. by using the experience of Member States which have set up satellite accounts to gather statistics on social enterprises, in particular cooperatives and mutual societies). Labelling and certification are tools that could potentially be used to meet these challenges. It is also important to promote social enterprise among the younger generations.

Key action No 5.

- **To identify best practices and replicable models** by developing a comprehensive map of social enterprises in Europe, specifying their characteristics, their business model, economic weight, cross-border growth potential, applicable rules and criteria for legal statuses and for specific tax regimes, as well as existing labelling systems.

Key action No 6.

- **To create a public database of labels and certifications** applicable to social enterprises in Europe to improve visibility and comparison.

Key action No 7.

- **To promote mutual learning and capacity building of national and regional administrations** in putting in place comprehensive strategies for support, promotion and financing of social enterprises, especially via the structural funds, by means of analysis, sharing of best practices, awareness-raising, networking and dissemination.

²⁴ http://ec.europa.eu/regional_policy/what/future/proposals_2014_2020_fr.cfm

3.2.2. *Reinforcing the managerial capacities, professionalism and networking of social businesses*

Both young and established social entrepreneurs need to build the necessary skills to ensure that their business is well managed and can grow. The Commission therefore wishes to promote cross-fertilisation with innovative entrepreneurs and academic and research fields. This may take place in particular in the context of business incubators (for social start-ups). The few existing examples in these fields deserve to be supported and expanded. Social entrepreneurs should also be able to receive advice and support from other business leaders or bankers.

Key action No 8.

- **To create a single, multilingual electronic data and exchange platform, associated, where appropriate,** with the Social Innovation Europe Platform²⁵ and the 'Enterprise Europe Network' for social entrepreneurs, incubators and clusters, social investors and people working with them.
- **To promote and increase accessibility of Community programmes in support of social entrepreneurs,** such as ERASMUS, ERASMUS for Young Entrepreneurs, TEMPO, 'Youth in Action' 2007–2013 (in particular the 'Youth Initiatives' activities) and HORIZON 2020.

3.3. Improving the legal environment

3.3.1. *Developing appropriate European legal forms which could be used in European social entrepreneurship*

The study on the implementation of the Statute for a European Cooperative Society²⁶ has highlighted the complexity of the text and recommended several options to make this system more simple and attractive and to make it possible to meet the needs of social entrepreneurs. Foundations often consider that it is difficult for them to operate in the internal market since regulatory differences lead to requirements and procedures that are sometimes complex (especially in relation to tax). Finally, the mutual sector regularly states that it wants to be able to rely on a European statute whereas others see no need for this.

²⁵ <http://www.socialinnovationeurope.eu/>.

²⁶ Study on the implementation of the Regulation 1435/2003 on the Statute for European Cooperative Society (SCE), 5 October 2010, http://ec.europa.eu/enterprise/policies/sme/files/sce_final_study_part_i.pdf.

Key action No 9.

- Depending on the results of the consultation with the parties concerned, **to present a proposal for simplification of the regulation on the Statute for a European Cooperative Society** in order to reinforce its independence in relation to national laws and to make it easier to create social cooperatives.
- **To propose a regulation for a European foundation statute**, in order to facilitate foundations' cross-border activities. This would exist alongside national legal forms and would be optional.
- **To initiate a study on the situation of mutual societies in all Member States** in order to examine their cross-border activities in particular.

3.3.2. Public procurement

Despite the range of options provided by regulations on the matter, social enterprises often believe that they face disproportionate difficulties concerning access to public contracts. This situation arises from European rules on the matter as much as national rules, which differ greatly among the Member States where the practice of goldplating has not always made it possible to take full advantage of the Public Procurement Directives. However, certain public entities do not always make the most of the existing potential for innovation in social services. Most of the responses received by the Commission to its Green Paper on the future of public procurement consider that the potential use of social or environmental criteria in public procurement should be given greater emphasis in the Directives.

Key action No 10.

- **To further enhance the element of quality in awarding contracts in the context of the reform of public procurement especially in the case of social and health services, and to study ways in which the working conditions of persons involved in production of goods and services under the contract could be taken into account**, provided that the Treaty principles of non-discrimination, equal treatment and transparency are fully complied with.

3.3.3. State aid

On 23 March 2011 the Commission adopted a Communication on the reform of EU rules concerning State aid applicable to services of general economic interest,²⁷ which could be relevant to social enterprises providing an SGEI. The Commission specified that it intends to adopt more varied rules in accordance with the effects of aid in the form of public service compensation on the intra-Community market. It also recognised that certain types of social services demonstrate specific features relating to their financial structure and their objectives.

²⁷ COM(2011)146 final

Key action No 11.

- **To simplify the implementation of rules concerning State aid to social and local services.** Such a simplification could also benefit social enterprises, when they provide social services or services that do not have an effect on trade between Member States. In the proposals for reform of the rules concerning Services of general economic interest (SGEI), made public in September 2011, the Commission aims to respond to this simplification objective for social and local services in particular by proposing a *de minimis* Regulation for local SGEIs and a new Decision exempting social services under certain conditions from the obligation to provide prior notification. It is anticipated that the new rules will be adopted by the Commission before the end of 2011.

4. BEYOND THE ACTION PLAN: OTHER IDEAS FOR DISCUSSION

In addition to the priority actions listed above, the Commission proposes the following topics for discussion where the details and methods involved need to be looked at more closely, in particular:

- Creating a network and enabling the experience of banks, often public or semi-public and dedicated partly or fully to funding social entrepreneurship, to be shared,²⁸ thereby restoring dormant funds to the economy (e.g. bank accounts of deceased persons that have not been closed);
- Developing access to venture capital for social enterprises, in accordance with its proposal concerning the European framework for venture capital funds;
- Promoting social entrepreneurship among older people, in the context of the European Year for Active Ageing in 2012 (career change or development of volunteering among retired persons);
- Promoting research concerning the features and socio-economic impact of social entrepreneurship and, in particular, financing national projects to set up satellite accounts²⁹ so that social enterprises appear in national accounting systems;
- Examining the possibility of increasing and including new aid categories during the review of the General Block Exemption Regulation, which is applicable until 31 December 2013;
- Developing best-practice sharing between Member States concerning the adaptation of national tax regimes for the benefit of social enterprises and ethical investment.
- Developing best-practice sharing between Member States regarding the use of capital accumulated in social enterprises and, in particular 'asset locks' in order to enable this capital either to stay in the business or be released for investment in other social enterprises.

²⁸ Relevant examples include the Caisse des dépôts et consignations (France), the KfW Entwicklungsbank (Germany), the Big Society Bank project (United Kingdom) or the Triodos Bank (Belgium, Netherlands).

²⁹ <http://www.socialeconomy.eu.org/spip.php?article705&lang=en>.

The Commission also suggests giving further consideration to:

- New strategies to improve access to funding, promoting dialogue between social enterprises and financial institutions, e.g. in the *SME Finance Forum*;
- Following the adoption of the Innovation Union and the European Council request of 4 February 2011 to establish a Europe-wide intellectual property promotion tool, the Commission commits to researching the extent to which social enterprises could access dormant patents to assist their development;
- Development and networking of trading platforms (stock exchanges³⁰) dedicated to social enterprises;
- The possibility for social enterprises generating profits to make use of volunteers and receive donations without a negative tax impact.
- The need for a possible European statute for other forms of social enterprise such as non profit-making associations and/or a possible common European statute for social enterprises. (To achieve this, once the European Foundation Statute proposal has been adopted, the Commission will organise a high-level meeting between key stakeholders from all sectors involved in social entrepreneurship, the European Parliament and the Council in order to consider the initiatives to be taken to improve the legal framework for social enterprises at European level.)

5. CONCLUSION

The Commission shall:

- submit the analyses and measures proposed in this Communication to all parties concerned in order to continue the dialogue that has been widely opened up with the European stakeholders and invite all concerned to participate in the conference on social entrepreneurship and the social economy in Brussels on 18 November 2011. This conference will be an opportunity for everyone to express their opinion on this Communication;
- call on the Member States and local and regional authorities to support and encourage development of social enterprises within their sphere of competence, in particular via economic development structures and chambers of commerce, taking into account the cross-border aspect of the partnerships and initiatives that they support;
- also call on them to develop a comprehensive strategy to support capacity-building, networking and mobilising of private and public funds and to integrate social enterprises in pacts for employment and social inclusion initiatives.

The Commission, for its part, shall:

³⁰ After Brazil (Bovespa - 2004) and South Africa (SASIX - 2006), the first European social stock exchange was set up in Portugal in 2008 (Bolsa de Valores Sociais) under Euronext Lisbon. A London Social Stock Exchange project could be completed in the next few months.

- implement its initiatives in partnership with the Member States, in accordance with the principle of subsidiarity and taking into account issues of social and economic cohesion at local, regional and national level;
- set up a consultative multi-stakeholder group on social business to examine the progress of the measures envisaged in this Communication. Building on the experience of the SBA Advisory Group,³¹ this group could be made up of representatives of the Member States, local authorities, social entrepreneurs' organisations, the banking and finance sector and the academic and university sector.

³¹ Review of the 'Small Business Act' for Europe' (COM(2011)78) final, p. 20.