

# Redefining the Social Economy: The voluntary sector in the Scottish economy

November 1997

Alistair Grimes  
Community Enterprise in Strathclyde

Stephen Maxwell  
Scottish Council of Voluntary Organisations

Paper No. 12  
November 1997

**REDEFINING THE SOCIAL ECONOMY:  
the voluntary sector in the Scottish economy**

**Alistair Grimes**, Community Enterprise in Strathclyde  
**Stephen Maxwell**, Scottish Council of Voluntary  
Organisations

*Alistair Grimes is Head of Sector Development at Community Enterprise in Strathclyde. For nine years he was the Funding Controller of the WISE Group. He is a board member of Strathclyde European Partnership.*

*Stephen Maxwell is Assistant Director (Development) of the Scottish Council for Voluntary Organisations and is an Honorary Fellow in the Department of Social Policy, Edinburgh University.*

# CONTENTS

1. The Social Economy and the Voluntary Sector
2. The Social Economy
3. Policy Issues for the Social Economy
4. Features of the Voluntary Sector
5. A Policy Agenda
6. Footnotes

## **1. THE SOCIAL ECONOMY AND THE VOLUNTARY SECTOR**

Over the last two decades non-governmental organisations (NGOs) have attracted steadily growing interest as social actors. This interest has been evident in the developed world, including Western Europe, but has extended world-wide. Indeed, the role of NGOs has been a particularly strong theme of policy making in many developing countries, where appreciation of their role in social development has been accompanied by a keen interest in their economic potential.

In Western Europe, by contrast, the focus of interest has remained mainly on the sector's social role and its capacity to mobilise human and financial resources in pursuit of social objectives neglected by conventional markets.

This paper argues that this focus should be corrected. It uses new data on the scale and range of the voluntary sector in Scotland to demonstrate that voluntary action has an economic significance and potential that deserves serious attention by policy makers grappling with the dilemmas of the post-industrial economy in Scotland as elsewhere in Europe.

Some basic clarification is essential. In continental Europe the non-governmental sector is usually understood to include such bodies as universities, hospitals, quangos, producer co-operatives and other mutuels. However in the United Kingdom, discussion of the role of voluntary action usually adopts a more restrictive definition, in which voluntary organisations are identified as institutionally independent of government or of statutory purpose, non-profit distributing, pursuing a broadly defined 'public good' and legally under the management of unpaid volunteers. However in recognition of the real complexity of voluntary action, this narrower definition is often applied flexibly. For example, while mutuels will generally be excluded, mutuels which promote the interests of disadvantaged groups or areas, such as co-operatives or credit unions in areas of high unemployment or low income, are often included. Many of these volunteer-led, 'public good', non-profit distributing bodies are eligible under United Kingdom law for charitable status carrying a range of tax privileges including exemptions from corporation tax, tax on investment income, and local tax, as well as partial tax rebates on various forms of donated income.

Based on the findings of a research study carried out for the Office of National Statistics (ONS) and supplemented by data from its own Charities Register in Scotland (CRIS) the Scottish Council for Voluntary Organisations (SCVO) has recently estimated that there are more than 20,000 voluntary organisations in Scotland enjoying an income of £2bn, or 5% of Scotland's gross domestic product. The smaller 'general charities' category of voluntary

organisations identified by the ONS, comprises around 10,000 organisations with an annual income of £1.4bn, expenditure of £1.2bn and total assets of £4bn<sup>1</sup>

Further research by SCVO has revealed that Scottish voluntary organisations employ approximately 51,000 people, 3% of Scotland's labour force, or 34,000 full-time equivalents (FTE's), roughly equivalent to the workforce in Scotland's agriculture, forestry and fisheries sector. In addition, over 700,000 Scots are involved in volunteering through voluntary organisations of whom 54% are women and 46% men.<sup>2</sup>

No consistent series of figures is available on which to draw firm conclusions about the growth of the sector. However the limited data which are available support the circumstantial evidence that over the last two decades the voluntary sector has enjoyed rapid growth supported by increases in public funding for voluntary sector delivery of government programmes, trust funding and, rather less consistently, individual giving. Despite doubts about the buoyancy of some sources of funding, the general expectation is that the sector will continue to enjoy a healthy rate of growth.

Leaders of the voluntary sector have used such figures to press for public policy initiatives to support and develop the voluntary sector as an economic force. They have been puzzled by how little impression they have made on policy makers. Politicians and bureaucrats alike have continued to exclude the voluntary sector from mainstream economic policy, or have assigned it a specialist and marginal role.

Why are policy-makers so resistant to the proposition that the voluntary sector should be integrated into mainstream policy for economic development?

One reason may simply be ignorance. Many economic policy makers persist in seeing the voluntary sector as a volunteer force devoted to traditional charitable work. For most people, indeed, contact with the voluntary sector will be with members of the 700,000 strong contingent of volunteers rather than with the much smaller numbers of paid staff.

A further reason may be the relative weakness of the government functions concerned with generic voluntary sector interests. While central government in the UK has strengthened its voluntary sector functions during the last ten years, as a result of the *Efficiency Scrutiny of Government Funding of the Voluntary Sector (1990)*<sup>3</sup>, the 'Think Voluntary' guidance

---

1

2

3

(1993)<sup>4</sup> and most recently the new Labour Government's commitment to a compact between the Government and the voluntary sector, the sector's interest remains under-resourced and under-represented within the machinery of government. In Scotland its influence is further limited by the fact that the generic voluntary sector unit, the Voluntary Issues Unit, is part of the Social Work Services Group within the Scottish Home Department. While this may increase its influence with neighbouring social care functions it is not designed to maximise its influence with the other government departments.

However the roots of economic policy makers' resistance to the claims of the voluntary sector may lie in a confusion about the relationship between the 'social economy' and the voluntary sector. The concept of the 'social economy' has afforded the voluntary sector its sole, tenuous hold on the attention of economic policy makers. But the conventional understanding of the 'social economy' may work to divert attention from the economic role of the voluntary sector as a whole.

In the United Kingdom conventional definitions of the social economy have focused on voluntary action specifically combating unemployment or multiple disadvantage, usually defined geographically. The classic vehicle for action within the social economy has been the community enterprise, led by local volunteers and with the aim of creating jobs for local people in the provision of services meeting local needs. Community shops, security services, repair and maintenance, furniture refurbishment, environmental improvement are common examples.

In recent years there has been some relaxation of the three founding criteria of the 'social economy' - local volunteer leadership, local services, local job creation. For example, community based housing associations have emerged to meet local housing needs without giving a high priority to local job creation. Similarly local credit unions respond to a local need for cheap loans, with local job creation a secondary consideration.

A further stretching of understanding has come with the emergence of non-profit bodies lacking significant local volunteer management, which provide training to long-term unemployed people working on environmental or home improvement services in low income areas. In some cases the trainees and workers themselves may come from outside the communities to which they provide the services. But even these shifts in understanding leave the concept of the social economy tied to the provision of services targeted at specific geographical areas characterised by high unemployment and high levels of deprivation.

---

4

In so far as the understanding of the social economy has shifted from the geographical focus at all, it has been to accommodate actions aimed at providing employment or training opportunities for people with specific disadvantages, usually mental or physical disabilities but sometimes social or educational disadvantages which are not geographically concentrated.

The social economy's strong focus on areas of multiple disadvantage has also served to expose underlying weaknesses in the sector's volunteer management. Despite social and economic conditions which might be expected to discourage volunteer initiative, the areas of multiple disadvantage support a high rate of volunteering, at least as measured by the proportion of local residents among the volunteer managers of social economy initiatives.<sup>5</sup>

However the environment in which these volunteer managers operate is exceptionally difficult. In addition to the unfavourable social and economic conditions, they often have to work through complex multi-agency partnerships, deal with a history of local government patronage, or at worst local political party interference, and accept responsibility for large sums of money, all on an insecure and short-term funding base. Given these conditions it is not surprising that the 'social economy' throws up some spectacular management failures nor that policy makers who view the voluntary sector mainly through a social economy lens conclude that the sector is unstable and risk-ridden.

Before examining the potential contribution to economic development of the voluntary sector overall, its effectiveness in combating the economic and social exclusion of disadvantaged communities should be fully acknowledged.

## **2. THE SOCIAL ECONOMY**

A recent survey on the social economy in Lowland Scotland provides the most detailed evidence so far available on the social economy.<sup>6</sup>

The sector resembles the private sector in that it contains a large number of small organisations and a small number of larger organisations. Some 7% of organisations had a turnover of £1m or more, and the total turnover is over £1billion, roughly 3% of Scotland's GDP. Though 60% of this money comes from public sector grants and support, 21% comes through direct earnings for services.

---

5

6

The social economy's activity and jobs are not evenly spread throughout Lowland Scotland. Social economy organisations employ approximately 8,300 people from disadvantaged areas and 5,800 from disadvantaged groups. More strikingly, 61% of organisations delivered their services wholly or largely to disadvantaged areas and 76% delivered them wholly or largely to disadvantaged groups. £600 million is spent each year delivering services to disadvantaged groups of which £400million goes to disadvantaged areas. What emerges here is that organisations are, at the moment, better at targeting services on disadvantaged areas and groups than they are at targeting employment opportunities on these areas and groups.

A number of local case studies confirm the overall picture and make some interesting points in their own right. For example, in Motherwell, the largest private employer, Motherwell Bridge Engineering, employs 700 people, social economy organisations employ 330; in Greenock the 300 social economy jobs compares with 350 in the shipbuilding industry; and in Glasgow's Drumchapel the 410 social economy jobs outnumbers those in the recent retail park development (382) that is the area's major growth opportunity.

A critical question in the debate about whether or not the social economy should be supported, is the extent to which the activities we have been looking at could be done better, or more cheaply, by either the public or the private sectors.

Many, if not all, of the services provided remain deeply unattractive to the private sector because they are either uneconomic or not profitable enough. Energy conservation for low income households provided by local projects falls into the former category, financial services provided by credit unions fall into the latter. In many areas there is need but no effective demand and hence no market. What social economy organisations are skilled at doing here is providing the financial engineering required to combine public grants, training money and contributions from householders or other revenue streams, to create a sustainable range of activities which does not displace the private sector.

Credit Unions are a powerful case in point. In a large number of areas in Scotland, banks have withdrawn branches because they do not meet the requirements to generate levels of profit, often pitched at the rate of 15% - 20%. This has led to people in a number of areas losing a service, often coupled with the inability to find loans at reasonable rates of interest and the consequent reliance on loans at extortionate rates of interest often from illegal money lenders. But credit unions have proved that a sustainable market exists without public subsidy by accepting rates of return of say 5% rather than 20% and by ensuring low rates of default by local knowledge of their customers. According to a recent survey, the biggest undertaken in Britain, Credit Unions in Scotland embrace 72,000 people (of whom 95% are satisfied with

the service) and are growing at 25% each year.<sup>7</sup> It is quite consistent here to see the markets of conventional banks and Credit Unions as complementary, not competitive.

Indeed, it is arguable that the private sector can gain from working with the social economy in at least two ways. The first is where the social economy organisation is the vehicle for infrastructure improvements (for example, environmental improvements to an industrial site, or maintaining the environment around private housing ) which are part of public sector support for investment. The second is where the social economy organisation, through training either unemployed people or volunteers, produces employees whom the private sector wishes to recruit. This can be quite specific, as in the current case of call centres ( places where telephone based advice or financial services are run from), where there is a shortage of suitable recruits in Glasgow for this growing sector. It can also apply at quite a general level, in the sense that training more workers to compete for jobs has a downward effect on wage levels while having a large number of people who are unable to engage in the labour market means that they exert no pressure on wage levels at all.

But, the argument might run, all these things should just be done through the public sector. This is an argument that has little support, even within the public sector. Not because there is something wrong, or intrinsically inefficient about the public sector, but because the lessons within the public sector over the last 20 years demonstrate that it has a number of limitations which social economy organisations do not. In Glasgow and the west of Scotland a whole range of successful initiatives have been based on the idea that partnership, especially with the local community, is crucial because although local involvement cannot guarantee success, lack of local involvement will certainly guarantee failure.

There are three principal advantages which social economy organisations have in this area. First, they are able to reach and support 'excluded' individuals and groups more easily because of their local knowledge. In the Glasgow case studies, some 70% of volunteers were local to the area, in a way that public officials were not. Of course, some volunteers were looking for work themselves and a third of organisations felt that the period of volunteering had helped as a way of getting a job.

Second, there is a widespread perception that social economy organisations are more accessible and approachable than statutory service providers. This is partly a question of flexibility, perceived or otherwise. Again, in the Glasgow and west of Scotland case studies, between 45% and 48% of local residents received a service from such an organisation.

---

7

Third, there is the question of local participation through the membership of local management committees, with 61% of organisations having a majority of local community representatives, and the ability to participate in lobbying and campaigning, often in opposition to council policies.

So far we have suggested that the social economy is a significant actor in the Scottish economy, both in terms of employment and income, and that its role could not be replaced by either the public or private sectors. It has been a success factor in Scotland's regeneration story in partnership with other sectors, precisely because it brings levels of skills, commitment, involvement and flexibility which are not usually matched by other agencies and organisations. This has shown itself in a number of areas, such as the growth of community based housing associations and both local and city wide employment initiatives.

The range of other benefits brought by the social economy includes providing communities with accessible management capacities and skills, its capacity to target activities on poorer, disadvantaged or excluded individuals, offering a diversity of opportunities for participating as a volunteer; providing a range of developmental and consumer services and an ability to lever in investment from different sources.

Broadly comparable conclusions were reached by a report on the social economy in the Highlands and Islands of Scotland for Highlands and Islands Enterprise, although the focus of this report was on the benefits to the regional economy as a whole, rather than a specific communities of need within it.<sup>8</sup>

### **3. POLICY ISSUES FOR THE SOCIAL ECONOMY**

The policy question which needs to be asked at this point is what could the social economy do if it were to be embraced at the heart of new thinking in Europe on economic and social issues? As we have seen, service industries now dominate in the creation of new jobs. The European Union's selection of seventeen areas for job intensive growth are all service based, except for environmental improvements.<sup>9</sup> Two of these areas, community care and child care, are ideal for development by the social economy since they require skilful financial engineering and are best delivered at the local level.

---

8

9

One issue here is the assumption that there is, or can be, a genuine consensus in Europe on the causes of, and solutions to, the current high levels of unemployment within the member states. What is interesting is that all 15 member states subscribe to the need for stable macro-economic policies and economic growth, but then disagree about the practical consequences of this for labour market and employment policies. Though this is an over simplification, the UK government takes the view that the state cannot create jobs and must concentrate on making people 'employable' rather than providing jobs for them. This then leads into a range of measures to ensure flexibility in the labour market, including the punishment of those who refuse to participate in certain government programmes. In the European Commission's view, and that of some other member states, the creation of nouveaux gisements d'emploi combating market failure is very much a government responsibility.

The challenge for the social economy in the UK will be to take the EC agenda and bend it to make it consistent with the policy of the British government, a difficult, but not impossible task. A number of areas suggest themselves.

One area is that of linking housing with economic development. Community based housing associations have been a success and have a significant asset base along with a strong management infrastructure. The opportunity exists to broaden their impact in partnership with other organisations and to look at the provision of workspaces for new businesses, the provision of financial services for their tenants (which are not being met by banks and building societies at present) through credit unions and other vehicles and through concepts such as foyers, to link housing, employment and training issues.

Second, is the contribution that the social economy can make to Labour's 'New Deal' for the unemployed. Given that the private sector may not be willing or able to find the jobs required by the new programme, social economy organisations can have an important role in developing innovative and effective schemes at the local level, such as the Intermediate Labour Market. This would be in addition to the voluntary sector option within the New Deal. Once again, the key is in effective financial engineering, to connect the New Deal to European funds and to bend existing programmes in such a way as to add value combined with the value of a delivery mechanism that is close to the customer.

#### **4. FEATURES OF THE VOLUNTARY SECTOR**

The social economy perspective provides vital insights into the economic potential of voluntary action. But if the full potential of voluntary action is to be impressed on policy makers, the social economy needs to be redefined as one part, albeit an important part, of the

wider voluntary sector. This adjustment should help to focus the attention of policy makers on the totality of jobs created by volunteer-led and managed initiatives whether or not those jobs are designed to meet the needs specifically of disadvantaged groups and communities.

The Lowland Scotland survey itself provides some measure of the significance of this relocation of the social economy. The voluntary organisations it surveyed spent around £600m of income on disadvantaged areas or disadvantaged groups, leaving the remaining £400m to be spent on beneficiaries who could not be assigned to either of the disadvantaged categories. This is broadly consistent with its other findings that 40% of organisations claim not to concentrate on disadvantaged areas and 25% claim not to concentrate on disadvantaged groups, and with the general perception that voluntary organisations are extending their role across the spectrum of activities, social groups and communities.<sup>10</sup>

The redefinition of the social economy as part of the voluntary sector opens the way to a clearer understanding of the economic potential of voluntary action. Any action by volunteers in pursuit of a broadly defined public benefit and organised on a non-profit distributing basis should be recognised as having economic potential. Of course, many volunteer initiatives will never reach the level at which they will consider becoming an employer. But the income threshold at which an organisation is likely to become an employer is lower than may be thought. The Lowland Scotland survey reports that only 16% of organisations had no employees at all, despite the fact that a quarter had an annual income of less than £25,000.<sup>11</sup>

Consistent with the market focus of modern economic thinking, the economic role of the voluntary sector is conventionally discussed in terms of its effectiveness as a producer of a range of outputs. These outputs may be in the form of direct services such as social care, environmental improvement, education, housing or less tangibly, social goods such as an increase in the self-respect or employability of volunteers or an increase in social capital. However there is no reason to believe that volunteer led action secures a more efficient use of a given volume of resources than private ‘for profit’ action or even public sector action. If voluntary action enjoys a comparative advantage in producing such outputs, the advantage is more likely to derive from the non-market assets that voluntary action can call on than from greater efficiency, assets such as unpaid volunteer work, greater trust, easier access for customers and charitable financial resources not allocated through the commercial market.

Because such supply side factors are allocated outwith the market, conventional economic policy making has difficulty in accommodating them. Indeed in the United States some

---

<sup>10</sup>

<sup>11</sup>

analysts find the whole system of philanthropy wanting by free market criteria.<sup>12</sup> They argue that the control and allocation of resources by philanthropic bodies reduces the yield of net welfare. But whatever economic market based theories may posit, philanthropy and charity exist and economic policy makers should try to maximise the impact they have on economic growth and job creation. Philanthropic action and voluntary initiative which generates paid employment, which promotes employability, or which increases the stock of social capital, deserves the attention of economic policy makers alongside the ‘for profit’ sector of the economy.

A further inhibition on the development of public policy promoting the sector’s economic role may be a concern that the tax privileges which many voluntary organisations enjoy give them an unfair competitive advantage. While the tax benefits which charities enjoy in the United Kingdom are significant, they should not be exaggerated. A recent estimate puts the gross value of those charity tax reliefs for which figures are available (and these include the major reliefs) at just over £1bn a year. When the loss to charities of irrecoverable VAT payments is taken into account, the net benefit to the charitable sector is £803m, or approximately 6% of the charitable sector’s total income.<sup>13</sup> The value of tax relief to the Scottish sector will be somewhat lower as investment income, which is the income stream which attracts the largest single share of relief, contributes a lower proportion of the Scottish sector’s total income.<sup>14</sup> In any case, the concern is misplaced. The distribution of tax liabilities across the range of economic players is the product of a very long history of decisions which defies any simple market logic. The argument here is that public policy should acknowledge the value of the additional inputs which the voluntary sector brings to the economy as well as its outputs. If an element of tax privilege is required to stimulate the supply of voluntary initiatives, the cost is reimbursed many times over by the economic benefits voluntary action yields alongside its social benefits.

The prospects for the supply of the factors which voluntary initiative can contribute to economic growth appears to be good.

Despite fears that changes in employment patterns and a strengthening ethos of individualism would begin to reduce the number of volunteers, the supply seems to be buoyant. The only qualification is that there is an observed trend towards paid staff of other voluntary organisations replacing unpaid volunteers on management boards. The current level of 1 in 5 adult Scots volunteering on a regular basis through the voluntary sector is impressive in itself

---

12

13

14

but leaves plenty of scope for increases. It is probable that the supply is determined by long-term and well-established social trends such as rising affluence, increased longevity, rising living standards for a substantial section of retired people, and the growth of the 'information' society creating higher levels of awareness.

One sign of the vitality of volunteering in Scotland is the fact that around 1000 new charities are recognised each year by the Inland Revenue. Although figures are not available it is probable that the number of non-charitable organisations formed each year in Scotland is even greater.

The flow of income to the sector also seems reasonably secure, in spite of frequently expressed anxieties. While the overall expenditure of the public sector, which contributes 46% of the total income of Scottish organisations with incomes of between £100,000-£1,000,000 a year and no less than 60% of organisations in the £1-10m bracket, is likely to be severely constrained, the trend towards the delivery of public services through the voluntary sector, particularly in community care, environmental and child care services seems likely to continue.<sup>15</sup>

The prospects for funding from grant-making trusts and foundations is also reasonably good. In the UK overall the value of such income increased by 63% in real terms between 1991-1995.<sup>16</sup> While Scottish organisations receive proportionately less of this annual £900m expenditure, recent initiatives have improved Scottish access to UK trusts and strengthened the Scottish infrastructure. Conversely, Scottish organisations are less dependent on legacy income, which is projected to decline.<sup>17</sup>

The future for donations from the general public, while generally at a higher per capita level in Scotland than in the rest of Great Britain, is more problematic. But there is some evidence that after a fall coinciding with the start of the National Lottery, levels are beginning to rise again.

The supply of the more intangible social assets on which voluntary organisations draw is obviously even more difficult to assess. A survey carried out for the Commission On the Future of the Voluntary Sector in Scotland found that against a high overall level of public approval for charitable and voluntary activity, there was a significant level of questioning of

---

15

16

17

the sector's integrity<sup>18</sup>. However if the sector is properly regulated and wisely led, there is no reason to fear for its public standing. Rather, a steadily growing awareness of the importance of voluntary action not only as an alternative form of service provision but also as a vital component of civic society and as a contributor to the democratic process, creates favourable conditions for the social inputs on which the sector depends.

The demand for the services which the voluntary sector provides appears to be at least as buoyant as the sector's unique factors of supply. While voluntary action is a mode of social activism which can operate in almost any area, its activities define it clearly as part of the personal services sector. Fifty-nine per cent of all Scottish charities are service providers and no less than 83% of all Scottish charities identify individuals as their beneficiaries. Excluding churches, social care comprises the greatest share of Scottish charitable activity, followed by culture and recreation, education, health care, the environment and accommodation. The more restricted Lowland Scotland study reports that more than 50% of organisations identified social care, education, health care and housing as their core area of activity, while 62% included economic development and job creation among their fields of operation<sup>19</sup>.

In a post-industrial economy, these areas of voluntary sector activity are among the growth areas of demand, via government funded programmes or by market demand. Furthermore, against a recent background of rising unemployment and increasing inequality, the part of the voluntary sector popularly identified as the social economy offers particular advantages, as we have seen.

As an economic actor the voluntary sector demonstrates certain characteristics. First, as predominantly a supplier of personal services, it is labour intensive. Second, because it is able to call on a range of dedicated charitable funding, the cost to public finances of creating or supporting a job in the sector will usually be lower than in the public sector. Third, the sector is capable of targeting its services and to a lesser extent its job creation on specific disadvantaged groups and communities. Fourth, it is more able to produce social capital than the private sector, or in most cases the public sector. Fifth, while the sector cannot claim higher levels of efficiency than other sectors, it is becoming progressively more exposed to market competition, particularly in the field of personal social services where private 'for profit' organisations as well as an increasing number of voluntary organisations now compete for public contracts.

---

18

19

Perhaps a more problematic feature from the employment perspective is the high proportion of voluntary sector jobs which are part-time, 42% compared to 25% in the overall UK labour force.<sup>20</sup> While a slightly lower proportion of women workers are part time, the proportion of men in part time posts is almost twice the UK average.<sup>21</sup> However, contrary to some claims the sector, at least in Scotland, is not clearly identified as a low-paying employer.<sup>22</sup> The SCVO Workforce survey reveals that 14% of all voluntary sector workers are paid £3.50 per hour as against 24% of all UK employees paying less than £4 per hour. In a submission to the UK Low Pay Commission, SCVO estimated that for the Scottish voluntary sector to pay a minimum wage of £3.75 per hour would cost it £6.8m, while to pay the TUC recommended rate of £4.27 would cost £16.8m, between 0.4 and 1% of the sector's annual income<sup>23</sup>. At the same time there is evidence that salaries at senior management level are significantly lower than in the private sector, a difference that is accentuated when non-salary costs such as perks are taken into account. Overall the sector presents itself as a flexible, labour intensive, relatively low cost employer.

Two further features of the voluntary sector's economic position deserve comment. By definition the voluntary sector reinvests its surplus rather than distributing it to shareholders or in directors' fees. While in the past this reinvestment would have been in activities insulated from competition, it is now increasingly in areas of activity which are open to competition.

Finally voluntary action should be seen as a source of new firm formation. Policy makers in Scotland have a particular reason to appreciate this dimension of voluntary action. Scotland is notorious for its low rate of new company formation. It is surprising that as programmes to stimulate company births have been developed, they have not embraced the voluntary sector. Despite the limitations of the available data, we can be confident that organised voluntary action is increasing, and we have seen that around 1000 new charities are recognised each year and that even quite small organisations are likely to become employers. If the spirit of entrepreneurial initiative in the 'for profit' sector is relatively weak, the overall level of voluntary action suggests that there is no lack of entrepreneurial energy in the voluntary sector.

## **5. A POLICY AGENDA**

---

20

21

22

23

The economic potential of voluntary action has not gone completely unrecognised by policy makers in Scotland and the United Kingdom. In the guise of the social economy, it has received modest development support from local government and from economic development agencies of central government, notably in the Highlands and Islands.<sup>24</sup> In lowland Scotland, Scottish Enterprise is currently developing a proposal to extend the social economy's access to its programmes. However there have been few economic policy initiatives for the voluntary sector overall. Among the few examples are the Charities and Voluntary Organisations Deregulation Task Force (1994) set up by the previous government, the current promotion by the Department of Employment of a National Training Organisation (NTO) for the voluntary sector alongside NTOs for a wide range of employment sectors, and Government commitment to a review of the tax treatment of charities. Most recently the voluntary sector has been given a place in the 'employer' category of the Government's New Deal programme in addition to its role as a vehicle for delivering the programme.

Rather more interest has been evinced in Europe, usually under the Social Economy label, as with the creation by the Commission of the Social Economy Unit in DGXXIII in 1989 and the acknowledgement of the role of 'social entrepreneurs' in Commission employment proposals since the Essen European Council meeting of 1994. Most recently a significant widening of this perspective has come in the Commission's *Communication On Voluntary Organisations and Foundations*, published this year, which highlights the economic importance of the sector overall.<sup>25</sup>

Voluntary action and its economic development is a complex phenomenon which is unlikely to respond to any single policy prescription. The following proposals are offered as elements of a policy designed to maximise the sector's contribution to economic development and job creation, rather than as a cohesive policy package.

### **Promoting Volunteers**

Beyond the general promotion of the idea and values of voluntary action, the most effective way for government to promote the voluntary contribution to economic development is by public investment in training volunteers in general management and business development skills, and in 'social entrepreneurship' skills.<sup>26</sup>

### **New Legal Form**

---

<sup>24</sup>

<sup>25</sup>

<sup>26</sup>

A new legal personality combining the current tax privileges of charity with limited liability and a wider freedom to trade should be created. Based on an explicit ‘public benefit’ principle, organisations adopting the new legal identity might be called Public Benefit Associations to differentiate them from existing charities.<sup>27</sup>

### **Strengthening the Generic Function**

The generic voluntary sector function in central and local government should be strengthened in the interests of promoting a wider awareness throughout government of the needs and potential of the voluntary sector.

### **Economic Functions**

Where government economic departments identify a need for dedicated SME functions, they should also have a dedicated Voluntary Sector function.

### **Think Voluntary**

The current requirements on Government departments to consider the implications for the voluntary sector of proposed new policies should be reinforced by specific requirements on economic departments to identify the impact of economic policy initiatives on the voluntary sector’s economic role. ‘Think Voluntary’ requirements should be extended to Non Departmental Public Bodies.

### **Strengthening Regulation**

In Scotland there is a specific need to strengthen and modernise the regulation of charities in order to bolster public confidence in the integrity of charitable action.<sup>28</sup>

### **Development Finance**

Voluntary organisations have low financial gearing. The problem seems to lie as much in the financial conservatism of voluntary organisations as in the lack of loan facilities. Options include establishing a demonstration ‘Charity Loans Project’ backed by existing commercial and charity finance institutions to educate both the sector and the institutions on the benefits and costs of borrowing to finance growth, and the endowment from National Lottery Funds of a dedicated charity investment bank.<sup>29</sup>

### **Economic Focus**

---

<sup>27</sup>

<sup>28</sup>

<sup>29</sup>

The Government should sponsor a programme of research and policy development to identify the economic role and development needs of the voluntary sector and to stimulate debate about policy options. The development in recent years of awareness of the economic role of the tourism and arts sectors provides a possible model.

### **European Partnerships**

The European Union Treaties should formally recognise NGOs as full social partners with rights to formal consultation on key economic as well as social policy issues.

### **European Programmes**

The Commission should strengthen additionality as a basic principle of the Structural Funds' programmes and fundings.

All European Union policies and programmes should identify voluntary organisations as employer organisations alongside other employer groups, in addition to their role in delivering programmes.

### **Observatory**

A European Observatory dedicated to the non-governmental sector should be established with a special remit to gather data on its economic role.

## **FOOTNOTES**

1. SCVO, *The Scottish Voluntary Sector Almanac* 1996, Edinburgh 1996
2. SCVO, *The Scottish Voluntary Sector Workforce*, Edinburgh 1997
3. HMSO, *Efficiency Scrutiny of Government Funding of the Voluntary Sector*, London 1990
4. Home Office *Think Voluntary: the Impact of Government Policies and Procedures on the Voluntary Sector*, London 1993
5. A McGregor, *The Social Economy and Economic Inclusion in Lowland Scotland* Community Enterprise in Strathclyde, Glasgow 1997
6. McGregor op.cit
7. Community Enterprise in Strathclyde, *A Bond in Common: People and their Credit Unions in Scotland*, Glasgow 1997

8. ERM, *An Assessment of the Social Economy in the Highlands and Islands* London 1996
9. European Commission, *A European Strategy for Encouraging Local Development and Employment Initiatives*, Brussels 1995
10. McGregor op.cit
11. McGregor op.cit
12. For an overview of current debates see *Voluntas* Vol 8 No 2, 1997
13. NCVO, *The UK Voluntary Sector Almanac 1996*, London 1996
14. SCVO, *The Scottish Voluntary Sector Almanac 1996*, Edinburgh 1996
15. SCVO op.cit.
16. NCVO, *The UK Statistical Voluntary Sector Almanac*, London 1996
17. SCVO, op.cit
18. SCVO, *Head and Heart: the report of the Commission On the Future of the Voluntary Sector in Scotland*, Edinburgh 1997
19. McGregor, op.cit
20. SCVO, *The Scottish Voluntary Sector Workforce*, Edinburgh 1997
21. SCVO, op.cit
22. J Philpott, *The Social Economy and Jobs: An Employment Policy Perspective* Employment Policy Institute London 1997
23. SCVO, *Written Submission to the Low Pay Commission*, Edinburgh 1997
24. K Hayton, *Delivering Promises? The Rise, Fall and Rise of Scottish Community Business* Scottish Affairs, Spring 1997, Edinburgh
25. European Commission, *Communication on Voluntary Organisations and Foundations*

Brussels 1997

26. see for example, C.Leadbetter, *The Rise of the Social Entrepreneur*, Demos London 1997
27. For an outline proposal see SCVO's submission to the Commission On the Future of the Voluntary Sector in Scotland, Edinburgh 1997
28. see *Head and Heart*, SCVO, Edinburgh 1997
29. see *New Sources of Finance for the Scottish Voluntary Sector*, John Wheatley Centre for SCVO, Edinburgh 1997

SCOTLAND EUROPA ★

Scotland House Rond-Point Schuman 6 B-1040 Brussels T +32 (0)2 282 8315 F +32 (0)2 282 8300

Also at: Scottish Enterprise 5 Atlantic Quay 150 Broomielaw Glasgow G2 8LU T +44 (0) 141 248 2700 F +44 (0) 141 228 2114

W [www.scotlandeuropa.com](http://www.scotlandeuropa.com) E [information.desk@scotent.co.uk](mailto:information.desk@scotent.co.uk)