



**Solidarity-based choices  
in the market-place:  
a vital contribution to social cohesion**



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# **Solidarity-based choices in the market-place: a vital contribution to social cohesion**

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## PREFACE

This book, part of the “Trends in social cohesion” series, contains the papers discussed at the 2004 Forum on Socially Responsible Consumption and Finance Systems, Public Authorities’ and Citizens’ Commitment for Social Cohesion and thus supplements the analyses in Volume 12.

The Council of Europe’s Directorate General of Social Cohesion hopes that these studies will stimulate discussion of the fundamental issues connected with the political dimension of citizens’ initiatives in the market-place and with their future development.

Readers will see that the public authorities’ reaction to these initiatives takes a whole range of different forms, from implicit recognition of their impact to the creation of legal and fiscal frameworks conducive to their development. Between these two extremes lie discussions on many subjects such as appropriate training for workers in the sector, the creation of networks in order to increase the relevance and efficiency of value systems, the offering of incentives rewarding responsible choices and the promotion of official certification labels.

The increasing presence of statements of principle in certain strategy documents, coupled with legislative progress in certain Council of Europe member states, show the authorities’ growing interest in initiatives in the fields of ethical and solidarity-based finance and responsible consumption (including fair trade). Some even include ethical criteria in the public procurement process and influence the behaviour of private pension funds and employees’ saving schemes.

This work enjoyed political and financial support from, amongst others, the Austrian Ministry for Social Security, Generations and Consumer Protection, to which I extend my heartfelt thanks.

**Alexander Vladychenko**

*Director of the Directorate General of Social Cohesion  
Council of Europe*



## FOREWORD

This study puts forward a number of considerations relating to the new realms of citizen action and expression that emerge when the boundaries between institutional and informal roles become permeable and “pores” open up to provide crossovers between the proficiencies and the responsibilities of social players. These ideas were discussed at the Forum on Socially Responsible Consumption and Finance Systems, Public Authorities’ and Citizens’ Commitment for Social Cohesion, held at the Council of Europe in November 2004.

The development of the crossovers in fact calls for redefinition of the players’ roles, as well as the interdependent relations between them. These inter-relations appear in new guises that blur what used to be a clear-cut distinction between things in the public as opposed to the private sphere. Citizen action in the areas of collective responsibility which used to be the sole province of the state carries a demand for supportive involvement on the part of the public authorities. The reverse is also true: citizen initiatives become a source of legitimacy for the public authorities. This volume of “Trends in social cohesion” is concerned precisely with the extent of these transformations.

Citizens’ responsibilities are traditionally expressed via the bonds constantly woven by individuals through interactions with the family, networks of acquaintanceship and participation in voluntary work. It is a form of responsibility – towards family, friends and the community – deemed “natural” and part of all that is spontaneous. Meanwhile, the collective responsibilities of protection and assistance have been conceived as a macro-social field of action strictly contained within political institutions, the state in particular. The welfare state is the modern expression of this demarcation of responsibilities. None the less, for some years the state-citizen has undergone a perceptible evolution as self-organisation capabilities emerge in our countries and become a new resource for the management of collective responsibilities by civil society which thus directly fulfils part of the social mandate previously assigned to the state (or does so though the operation of the market).

As a result, diverse types of “welfare-oriented society” materialise to take up the positions of a reformed “welfare state” but also to meet needs which are less indeterminate and more personalised. The self-organisation capabilities involved need to be codified, as Alain Lipietz tells us in

his article on the future contexts and functions of community-based reciprocity presented in Part I of the compendium (Solidarity in a world with interpenetrating spheres of intervention). He also states that they come into being to serve the need for solidarity that is the cardinal virtue of democracy and the foundation of the reciprocal economy. The time spent by each individual on occupational pursuits, amusement, self-improvement and “personal” assistance to another forms a potential for the materialisation of a “quaternary” sector of the economy which is destined to grow in the future. In this way, the “welfare-oriented society” reassesses the discernible and explicit links of solidarity and assigns an economic value to time spent in caring for someone else.

The market, now, is an interactive dimension regulated either “naturally” by price mechanisms or “artificially” by law or some other form of intervention. Relations with the state have been decisive for the market’s impact on society. However, the twosome formed by the market with the state has evolved like its state-citizen counterpart, though principally towards deregulation and the greater independence of the market from nation states.

Civil society has apparently gone the same way as the market by gaining some degree of autonomy vis-à-vis the state. In either case the traditional two-way partnership is in crisis. This evolution prompts the question how collective responsibility is reorganised and how the formation of institutional or unofficial co-operation procedures sustaining new shared volitions and responsibilities can come about.

Proceeding from the determination of a crisis in the “twosome”, Benoît Lévesque proposes to work on the construction of a “threesome” in his article entitled “A new governance paradigm: public authorities-markets-civil society linkage for social cohesion”. On that basis, he defines the new paradigm of integration and sharing of responsibilities between the state, the market and civil society.

The writer demonstrates the complexity of this construction process having regard especially to the wide compass of the associates in it – an argument often raised by the state and the markets to emphasise that civil society lacks precise contours. But, he goes on to explain, the contours of the two other partners are by no means readily perceptible either, contrary to what might be supposed. Actually the identification of the associates remains in the political remit, where the answers are often the upshot of demands for recognition and legitimacy. State-market-civil



society “dialogue” is only possible in a context where new initiatives can be manifested and recognised. This dialogue must therefore primarily concern redefinition of reference points and fresh fields for combined action: this is the very question which the Council of Europe asked itself when confronted with the initiatives of the solidarity-based economy and the approaches developing in the conduits created by the redefinition of collective responsibility.

Part II (Solidarity: a practice expressed in the market) opens with the text by Luigino Bruni “New rights for the exercise of responsible citizenship” addressing the question of the market as space for exercising supportive citizenship and political rights, hence the question of how the coupling of market and citizens functions. This leads on to a reinterpretation of the use of the instruments available to citizens to express their preferences and dissatisfactions whether in “speech” directed at the state or by “defection” from the market.<sup>1</sup>

The writer puts the case for “speaking out” within the market as a means of restoring its social character, which presupposes choices and explicit decisions to be involved in civic life. It is a position which he describes as corresponding to the one taken up by the protagonists of the solidarity-based economy who perceive “speaking out” within markets as a way to develop relational assets through individual acts that accommodate the collective interest. “Speaking out” for solidarity means commitment to mutual support and consciousness of a community of interests giving rise to moral obligations in regard to acts of consumption and financing. Luigino Bruni shows how the same spokesmen also preach “defection” in the market, that is withdrawal and boycott, whether as a reaction to the failure of speech or to increase its impact.

The next two documents show that both “speaking out” and “defection” are modes of citizen action to bring the market to change from an impersonal context into a “setting” of responsibility and solidarity, and possibly one of democratic practice.

In his paper “Ethical and socially responsible finance: scale, responses to social cohesion challenges, difficulties”, Jean-Paul Vigier pinpoints the origins of the citizen voice in the finance and savings sectors by explaining how the market can become a context in which to express the desire

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1. Here the writer alludes to the book by Hirschman, A.O., *Exit, Voice and Loyalty*, Cambridge, Massachusetts, Harvard University Press, 1970.

for justice. Alternative finance initiatives have proliferated as a result, tending more to occupy the local sphere so as to forge links of responsibility which are not impersonal. This drive to speak out nevertheless quickly fell foul of fiscal and financial structures unfit to accommodate it, and thus turned to building alliances and synergies to establish the citizen voice as a talking-partner of the public authorities and of the banking system. It also urged “defection” by persuasively drawing an ever larger number of savings investors into this process.

The gospel of “ethical and socially responsible finance”, evolved to make finance accessible for the most vulnerable people excluded from the conventional channels, can only take hold by turning into a network and opening dialogue with the holders of political legitimacy (the public authorities). “Speaking out” and “defection” have created a dimension of solidarity in the market whose consolidation, however, requires a switch of scale and exchanges with the pre-existing that command its future.

The text “Responsible consumption: an answer for social cohesion” by Francesco Gesualdi also argues in favour of citizens having a say in the markets and defecting from them in response to the enormous problems posed by concentration in consumption, unequal and uncaring appropriation of resources, and breach of equity and dignity in employment relations, not only for the sufferers but also for future generations. In so doing, the writer recalls that consumption can no longer be treated as anything but a private act. Consumption must become a focus of citizen responsibility and solidarity; it must become ethical and sustainable by incorporating conscious choices that transcend the single criterion of immediate satisfaction and address the issue of its impact on the other person’s life and on the environment. Labels aiding visual recognition of products are becoming established in biological production and fair trading. Standards such as ISO and systems for awarding points to firms also offer a range of criteria in terms of social desirability and environment-friendliness. None the less – as the writer points out – recognition of respect for workers’ rights in manufactured goods raises problems bound up with the complexity of ever more fragmented production processes.

Finally, the closing text in this part, “Access to public procurement and responsible consumption by public authorities”, opens some lines of enquiry into the difficult question of including ethical, social and environmental clauses in public procurement contracts.

Anne Peeters makes the observation that public consumption, which represents 16% of total consumption in the European Union, has an appreciable effect on corporate and citizen behaviour alike, carried over into the Southern countries. The introduction of ethical criteria spreads more rapidly among the local authorities:<sup>2</sup> legal arrangements favouring purchase of fair trade products exist in several countries. Nevertheless, some opposition is met in putting preferential criteria in place. Apart from the issue of competition, choice of the relevant criteria is still far from consensus-based. Where local authorities are concerned, for example, non-eviction of small enterprises serving the community must remain a criterion. Forms of close collaboration between public authorities and citizen networks which advocate ethical and responsible attitudes in the market (a revamp of the state-citizens twosome) could afford solutions for the future, as is already the case in some countries.

Part III (Legitimising solidarity in the market as a social function) presents six more articles on the process of making solidarity-based economy practices official or even an institution, and discusses the scope for investigating them from a legal angle, the make-up of the networks and training to cope with the peculiarities of the initiatives in question.

The first article, "Government assistance to promote socially responsible consumption and finance systems within the member states of the Council of Europe" prepared by James Harrison presents the legal frameworks and legislative measures adopted by European governments either to support citizen initiatives in the market or to embed certain civic principles in public procurement. Five strands demonstrate the advances made in the official stance, beginning with acknowledgement of concepts and practices relating to socially responsible consumption and finance in sustainable development strategies, measures to raise public awareness, support through funding and tax incentives for assigning legal areas to the organisations engaged in moves whose ultimate purpose is incorporating social and environmental criteria into public transactions. The analysis carried out by the author, relying on a compendium of data concerning legal frameworks compiled by the Council of Europe,<sup>3</sup>

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2. See example of the City of Munich in Part IV of this publication.

3. See contribution by Petridis, E. ("Overview of European Union and Council of Europe Member Countries' Instruments and Legislations Concerning the Socially Responsible Economy") in Trends in social cohesion, No. 12, *Ethical, Solidarity-Based Citizen Involvement in the Economy: A Prerequisite for Social Cohesion*, Council of Europe Publishing, December 2004.

allows the reader to apprehend the growing importance attached by some states to these concepts and practices, which they take over and infuse with a telling legitimacy. Thus the citizens' "say" in markets becomes official. To reiterate some of the foregoing propositions, the "porosity" present in the state-citizens relationship influences the market behaviour of public entities.

In the second and third texts, Jean-Michel Lecuyer and Theo Van Bellegem make a detailed review of some of Europe's most striking national legislation on the subject: the Fabius Act of 2001 on save-as-you-earn schemes in France and the system of green funds and social funds instituted in the Netherlands in January 2002. These legislative instruments have effects at various levels, ranging from change in the behaviour of banks (which develop high sensitivity to the elements of environmental conservation and human rights observance in their customers' projects) to the awareness that the workers' savings and retirement funds must have a collective role to perform.

In France, the Fabius Act requires investments free of all income tax to be incorporated into the group pensions savings schemes (PERCOs) in social enterprises, up to a level of 5-10%. In the Netherlands, a system of tax relief also encourages investments in environmental, social or cultural projects, including projects in the Southern countries. The state participates in the choice of projects and ensures their consistency with the set priorities.

In the fourth item, "Statutory frameworks for action in the solidarity-based economy", Xavier Boos advocates a legal input to sustain action. Working from the example of several French regions where regional chambers for the social and solidarity-based economy have been set up, he looks beyond the conceptual issues (such as the difference between these two classes of economy) that often cloud the debate pursued by the players and asserts the need for convergence of citizen initiatives in the market and for clarification of their relationship with the public authorities.

The author registers the present difficulty which political and voluntary-sector players have to contend with in projecting themselves into the future without being underpinned, for instance, by networks or linkage between different operators. He concludes by pointing to the need for statutory frameworks capable of giving the existing links not only legitimacy but also incentive to experimentation.

Simon Pare's text makes us reflect on "Investments in ad hoc structures and support for networks" in the light of his experience as representative of Max Havelaar and FINE.<sup>4</sup> In fact, despite the efforts of the fair trade networks, its share of international trade remains less than 0.01%. The imperative change of scale, as in ethical and solidarity-based finance, is impeded firstly by lack of equity to promote the label and transform buying intentions into an act of purchase as well as to expand producers' capacity to meet quality requirements and logistical demands, and secondly by customs barriers and the public procurement code limiting ethical consumption by public entities.

Finally, Matt Christensen's article addresses the issue of "Training and professionalisation of management and workers in the ethical finance sector" in relation to the needs for matching of ethical and supportive values with financial management.

The question presents itself at different levels:

- procedures for standardising the conventional financial approaches and the official certification/accreditation of training courses in this area;
- mismatch of values between the traditional finance sector and solidarity-based finance due to the fact that the latter evolves in contact with the partners on the ground, the need to create suitable conditions for access to training by paid and voluntary workers alike, and other factors.

Given the unsteady position of training in this area, the writer asks the public authorities to place it among their key concerns, encouraging universities to implement appropriate qualification procedures and stimulating a movement of research and study. He suggests still other measures, including recognition of professional experience by way of credits.

In Part IV (Areas of dialogue and shared commitment to assert solidarity in the market), two papers presented at the 2004 forum give an idea of the extent of the political expediency of citizen initiatives, and of the vision of public authorities embarking on putting them on a firm footing.

The first text, "Education: a vital space for solidarity-based and responsible citizenship" by Marie Arena, Minister President of the French Community of Belgium, takes us back to the stage that precedes any process of citizen involvement in the market. In putting her case for a positive

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4. Acronym for the four international fair trade federations: FLO, IFLAT, NEWS and EFTA.

brand of globalisation which is to begin at school, she highlights three paths of political and personal thought; the possible involvement of governments in building a welfare society, the authorities' role founded on the principles of action, and the need for political choices as regards ethical commitment. While acknowledging the complexity of our society at all levels and the efforts which democratic moves to build true forms of co-operation entail, Marie Arena advocates "simple" approaches: working on children's buying criteria and the sense of "rational consumption"; devising accessible and ethical teaching instruments and asking the public the proper questions; developing a critical approach to information; not being afraid of conflict. By encouraging these approaches, she paves the way for embedding ethical, cohesive practices in citizens' everyday acts.

The second text, derived from the joint contribution by Hep Monatzeder, Mayor of Munich and Heinz Schulze, co-ordinator of the "Eine Welt" ("One World") programme, places us in the context of co-operation between urban authorities and a forum arising from Agenda 21 that brings together townspeople and a variety of initiatives and associations all concurring that sustainable development is meaningless if it does not take account of the interests of people living in the Southern countries. In addition to a series of initiatives supported by the local authority, the city tackled the question of the criteria that come into negotiation of public contracts. It thus decided to consider only bids to supply products not derived from exploitation of child labour and in so doing held a pioneering role, influencing other structures such as churches, enterprises and associations. In conclusion, the co-authors argue that although towns will obviously not be able to vanquish inequalities purely through their tendering practices, they can assume the role of a model to encourage others to take the same path.

Part V (Solidarity in the market: an aid to transition?) consists of a single text, "Disseminating the concepts and practices of an ethically and socially responsible economy: what is at stake?" written by Elena Sosnova. It surveys the differences between countries, those originating from history and from contexts more or less propitious to the manifestation and recognition of citizen initiatives. Noting that psychological obstacles to individual creativity have fallen in the countries of eastern Europe, particularly the Russian Federation, she emphasises the dissemination of concepts and practices in environments where the players must learn to co-operate, trust each other and reach compromises.

The concluding Part VI (Points for an open dialogue within the Council of Europe) gives an overview of discussions at the 2004 forum. It was organised around three main concerns: (i) capitalising on citizen initiatives in the economy as a coherent and recognisable approach; (ii) reconciling the demands of the solidarity-based economy with the public authorities and with their supporting action; and (iii) establishing a stable partnership between public authorities and citizens involved in this economy. It answers substantive questions concerning political assertion of community-based action in the market and relations with the public authorities. These questions are intended firstly to give due credit to the contribution, both actual and potential, made by advocacy of an official ethic of inclusion and equity, to highlight their value for stewardship of the collective interest, and to stimulate reflection on the conditions that may make it possible to move beyond experimentation and reach a broader public and further fields of action.

This synopsis drawn up by Federico Oliveri in close co-operation with the Social Cohesion Development Division puts a strong case on behalf of the Council of Europe for a probing dialogue which to be profitable should bring together public authorities, citizen networks and, quite plausibly, enterprises that make their dealings consistent with social and environmental responsibility. It will involve identifying regenerative forms of co-operation and synergy without which the social and environmental challenges faced will have no meaningful solutions.

**Gilda Farrell**

*Head of the Social Cohesion Development Division  
Council of Europe*





# I. SOLIDARITY IN A WORLD WITH INTERPENETRATING SPHERES OF INTERVENTION

## 1. The future contexts and functions of community-based reciprocity

*by Alain Lipietz, Member of the European Parliament*

### a. Social cohesion concerns everyone

First of all I would like to salute the decision taken by the Directorate General of Social Cohesion of the Council of Europe to organise this seminar. The idea that social cohesion is not just a matter for public authorities is an extremely important one. It is extremely important to think of it as being a matter, first of all, for each and every one of us, as consumers, savers and – if I may use the term – as “social entrepreneurs”. In other words, people who join hands with friends, to serve the community.

It is important to remember that, for we have entered a stage of our civilisation where the European model is going to have to define much more precisely this type of solidarity – this type of “social entrepreneurship” – despite the fact that it is nothing radically new. Humanity has always functioned that way. What is new, however, is that we are going to have to codify it, because the structures that enabled society to operate “just so”, as if it were something quite normal, natural and to be taken for granted, are in the process of disappearing.

These structures consisted of the family, the church – all these traditional forms of solidarity which have now been almost completely watered down in the process of individualisation, or individuation. We are currently witnessing the completion of a historical process in which the traditional frameworks of intermediary structures are disappearing altogether, leaving each individual alone to face society as a whole. Yet the relationship between each individual and society as a whole cannot be reduced to this duo that seems to have developed, irresistibly, since the end of the *ancien régime*, since the eighteenth century – namely, the market-state duo.

There has been a tendency in the last two centuries to say that with the decline of the family and the isolation of the church, citizens would have

two types of relationship with other citizens. The first is precisely the citizen relationship, whereby citizens delegate to the state the management of some of the public goods, with the democratically responsible state then being charged with managing this public good by levying taxes and redistributing social revenue and services but also producing collective assets. The second relationship involves individuals drawing up contracts of trade with other individuals on the market. These were the two forms: the market and the state; and the relationship between individuals, free at last from the old traditional constraints of the family, the church, feudal systems, etc.

As a former social science researcher and as a politician, I must say that is just not the way things are. Never, at any time, has society been able to be reduced to the market-state duo. Karl Polanyi, for example, identified three ways of integrating individuals into society and socialising their activities. The first does indeed involve trade and the market: "I do something so that you do something. I give to you so that you give to me". That currently seems to be the prevailing system but does not represent, far from it, most social work carried out in society. The second involves redistribution: "I give to the state or to the elders – in other words to those acting as politicians – so that they give to everyone". That is the system of tax – administration – public service and public goods.

## **b. Codifying community-based reciprocity**

However, the system of "reciprocity" has always existed. In other words, "I give to the community because I trust that the community will give to me when I am in need". It preceded the other two systems, and continues to prevail. This reciprocity is what the family is based on, it is what village society is based on, and it survives in relations between neighbours. I believe (as explained below) that this reciprocity is destined for a great future, and that it will never be totally replaced by the forms of the redistributive state or the market. However, there will be an increasing need for it to be officially codified, precisely because the natural structures of the family, church, and forms of village solidarity are in the process of disappearing.

This brings us to three questions. First, what form could the replacement for this role of the family, the church, natural local solidarity, etc. take? Second, what will the main areas of application of these tasks of an economy that I will call "socially responsible" be? Third, what form of

responsibility could the public authorities have in relation to the socially responsible economy?

### *i. Forms of responsibility*

Firstly, then, what form could it take? It is no longer a question of tradition and family but the “free association of individuals”. A very old idea, which goes back to the turning point that occurred between the late eighteenth and the early nineteenth centuries, in other words the period of the anti-feudal, anti-absolutist democratic revolutions. Once the hierarchical system of orders and gift exchange organised by the nobility or the church was abolished; once the bourgeoisie had imposed the individual-state, employer-employee and consumer-producer duos, there immediately appeared movements, originating at grass-roots level, to promote the setting-up of worker associations, referred to in France as *associationnisme ouvrier*. These pioneers said: “Right. Alongside the state, independently of employers, independently of the family, independently of the church, we are going to band together to form a group of consumers”. And thus the first “consumer co-operatives” were born in Lyons in the 1830s. The idea was to form an association to give one’s fellow citizens what were not yet called public services; to form an association to pool one’s savings to provide the poorest with what they needed to guard against the risks of life, including the risks that insurers call today “certain risks”, such as the risk of death. The very first *tontines* or rotating credit societies – the very first forms of collective saving schemes – were designed to ensure that everybody had a shroud and a coffin. Medicines were taken care of next.

This *associationnisme* was codified in the form of mutual benefit societies, co-operatives and associations. It was also codified in law and today, in the law of metropolitan France, is referred to by the term “social economy”. In France people do not like to use the term *communautaire*, or community-based, unlike the Québécois, whose willingness to use the term *communautaire* makes them vastly superior to us.

The social economy is characterised by two main principles: one person, one vote; and, if one embarks upon commercial activities, the income generated by this commercial activity is allocated to the fulfilment of the company’s social objectives. In other words the profits are mainly reinvested in order to constitute the common capital of this collective company, and the individual remuneration of the participants is voluntarily limited.

## *ii. The content*

Secondly; what is the content of this type of activity? We can determine the content to some extent from experience. Certain social forms performed certain functions. These social forms are disappearing. Who is to take care of this? What will we always need? To take care of one another. Not to take care of one another by means of a standard product, available on the market, not by means of a standardised public service that the state, at local or national level, should provide, but simply to take care of one another, whether spiritually or physically. The care that a mother, or more generally speaking that parents give to their children, or that children give to their elderly parents, cannot be standardised in the same way as a public service or a commercial service.

Taking care “individually” of one another in terms of education, care, or helping somebody cannot be the object of an administrative or commercial service. Entertaining somebody personally, educating that person, and making them think cannot be the object of an administrative or commercial system. There are a host of examples. Many economists say that this economy – which we call the “quaternary” sector, as opposed to the primary sector (agriculture), the secondary sector (manufacturing), and the tertiary sector (trade, administration and finance) – which is concerned with looking after each other, will in the long term occupy most of everybody’s time. It cannot be automated – it will never be something that machines can do; and it cannot be “globalised” – it is something that cannot be relocated; it will always be community-based activities, which we will always need.

And this will be done for the sake of what? For the sake of the principle of reciprocity, of “give and take”, of solidarity, which is something we are all mindful of. I would like to say two things about that. “Something we are all mindful of” means that reciprocity involves a certain long-term commitment. We do not do it “because we have to”, because otherwise the law would punish us; we do not do it in return for immediate financial reward. We do it because we think we must, because otherwise society would not exist, and that would backfire on us. Montesquieu would say that the basis of such an economy is virtue; virtue which is also at the root of democracy. Montesquieu is right: virtue is the basis of democracy, but it is also at the root of the economy of reciprocity. We need to know what tomorrow will bring; we need to think that much of the work we do for the community, without the prospect of

immediate reward, is because we have faith in the continued existence of the community, which will provide us with something when we need it. This faith – or “social capital”, as some sociologists have termed it – is the basis of civic life.

As I said, this social economy is to an increasing extent unconfined by the rules of the family or the church, in other words by incarnated social norms but – and this is the second point I would like to stress – it continues to correspond to an individual impulse. A psychologist, Gérard Mandel, who died recently, said that “society is not a family”. We would never work for society, or for the community, in the way that we do for the family. However, there is in the human soul, in the way we integrate psychologically into society, the *acte-pouvoir* (action-power) impulse, says Mandel. “I exist because through my actions I transform the world around me.” This impulse, this desire to do something to serve and transform our community – contribute to its enlightenment in any case – is necessary for our self-realisation but also, at the same time, for the realisation of the community.

### *iii. The role of public authorities*

Finally, the third question – and here is where I really become a political leader again – if virtue and this love of the community are not enough – and we know full well that they will not always be enough – how can the public authority provide encouragement?

I had to submit a report on this subject to the French Ministry of Employment and Solidarity a few years ago, which was published with the title “Pour le tiers secteur. Une économie sociale et solidaire: pourquoi et comment?” (For the third sector. A socially responsible economy: why and how?). It is true that we can list the methods and measures that public authorities can take to encourage virtue (if I may use that term) and channel this “action-power impulse” into serving the community. It may be quite simply a matter of acknowledging that socially aware and responsible consumption, socially aware and responsible saving schemes, an association, or a community-based enterprise may benefit from tax breaks or even subsidies, since they meet a need and play a role, if not as a “public service” then at least as a “service to the public”. It can be encouraged, among other things, in the choices made in government contracts.

## Conclusion

To conclude, I would like to say how pleased I am that this meeting has taken place in Strasbourg, since the Communauté Urbaine de Strasbourg, a few years ago, by choosing to award one of its government contracts to a socially responsible company, a local corporation, clashed with French law, which said that the contract had to go to the least expensive bidder. And, finally, in Strasbourg, the European Parliament has voted that in calling tenders for government contracts, emphasis may be placed on the social objective and social nature of the entity bidding for the work. This is an excellent example of measures through which the law can encourage the *associationnisme ouvrier* born in the nineteenth century, and encourage the desire to form associations in order to reduce unemployment and to provide a service to the community.

## 2. A new governance paradigm : public authorities- markets-civil society linkage for social cohesion

*by Benoît Lévesque, Professor of Sociology,  
University of Quebec, Montreal*

### Introduction

In this paper, we hope to demonstrate how solidarity-based finance systems and responsible consumption can acquire their full significance in the context of a new governance and regulation paradigm which they can help consolidate. This vision does not imply a lesser role for the public authorities, but one which is transformed by their interaction not only with the market but also with civil society and citizen involvement in the economic sphere. To many, solidarity-based finance is a component of socially responsible finance, as both take into consideration the social impact of the economic activities in which they invest. While this may be true, we must not confuse the two, as solidarity-based finance systems seek to respond to needs and aspirations not met by other forms of enterprise (both private and public). In the quest for social cohesion and social responsibility, solidarity-based finance could play a role similar to that of R&D; its success could have a knock-on effect on the entire spectrum of socially responsible finance systems. We shall return to this point at the end of the paper.

This contribution will focus on the institutional setting for solidarity-based finance and responsible consumption rather than on analysing these practices (which will in any event be examined during the various workshops). The first part will examine briefly the successes and failures of the state-market tandem which, in terms of its system of regulation and governance, was characteristic of a development model often referred to as Fordist (Boyer, 2004; Hollingsworth and Boyer, 1997; Lipietz, 1989). Next, we will trace the broad outlines of what we consider to be a new paradigm for governance and regulation, one which involves not only the state (the public authorities) and the markets, but also civil society and civic commitment. The social and societal challenges are particularly great given that this new paradigm presupposes not only a civil society active in the economic sphere (socially responsible saving and consumption), but also radical changes to the public authorities' terms of engagement and the operation of the market vis-à-vis society. The shared responsibilities that ensue when a wide diversity of actors and individuals

are engaged in saving and consumption throw up fresh challenges in terms of governance and regulation, calling for a deepening and widening of democracy. Finally, we shall come back to the review that is needed of the roles of consumer and saver, and to certain aspects which merit more detailed discussion in order to involve individuals more actively in defining the societal functions of markets and their own economic actions.

### **a. The old state-market paradigm from the perspective of the Fordist, welfarist model**

During the post-war period (1945-75), the system of co-ordination followed fairly clear lines, within a well-defined regulatory framework which disregarded the contribution of civil society, with the exception of the trade unions. Regulation was in the hands of the dominant state-market tandem, supported by the great compromise between employers and trade unions and driven, *inter alia*, by two major mechanisms: collective bargaining and social policy, flanked by economic and industrial policy. In the context of a relatively self-contained economy, these institutional mechanisms enabled a balance to be struck between mass production and mass consumption norms, while allowing those who were unemployed or unfit to work to be integrated through social welfare-led redistribution (Aglietta, 1976; Aglietta and Brender, 1984). Hence, co-ordination mechanisms of a more organisational nature were easy to interpret, as markets were price-led and the public and private hierarchies imposed their will on the masses by means of explicitly articulated orders and regulations (Williamson, 1975).

#### *i. The successes of the state-market tandem*

At this time, there was no talk of governance: the word had scarcely been invented. Neither was there any mention of the solidarity-based economy, solidarity-based finance, responsible consumption, socially responsible finance or socially responsible firms. The rules and prices were supposed to apply automatically, hence meeting the requirements of what we would now call governance. While civil society associations and initiatives did exist, supported in particular by the various religious groups and centred on the family, they were seen as traditional and expected to disappear or play only a residual role as public services were taken over by the new welfare state (Evers and Laville, 2004). Citizens



could take action to “tame” the market through the intermediary of the state, which laid down rules for economic operators. This development model, which established itself gradually and at varying rates in the developed countries, constituted a “grand vision for society” which was particularly successful in rallying support because it was based on the twin cornerstones of representative and social democracy, and involved the major social partners of the time, the trade unions and the employers, who shared a common vision emphasising among other things the value of state action and technical and economic rationality (Boyer, 2004; Beck, 2001; Lipietz, 1989).

This model clearly produced some successes which exceeded initial expectations, hence the references to the post-war boom years. If we consider the improvement in living conditions for the working class, the formation of a middle class, universal social welfare provision, widespread and free access to education and health services, not to mention economic growth against a background of relative stability and a goal of full employment, this era still has the appearance of a golden age. Very significant advances were made also in terms of social rights, integration and social cohesion, building upon the civil rights acquired in the eighteenth century and the political rights of the nineteenth century (Marshall, 1965). While some continue to dream of a revival of this model, its shortcomings are such that it now appears to belong to an outmoded paradigm, as regards its values and certain of its achievements as well as its system of governance, based on a hierarchy (and centralisation) tied to the markets.

This development model was challenged first by the left, and later by the right (particularly from the 1980s onwards). Hence, the motto that power should reside with society rather than the state was the rallying-cry of the anti-establishment of the 1960s before being taken up by the new right of Thatcher, Gingrich and Harris (Thériault in Paquerot, 1996, p. 143). As far back as the late 1960s, the new social movements (young people, students, environmentalists, women) were questioning the values of a project based on unfettered growth, mass consumption (passive and dependent consumption, market goods and services with little to choose between them and often of poor quality) and mass production (assembly lines, monotonous work and exclusion in the organisation of labour) (Boltanski and Chapiello, 1999; Touraine, 1978). The new social actors were articulating demands for self-determination, creativity and self-management which could not be satisfied within the sole framework of governance provided by the state-market tandem. This crisis, the

significance and scope of which would evolve considerably over the years, comprised two distinct phases, with the result that the civil society initiatives can also be divided into two broad categories.

## *ii. The failures of the state-market tandem*

In an initial phase spanning the 1970s, demands for democratisation, participation and autonomy in the spheres of work, public education and health services, and collective consumption in general, predominated. While the crisis in the workplace and the rejection of Taylorism during this era are well documented, there is a tendency to overlook the fact that public services were the object of similar demands, articulated for the most part by social actors other than the trade unions. The Fordist production system was allied to a welfarist approach based on redistribution and the definition of services by experts within a hierarchical and centralised apparatus (Bélanger and Lévesque, 1991). The democratisation of these services was defined in terms of universal, free access, with scant attention being paid to participation by users and professionals or to adapting to local conditions and the needs of the different social groups. These dual demands for democratisation and participation in the sphere of work and public services could not be met simply by raising wages or by means of redistribution. This explains the civil society initiatives and experiments with self-management in the workplace, and alternative approaches in the fields of education and health, underpinned in part by fairly radical theories such as those of Paulo Freire (1970, 1988) and Ivan Illich (1971, 1975). These socioeconomic experiments, driven for the most part by a desire to “live and work differently”, also questioned productivism and emphasised the “small is beautiful” approach (Brown, 1971; Meadows et al., 1972; Schumacher, 1978; Lévesque, Chouinard and Joyal, 1989).

The second phase, during the 1980s and 1990s, saw the weaknesses of the state-market tandem take on a new dimension, with a growing number of governments questioning the Keynesian approach and opening up their borders increasingly to trade. Laying the full blame for a crisis by then recognised to be structural at the door of state intervention, the neoliberals proposed a return to pure self-regulation by the markets. In this context, civil society initiatives came to be fuelled not just by new aspirations, but increasingly by unmet needs and social emergencies which raised a “new social question” relating to social exclusion. Thus, in addition to the crisis in the workplace (the meaning of work), to which

the new forms of labour organisation had endeavoured to respond, came an employment crisis and, as a result, the problem of exclusion (Castel, 1995). Similarly, the crisis besetting the foundations of the welfare state (solidarity and democratisation) was compounded by the inability of the state to respond to changing needs, owing to budget restrictions and the size of the deficits which had been accumulated (the economic crisis was causing a drop in revenue while at the same time demands for redistribution were growing) (Rosanvallon, 1992, 1998). Owing to the interdependence created by globalisation, it would become increasingly difficult to consider the welfare state in isolation in one country without taking account of what was happening with its neighbours (Walzer, 2000).

Examination of the new social question provides an insight into why the state-market tandem no longer provides satisfactory answers without input from civil society. In contrast to the old social questions which emerged in the nineteenth century, the new question relates to social vulnerability in a context of social welfare, comprising not only a relative shortage of resources, but also social isolation, negative individualism, social disengagement and exclusion (Castel, 1995). In many cases, the new poverty takes the form not just of a lack of means and resources, but also a lack of capacity to make choices, act upon them and co-operate with others, which is the basis for freedom in the positive sense (Laville, 1997). This is what Amartya Sen defines by the term capabilities: “the capabilities of persons to lead the kind of lives they value – and have reason to value” (Sen, 2000, p. 38). In contrast to positive individualism, which focuses on personal accomplishment and self-realisation, negative individualism comprises a lack: lack of (substantive) freedom, lack of power, lack of consideration, lack of security, and lack of assets and stable ties. Finally, as demonstrated, albeit in different ways, by the urban ghettos and urban and rural wastelands, the concentration of excluded persons into the same area results in the exclusion of those areas, which become in a sense “orphan” areas, abandoned both by the markets and by the public authorities (Fontan, Klein and Lévesque, 2003). Hence the importance of civil society initiatives which forge links between enterprises (the market) and the public authorities (Laville and Eme, 1994).

Negative individualism and social and geographical exclusion are the result of cultural and economic change and in particular the erosion of the wage economy (long-term unemployment and casualisation of employment) and the breakdown of the traditional family (single-parent families, increase in the number of elderly people and growing propor-

tion of women in a labour market which assumes everyone to be single) (Gosta Esping-Andersen). Seen from this angle, the new social question has both a social and an economic dimension (Supiot, 1999), to which neither the (welfare) state, nor the market, taken in isolation or even in tandem, can provide satisfactory answers in the absence of a civil society capable of forging social ties on the basis of citizen involvement and community (Lévesque, 1997). While redistribution by the state, like state intervention in the economy, continues to be necessary, particularly in those areas neglected by the markets, it is relatively ill-equipped to reconstruct community-based ties of solidarity (Putnam, 1993, 2000). Likewise, specific social problems or those concentrated in certain areas are not readily amenable to programmes defined by technocrats and administered on the basis of more or less uniform rules.

The criticisms from left and right (with different aims) related also to the passivity engendered by highly centralised forms of intervention which yield little control to users and the community. Hence, a number of analysts – critics of neoliberalism, incidentally – have highlighted the fact that the welfare state was partly responsible for the processes of social homogenisation and individualisation which we have identified. In a different way from mass consumption, the welfare state, they argued, was also a powerful driver of individualism, creating a society of individuals with little regard for other social ties. According to Gauchet: “By providing individuals with the extraordinary safety-net of welfare insurance, you are giving them permission, in matters of life and death, to break their ties with any community, any possible allegiances, starting with the most basic neighbourhood-based forms of solidarity: as long as there is social security, I do not need my next-door neighbour to help me (Gauchet in Donzelot, 1991, p. 170, editorial translation). The German sociologists Clauss Offe and Ulrich Preub (1997, p. 220) go so far as to suggest that redistribution policies have come to act less and less as a means to a higher end (elevating all individuals to the status of responsible citizen), becoming instead increasingly a goal in themselves. In order to exercise closer control over the users of public services and establish direct links to them, the bureaucratic welfare state, they argue, sought to minimise the involvement of civil society which was regarded, at least at first, as retrograde.

If the welfare state unwittingly engendered a sort of social decapitalisation of civil society, it is now time to re-invest in social capital and call upon civil society as a partner (Paquet, 1999). This is particularly the case since social risk has multiplied and the solutions to the new social ques-

tion lie as much if not more in prevention and empowerment than in merely providing compensation (Giddens, 1999; Parlier, 2004; Saint-Martin, 2004). In short, “the hidden face of the welfare state can no longer be ignored: it consists of its inability to devise a way of living together which satisfies the individual” (Laville, 1994, p. 57, editorial translation). While redistribution by the state remains necessary, it now appears manifestly inadequate to deal with the new demands and the new social question. Likewise, while the market economy may not be called into question, a market-based society cannot respond to the need for social recapitalisation which is highlighted by the new social question. As we see it, civil society initiatives, which account for a large share of the social and solidarity-based economy, are as well placed to satisfy new aspirations (for example, in the environmental sphere) as they are to meet new needs (social exclusion, new forms of poverty and long-term unemployment). However, these initiatives, which rely on voluntary participation, cannot succeed without the support of the public authorities or linkages to the market economy. In other words, the solutions to the new social question and the new risks lie henceforth in a new governance paradigm and a new social architecture which mobilise the state, the market and civil society (Jenson, 2004).

### **b. Social and societal challenges of a new paradigm founded on state, market and civil society**

The failures of the state-market tandem are often attributed solely to the public authorities, whereas in fact they stem precisely from the partnership formed through institutional links, which were in turn established on the basis of social compromise and shared values. Neoliberals who focus exclusively on the failures of the state are automatically inclined to place their faith wholly in self-regulation of the markets, even if it means relying on civil society to take care of those who are excluded. It is important therefore to distinguish at least two different approaches to involving and conceptualising civil society (Barber, 1997; Bratton, 1994; Cohen and Arato, 1992; Hamel, 1991). From the neoliberal standpoint, civil society acts in place of the state in tackling poverty. Civil society is viewed in its most traditional form, that is as confined to the family or non-profit organisations which carry out good works, preferably under the direction of the churches, as can be observed in the United States. From the perspective of a new paradigm based on state, market and civil society, meanwhile, civil society is seen in the context of modernity as a space for

freedom and citizen involvement expressed through associations based on voluntary participation and democracy rather than on obligation and patronage (Dacheux, 2004; Dacheux and Laville, 2004). Depending on the precise arrangements, civil society may be called upon not only to act on behalf of the “have-nots” and cases of urgent social need, but also to lend substance to new aspirations for participation and democratisation, with a view to a different model of governance. We shall now attempt to characterise this new form of governance, while providing some insight into the challenges and issues which it raises.

*i. A new model of governance: the role and shared responsibilities of the various actors<sup>1</sup>*

A governance model which mobilises state, market and civil society cannot develop without an institutional framework or system of regulation which promotes consultation between the stakeholders, or without a widening, not to say deepening, of democracy. It is not a matter of simply adding on civil society to the state-market partnership, but of redefining the role of each one in a world in which the boundaries between their respective spheres of intervention have become blurred, while at the same time governance is predicated on a horizontal rather than a vertical approach. That is evident in the sphere of both social development and economic development, with the concepts of the economy and the “social” being redefined.

On the social development front, the participation of civil society is indispensable to the regeneration of the welfare state (Vaillancourt and Laville, 1998). There is a growing consensus concerning the broad principles for moving beyond the traditional definition of the welfare state, namely: solidarity and equity rather than equality, targeted intervention rather than a universal, wall-to-wall approach, human resources development, assuming greater responsibility and proactive employment measures rather than benefits and passive measures, and social investment rather than social expenditure geared solely to compensation (Noël, 1996; Giddens, 1999). However, these principles can produce two different approaches to reform, one aimed at reconciling social welfare and the logic of the market by relying on civil society to take care of the least fortunate, and the other also looking to civil society, with help from the state, but with a view to promoting the empowerment of individuals and

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1. This sub-section is based largely on an already published text (Lévesque, 2003).

communities. The reformed welfare state approach moves beyond the concept of universal welfare in the sense that it seeks to take account of differences and promote equity. Social transfers are based on a recognition of multitasking and, by implication, of the plural economy, the social economy and the solidarity-based economy (Laville, 1994; Lévesque, 1997). Finally and, in our view, most significantly, there is the willingness to devolve more power to users and to acknowledge the importance of the local level by conducting a policy of decentralisation incorporating not just regulations but also the resources needed. This rethinking of governance is based on the recognition of civil society, the diversity of social actors and the principle of subsidiarity in the context of compromises involving new forms of solidarity (Stöhr, 2002).

The revamping of the welfare state should result in a “positive welfare state” (Giddens, 1999). Instead of a welfare state geared towards compensation, protection and remedy, we would have one predicated on social investment in order to secure the future and equip people to confront risk rather than simply shielding them against it (Jenson, 2004). In a setting dominated by reciprocity rather than dependence, it can be assumed that social entitlements will be matched by responsibilities. Hence, unemployment insurance could be linked to a requirement to actively seek work, with allowances made for certain cases where this is impossible or difficult (for example, for reasons of cost). Similarly, although the ageing of the population may pose a genuine problem, it is also possible to imagine how the elderly might form part of the solution, since they represent a valuable human resource. From this perspective, the sums spent on pre-school children might be seen as an investment rather than just expenditure. In short, the positive welfare state would replace Beveridge’s negative hand-outs with positive assistance: autonomy in place of dependence, active health in place of illness, lifelong learning in place of ignorance and initiative in place of inactivity (Giddens, 1999, p. 128). More broadly, the welfare state would become part of a welfare society which would promote decentralisation, initiative and empowerment, involving, *inter alia*, the third sector, the social and solidarity-based economy and associations, particularly in the delivery of certain social services and in facilitating social integration (Lipietz, 2001).

On the economic development front, a new vision also exists, one in which the state would act not so much as the overall organiser but as a catalyst and partner alongside local communities and civil society (Lévesque, 2002). Globalisation and the new information and communication technologies (ICT) have led to a radical reshaping of productive

systems and methods of governance (Boyer and Souyri, 2001; Piore and Sabel, 1984). Forced into social and technological innovation, firms are paying greater attention to non-market or non-economic considerations such as interaction, learning and information and knowledge sharing, as well as to the socio-institutional infrastructures represented, for instance, by universities and research centres. The importance of social factors in economic development is all the greater since the economy is becoming a service economy based increasingly on human relationships, forcing us to re-think productivity (Gadrey, 1992, 1998). The most innovative firms now look not only to the market, but also to civil society and to the different mechanisms for co-ordination based on involvement of the parties, such as partnerships, strategic alliances, long-term agreements, associations and networks (Hollingsworth and Boyer, 1997; Veltz, 1996; Lévesque, 2001). From this perspective, “social capital must be regarded as a tool for action if public policies wish to stimulate innovation effectively” (Landry, Amara and Lamari, 2001, p. 12, editorial translation).

Accordingly, the state focuses not so much on shoring up struggling enterprises as on encouraging innovation and promoting specialisation and the formation of linkages (Porter, 1990). Likewise, instead of confining itself to transferring resources to the less-advantaged regions, it supports local initiatives, or even the formation of regional production systems, without neglecting socio-territorial capital (Stöhr, 2002; OECD, 2001; Benko and Lipietz, 1992, 2000; Scott, 1998; Saxenian, 1994; Fontan, Klein and Lévesque, 2003). With this aim in mind, industrial policy focuses increasingly on a strategy based on an integrated supply of factors conducive to innovation, namely support for R&D, work-force training, access to finance and enterprise services (Matzner and Streeck, 1991; OECD, 1997). Accordingly, it is in the interests of industrial policy to act in concert with education policy, research policy, etc. For all the above reasons, and in the best possible scenario, the state will promote the emergence of a “new mixed economy”, different from the administered economy which aimed to subordinate the market to government, and different also from the old mixed economy in which the public and private sectors were two separate worlds. Through consultation and partnership, the new mixed economy makes use of the synergy between the capitalist, private and social economy sectors, in the context of a plural economy sensitive to the difficult task of juggling market dynamics and the public interest, regulation and deregulation, and the global, national and local levels (Giddens, 1999, p. 100; Laville, 1994; Lévesque, 2002). In



short, the state would continue to be important for economic development, but its role would be profoundly changed, while the partnership for economic development would be extended to include civil society.

While the overhaul of systems of governance in the social and economic spheres is thinkable, and even desirable, on this basis, the relationship between the economic and the social is thereby altered to such an extent that we need to redefine what is currently meant by the terms. Under the old (Keynesian) model, it was assumed that economic development must precede social development, the latter being defined in terms of redistribution and expenditure. In the emerging scenario, the social dimension represents not merely an output (what is redistributed and what is spent) but also an input, in other words an investment that will contribute to collective prosperity and collective assets. Hence, social development projects such as improving the environment, public services and quality of life may have a knock-on effect on major investments such as those in physical and technological infrastructures (Landry, Amara and Lamari, 2001). Similarly, in addition to bringing down the costs of non-integration, the sums spent on health and day care, not to mention access to services on the basis of citizenship rather than the market, could have a significant impact in terms of economic productivity (Jenson, 2004).

This new vision, together with the transformations taking place, provides pointers for redefining the concepts of the economic and the social. Henceforth, it will be less and less possible to define the economy strictly in commercial terms, since it also incorporates non-market and non-monetary aspects (Polanyi's substantive economy, or the plural economy) (Polanyi, 1983). Likewise, it is no longer possible to define the social exclusively in terms of cost, as it can also represent a form of social capital, a source of competitive advantage and a space for investment promising high returns. Paradoxically, "at the very time when capitalism appears to have conquered all before it in the economic sphere, the need for social action, which it claims it can dispense with, has assumed unprecedented proportions" (Draperie, 2002, p. 7, editorial translation). That being the case, it should be possible to create a new virtuous circle between social and economic development. However, these changes, which involve the state, markets and civil society, entail greater complexity and throw up challenges which must not be underestimated.

*ii. Social and societal challenges of a ménage à trois;  
state-citizens alliance to redefine the societal functions  
of the market*

The new model of governance presents major challenges as regards the reshaping not just of the state, but also of the market and civil society. First, while it offers considerable potential for mobilising tangible and intangible resources, it must identify the stakeholders carefully in order to bring them together within an appropriate space. Second, the interaction of a diverse range of principles and approaches raises fresh difficulties in terms of co-ordination of joint actions or projects. Third, the compromise and consensus required in order to define the general interest can be achieved only by means of discussion and social dialogue, the legitimacy of which must be rooted in a widening and deepening of democracy. Fourth, the new model of governance must also rise to the challenges of accountability and evaluation using relatively new methods. Finally, if these challenges are not met properly, particularly as regards the societal functions of the market, there is a danger that investment in social capital and civic commitment might be used by the market for its own ends. We shall now look briefly at each of these social and societal challenges in turn.

The first challenge, then, is to identify the relevant stakeholders for the issue under consideration or the proposed project. If the complex nature of civil society makes the challenge appear particularly daunting, the market and the state also encompass situations which may not be as clear-cut as they first appear. The market may incorporate small and large, even multinational companies, as well as networked companies, branches or subsidiaries which are regulated to a greater or lesser degree, and even employers' associations which may also come under the heading of civil society. While the state may be embodied by the public authorities, the latter may have set up agencies and machinery, often in a silo structure, to say nothing of the distribution of powers between the local, regional, national and international levels. That said, the difficulties are raised a notch as soon as we consider civil society stakeholders, as suggested by the distinction between "contractual" and "non-contractual" stakeholders (Descolonges and Saincy, 2004, p. 41). The former are by definition easier to identify as they are the more visible: shareholders, clients, suppliers, employees (trade unions). The latter are much more difficult to pinpoint, as their numbers may be very high and vary from one society to another. They may include local and cultural communities, NGOs, associations, public agencies, the media and social

groups: women, young people, the elderly, the disabled, etc. Finally, the boundaries between civil society, the state and the market are becoming increasingly blurred. While the market is defined in theory as a mechanism which disregards social ties, it none the less needs to be situated within networks in order to operate properly (Granovetter, 1985). Similarly, the state is embedded in civil society, which in its turn is shaped by the state (Hamel, 1991). All of which further demonstrates that identifying the stakeholders in both economic and social development remains a political question, the answers to which will frequently arise out of protest and struggles for recognition. As a result, the new model of governance will struggle to operate in the absence of representative democracy and of a state governed by the rule of law which is capable both of allowing new social demands to emerge (often through protest) and of laying down the markers for overall regulation.

The second challenge arises out of the diversity of approaches to and mechanisms for co-ordination represented by the state, the market and civil society in the new model of governance. This *ménage à trois* is not entirely straightforward given that the market, the hierarchy and civil society operate according to different mechanisms: price mechanisms in the case of the activities of the market, compliance with the rules in the case of the public and private hierarchies, and voluntary commitment in the case of civil society. This entails discussions in order to garner support for a common project which will need to be redefined constantly (Piore, 2001). In addition, each of these mechanisms must meet challenges specific to it: the market must prevent defection (exit), the hierarchy must ensure not only that its rules are rational but that those who define them have legitimacy (voice), and the organisations making up civil society must maintain solidarity and loyalty (Hirschman, 1970; Boulding, 1970). As we can see, the involvement of civil society in an economic project or a service activity cannot rely either on pure market calculations or on the orders coming from the hierarchy. Given the diversity of approaches and mechanisms, no overall co-ordination can be achieved without a common space for sharing the information gathered by each party, and without discussion between the parties. If capitalist and publicly-owned enterprises wish to secure the involvement of all the interested parties, they will need to provide a forum for deliberation and public debate.

The third challenge is the discussion needed to devise joint activities and projects designed to be in the general interest. In addition to the two definitions of the general interest as the sum of individual interests brought about by the invisible hand of the market, and as reasons of state defined

by legitimately elected representatives with the help of experts (the visible hand), the organisations and components of civil society introduce the notion of the collective interest, which may represent the general interest in a more restricted sense based on solidarity (Monnier and Thiry, 1997). The sum of collective interests does not produce the general interest any more than does the sum of individual interests, as some collective interests may be irreconcilable and may veer off into a narrow corporatism (for example, a trade union fighting to save jobs in a weapons factory which an environmental group is campaigning to have closed). How then do we reconcile individual interests, collective interests and the general interest while at the same time maintaining the active participation of the different stakeholders in the public authorities, the private sector and civil society? The only solution likely to satisfy all parties appears to be the deliberative democracy approach, which goes beyond direct democracy (participation by the stakeholders directly involved in the activity) and social democracy (consultation between the main social partners).

Direct democracy and wider participation are no guarantee of greater cognitive or moral quality of the decisions made by the stakeholders and the people mobilised as a result (Offe and Preub, 1997, p. 226). While direct democracy and social democracy are adjuncts to the representative democracy which is essential, none of these different forms can dispense with discussion and social dialogue in pursuit of a greater good which takes account of the diversity of interests and their possible convergence in the longer term. In order to prevent these decisions being the product of short-sighted or individualised interests, the desire to promote the common or greater good must be encouraged, and public spaces or intermediary bodies must be set up to ensure the flow of information, dialogue, discussion and debate. Hence, "via discussion and the exchange of views we achieve a temporary consensus and definitions of the common good which were not there at the outset and which are, literally, the product of democratic debate" (Thériault, 1996, pp. 146-147, editorial translation). By this means it becomes possible not only to move beyond, or even reconcile, the individual and collective interests, but also to arrive at a definition of the general interest in terms of the common good based on citizenship, namely from the point of view of those who value the common good above their own personal and group interests (ibid.). The legitimacy of the common good arrived at in this way does not stem from discovery of a pre-existing good, but from a process of shaping a general will resulting from discussion. It goes without saying that "empowered deliberative democracy" cannot be achieved without

a favourable institutional setting incorporating such elements as the principles of subsidiarity, recognition of the stakeholders and decentralisation of certain powers accompanied by the corresponding resources (Fung and Wright, 2001).

The fourth challenge relates to the question of evaluation and accountability. Once we can no longer rely on balance sheets (commercial activities) and on orders from the public authorities alone, evaluation becomes an issue, the response to which implies agreement between the parties and validation of the criteria used. If we take the view that economic activity must take account not just of externalities (social consequences) but also of the goals of civil society such as social cohesion and quality of life, evaluation becomes a process which must be set in motion even before a project commences. This approach to evaluation provides an opportunity for rethinking the question of accountability, which is inevitably raised by subsidiarity. In the context of representative democracy, a political system is accountable if it makes the government and elected representatives answerable to voters for their actions. But what happens to accountability when it is not the elected representatives, but the stakeholders, who are involved on the basis of partnership or civic commitment? In so far as the state openly defines the overall guidelines, values and rules, accountability may apply to persons other than the elected representatives, albeit by means of mechanisms which take account of the nature of their involvement (administrative, contractual, corporate or civic accountability) and of the diversity of situations (numerous different cases, contexts, responsibilities and interfaces). As the bureaucratic and contractual forms of accountability are not necessarily suited to participation by a large number of different stakeholders, consideration must be given to multiple, soft forms of accountability based on reflexivity, discussion and transparency. On this basis, accountability has both an ethical role to play in providing markers for the partners and an epistemological role in terms of the knowledge necessary for joint action (Paquet and Scala, 2001). While this form of accountability may be superior to others in theory, it none the less poses a considerable challenge, as it means departing from tried and trusted methods.

### **c. Towards a more responsible and solidarity-based economy ?**

Our analysis of the new model of governance does not permit the conclusion that the economy at the dawn of the third millennium has

become more responsible and solidarity-based than in the past, if only because of the growth in inequality and the increased environmental threat. However, we can conclude that the question of a more responsible economy based on greater solidarity takes on a different form today. First, it has become more pressing: we are now much more interdependent than in the past, with the result that we have no option but to demonstrate solidarity, including with the countries of the South (Sen, 2003, pp. 92-93; Stiglitz, 2002, p. 290). Second, in terms of governance, the nature of the question has also changed since the post-war period, when a “great transformation” provided the impetus for a move away from the *laissez-faire* state and towards a market economy co-ordinated to a large extent by the state via its economic and social policy, its national institutions, its publicly-owned companies and its rules governing the labour market and the financial markets (Hall and Soskice, 2001). This legacy of the post-war boom remains because the regulatory powers of the state have not disappeared; however, nation states now have to act in concert not just with the different levels of power (global, regional and local) and with an increasingly open market, but also with civil society.

In the context of the new model of governance and the transformations identified previously, two new pathways of innovation (among others), opened up by civil society initiatives in close interaction with the market and the state, provide scope for some progress towards a more responsible economy and a market more mindful of its societal functions. The first of these is the new social economy, here referred to as the solidarity-based economy, which encompasses solidarity-based finance systems. The second is new forms of citizen involvement in the economy in pursuit of socially responsible finance and responsible consumption. The former relates to civil society initiatives consisting of setting up companies and organisations controlled by an independent association of persons rather than by shareholders. The latter also relates to community-based initiatives, but in this case designed to act directly on the dominant system of production and distribution through the power of savers (especially through save-as-you-earn schemes) and the power of responsible consumers in a market economy which, in theory, is responsive to them. We shall assume that these two routes to a more responsible economy based on greater solidarity are not in themselves sufficient basis for a new governance paradigm, but that they are very much a part of such a paradigm, and even contribute in their own way (hence, in a fairly original manner) to consolidating it. In this respect, they must rise to the chal-

lenges thrown up by the new model of governance and to their own specific challenges.

*i. The social and solidarity-based economy and solidarity-based finance*

The context in the early 1980s, referred to previously, was one of new necessities and opportunities which prompted the different actors in civil society to invest in the field of socioeconomic development, thus giving rise to a new generation of the social economy, often referred to as the solidarity-based economy. Innovative social projects emerged, some in response to the new and pressing social problems affecting certain communities and social categories in particular, and others designed to lend substance to the aspirations of the new social movements: women's groups, environmental groups, local communities, cultural communities, etc. The forms of association used (non-profit organisations, co-operatives and mutual benefit associations) tend now to be seen as part of the search for a new relationship with the state and the market, thus contributing to the establishment of new regulations and new divisions of labour at the global level, with the aim of achieving social cohesion and community solidarity (Evers and Laville, 2004; Pestoff, 1998).

In more concrete terms, the new social economy encompasses new services to individuals to satisfy the needs not met, or inadequately met, by the welfare state (predominantly non-commercial activities) and new economic activities (predominantly commercial) to integrate excluded persons or regenerate declining rural or urban areas or stretches of wasteland (Fontan, Klein and Lévesque, 2003). We use the expressions "predominantly non-commercial" and "predominantly commercial" to signify that all these initiatives, whatever their legal status, mobilise a great variety of resources: non-commercial and non-monetary resources derived from the reciprocal arrangements promoted by associations of persons (charitable work and donations), non-commercial resources resulting from redistribution by means of grants and fiscal concessions granted to organisations pursuing socially valuable aims, and commercial resources obtained from the sale of derived products or from members' contributions to the cost of the product or service. This capacity to mobilise a wide diversity of resources has prompted some observers to argue that the social economy is part of a plural economy or of a diverse range of spheres and approaches (commercial, civic, industrial, domestic, creative, project-led) (Enjolras, 1995).

As the following table clearly shows, the new social and solidarity-based economy has evolved chiefly via two approaches: the first comprising efforts to combat poverty and socio-professional exclusion, with initiatives representing a response to social emergencies or situations of great need, and the second comprising the creation of new wealth, with initiatives designed to respond not just to needs but also to the aspirations not met or inadequately met by the market and the state. These two approaches give rise to at least four broad categories of organisation in the social economy. In both cases (response to social emergency and response to aspirations) we find initiatives which have a predominantly non-commercial basis and which are generally aimed at social and cultural development, alongside predominantly commercial initiatives, most frequently targeting economic development. In other words, responses to urgent social needs and responses to aspirations alike come under the heading of both social development and economic development; however, the predominantly non-commercial activities tend to be carried out

Four major categories of organisation in the social and solidarity-based economy

<b>Needs and aspirations</b>  <b>Relationship to market</b>	Social and solidarity-based economy (response to urgent social needs)	Social and solidarity-based economy (response to aspirations)
Predominantly non-commercial social economy (social development)	Examples: Shelters for the homeless Community kitchens Re-integration of "dropouts" Microcredit	Examples: Alternative schools Early childhood centres Perinatal centres Environmental museums
Predominantly commercial social economy (economic development)	Examples: Start-up firms Adapted work centres Community restaurants Microfinance Community funds Local development funds	Examples: Social firms Worker-managed firms Health food co-operatives Organic farming Waste recycling co-operatives Environmental funds

Source: Lévesque, 2003



by non-profit organisations, whilst those which are commercially led may be co-operatives or mutual benefit societies but are equally likely to be non-profit organisations. In addition to these there are financing, support and advisory agencies as well as sectoral, territorial and international groupings. Accordingly, the social and solidarity-based economy is very much a part of a new economy which is not only plural, but also mixed (Giddens, 1999; Laville, 1994; Lévesque, 2002).

Solidarity-based finance as a component of the social and solidarity-based economy can also be considered in terms of these two approaches. Under the first approach, consisting chiefly of solidarity-based microfinance, it responds directly to social needs and emergencies by providing funds for activities targeting areas in difficulty or persons who are excluded or in danger of becoming so, such as the unemployed, recipients of basic welfare benefits and social categories experiencing problems integrating (young people, women, new arrivals, etc.). Under the second approach, which does not confine its attention to microfinance, solidarity-based finance provides financing for projects in the social and solidarity-based economy which, while aiming to respond to social needs, also seek to meet societal aspirations and goals such as sustainable development, quality of life, the long-term future, democratisation, self-management and social innovation. In both cases, the funds are aimed at supporting firms and projects which are economically viable (albeit scarcely profitable in the short term) but which also produce social dividends. If we apply a calculation which does not focus solely on profitability, it may still make sense to invest in these projects in view of the short and longer-term social benefits for the community and the persons concerned.

In both instances, mainstream financial institutions are not interested in the projects for various reasons. In the case of solidarity-based microfinance, the modest returns which can be expected from the small sums lent are not sufficient to cover the transaction and back-up costs (Servet and Guérin, 2002; Lévesque and Mendell, 2002). As regards financing in the solidarity-based economy targeting sustainable development and social innovation, the amounts involved may be higher, but the returns are equally modest and the level of risk relatively high, at least in the short term. For all these reasons, both approaches to solidarity-based finance have given rise to specialist structures which finance projects by means of loans, loan guarantees or provision of share capital (quasi-equity finance), with the expectation of generally low returns (Bayard and Pannier-Runacher, 2002). The accounts cannot be balanced without external top-

up funding from charitable donations, public subsidies, reduced-rate loans, solidarity-based investments, etc.

In the context of monetarisation (the search for high returns, withdrawal of capital from productive activities and areas in decline), the mainstream financial sector, and in particular the banking sector, is becoming less and less involved in financing the new social and solidarity-based economy, not only for the reasons just outlined (modest returns and perceived high level of risk), but also for reasons relating to the legal forms used (non-profit organisations, co-operatives, mutual organisations) which, unlike joint stock companies, do not provide equities. Thus, firms in the social and solidarity-based economy tend not to have access to venture capital as a source of equity. Hence the need for intermediary bodies engaged in solidarity-based finance which can raise finance from a variety of sources, including solidarity-based savings. While these bodies were set up to fill the “vacuum” left by the refusal of the financial institutions to become involved, they are not intended to create closed circuits. Solidarity-based finance very often acts as a lever for obtaining financing from mainstream financial institutions: the solidarity-based finance and the support granted, often with the help of the state, make the projects less risky and more likely to be economically viable. Accordingly, solidarity-based finance is very much a part of the new governance paradigm involving the state, the market and civil society, in a model in which all parties are called upon to contribute to the general interest and to social cohesion.

Finally, on the subject of the social and solidarity-based economy, it is important not to equate solidarity-based finance solely with microfinance and projects designed to meet urgent social needs; aspirations often represent needs, the urgency of which will become apparent only in the longer term (Beck, 2001). Furthermore, solidarity-based finance geared to satisfying aspirations might be seen as a kind of test bed for social innovation, enabling new social demands to be identified which will subsequently be taken up by the market or the state. In most countries, it is not hard to find civil society initiatives which later became public services supplied directly by the state (Evers and Laville, 2004) or services and goods supplied by the market, as demonstrated by the health food and fair trade products now on offer in many large supermarkets. Accordingly, solidarity-based finance can undoubtedly contribute to social cohesion, but also to the general interest and the common good. While it forms part of the new governance paradigm, solidarity-based finance, with backing from the state and the markets, provides a contribution which neither the state nor the markets, nor the two in tandem, can provide.

## *ii. Socially responsible finance*

Socially responsible finance and responsible consumption represent a different approach from that of solidarity-based finance. However, it is a complementary approach, especially given the numerous linkages between the two, demonstrated by the case of fair trade. Instead of making use of voluntary associations to conduct autonomous activities relating to the production and distribution of goods and services in pursuit of social goals, socially responsible finance and responsible consumption rely on individual choices by savers and consumers in order to influence the dominant systems of production and distribution, without undermining their profitability (even reducing the long-term risks). While this second approach is based on individual choices by savers and consumers, calling on them to take an interest in how their savings are used and the conditions in which the goods they buy are produced, it appeals to them as citizens concerned for the general interest. Furthermore, it cannot be implemented and become more widespread without the support, at least initially, of voluntary associations and intermediary bodies in civil society. It is fully consistent with the new model of governance, which is predicated on horizontal relationships and participation by the public authorities in the market. Owing to the power of the consumer and the importance of maintaining their image, firms therefore have an incentive to take account of hitherto neglected societal functions. Similarly, the public authorities are called upon to back initiatives of this kind which serve the general interest, by promoting information, stakeholder training and the creation of instruments such as certification, labelling, evaluation, etc.

There have been several generations of socially responsible finance: the first, dating back several decades, saw the creation of ethical funds to address exclusion in certain sectors (for example, alcohol, gambling, pornography) or certain geographical areas (for example, the apartheid regime in South Africa). The second generation based its choice of activities and geographical areas on positive criteria relating to firms' social and environmental responsibilities: development in poor countries, corporate social policies (for example, working conditions, gender equality, health and safety, etc.) and environmental policies (for example, pollution hazards, development of clean technologies). The third generation, dating from the 1990s, adopted an integrated approach combining financial profitability and social and environmental performance (the triple bottom line). These "are the forerunners of the latest generation of funds, based on a similar procedure for selecting investments, but with

an additional requirement to conduct an ongoing dialogue with firms in order to influence their management above and beyond mere attendance at the AGM" (Bayard and Pannier-Runacher, 2002, editorial translation). The different approaches adopted by the successive generations of socially responsible finance – at first negative, then positive and now increasingly proactive – are now starting to be combined. That said, they face numerous problems as regards, for instance, screening and assessment criteria, gathering of the relevant data and the reliability of certification bodies, all of which lie beyond the scope of this paper. Moreover, if we want these initiatives to play a full role in the new model of governance, and to have a real impact on making the economy more responsible, the contribution of the national and international authorities is vital. We propose now to comment on two aspects of socially responsible finance: first, its importance in the context of monetarisation of the economy, and second, the role of civil society and associations in spreading the message.

First, the potential of socially responsible finance to bring about change is now far greater than it was originally, owing to the monetarisation of the economy and the emergence of a financial sector which is increasingly globalised and more and more independent from the economic, political and social spheres. On the microeconomic front, the financial markets have imposed their thinking on directors and managers, who now view their businesses as share portfolios rather than as tangible activities. The emphasis on finance and on securing high returns prompts firms to pull out of certain activities and areas, while targeting others, without regard for social value, working conditions or environmental considerations. In macroeconomic terms, share prices on the stock market are becoming the key variable in growth. Two facts demonstrate this: the fact that "this variable is determining firms' production and investment choices" while creating pressure to "increase profits and maximise capital savings", and the fact that "the value of households' assets determines their access to credit and their decisions as consumers to purchase consumer durables and housing" (Boyer, 2002, p. 73, editorial translation). In addition to the multiple changes introduced for the most part by the public authorities, which have accumulated over several decades (deregulation and decompartmentalisation of financial activities, venture capital, pensions reform, more competitive labour markets, etc.), save-as-you-earn schemes which invest in the financial markets have played a major role in increasing the power of the financial sector.

This new form of saving is a major innovation which gives savings a cumulative stability, but takes no account of the longer term or non-

financial criteria (Gauron, 2000, p. 339). Owing to the speculative pressures (short-sightedness and volatility) encouraged by the self-referential nature of opinion in the financial world, this system is still very fragile in the view of several analysts (Orléan, 1999; Aglietta and Orléan, 1998). While the threat of financial disaster is very real, socially responsible finance provides a glimpse of possible ways not just of reining in speculation, but also of steering the whole economy in the direction of sustainable development, social responsibility and solidarity, including with the countries of the South. This would appear to be even more important since the threat of disaster emanates not just from the financial sector but also from economic activity, if the latter is viewed from a purely technical economic perspective (Brender and Pisani, 2004; Beck, 2001). Accordingly, if socially responsible finance manages to sustain its current rate of growth over several years, it could have a real impact not only on the financial sector, but also in the economic sphere, where it could introduce a broader-based rationale receptive to values other than pure growth. This gives us some idea of the power of concerted action by savers and consumers, and leads us to our second point.

Socially responsible finance cannot reach a wide audience without the support of the public authorities. The latter, however, rarely become active in new spheres except under pressure from civil society, at least in states governed by the rule of law (André and Delorme, 1983). Individuals' concern about how their savings are used, rather than just about returns, and consumer behaviour which takes account of the conditions of production and the resulting social consequences sprang from the activities of associations and groups, as demonstrated by the involvement of religious groups in this sphere in the 1920s. Nowadays trade unions, international solidarity movements, NGOs and a variety of civil society associations are the starting-point for activities to promote socially responsible finance. In addition to developing tools and raising awareness, these voluntary associations provide individuals with the motivation and arguments for making such choices, making them feel that they are getting more for their money. Associations can construct a broader-based rationale which lends an added symbolic value to savings and consumption tailored to individual situations, something which public authorities cannot achieve so easily, but which they are bound to support in their pursuit of the general interest. Put another way, socially responsible finance and responsible consumption rely on individual choices, but those choices are based around membership of networks and groups. We might even add that these individual choices are to

some extent embedded in cultural and cognitive terms, which explains their relative coherence and points to a possible means of changing attitudes and introducing innovation (Granovetter, 1985, 2000; Zelizer, 1988). Fair trade provides a good illustration of how individual choices can help create a broader-based rationale using public spaces which encourage its creation.

### *iii. Fair trade: a highly instructive example of responsible consumption*

There are several forms of responsible consumption, but the most striking in our view is fair trade, which highlights the respective roles of civil society, the public authorities and the market in spreading social innovation in relation to consumption and, accordingly, production. A growing band of consumers in the North is prepared to pay slightly more, not just for the quality of the product but for the values it represents. As we know, fair trade is designed both to improve the lot of small producers in the South and to raise awareness among consumers in the North concerning the unjust nature of the rules of international trade. As such, it undoubtedly has a commercial dimension, but also an educational and symbolic dimension (Carvalho da França, Fraisse and Laville, 2003, p. 41). Through commercial exchange, it creates ties of solidarity between small-scale producers in the South and consumers in the North, highlighting the injustices which often go unnoticed by consumers, and in particular the fact that prices do not always properly reflect the social and environmental conditions in which the goods were produced (Johnson, 2003, p. 73).

In terms of its values, principles and even the forms of organisation which are favoured, fair trade is very much a part of the wider family of the social and solidarity-based economy. The concern for a fair price (or the true price) and for the establishment of direct links between producers and consumers, cutting out middlemen as far as possible, has been a feature of the social economy from its earliest days, and even more so of the new social and solidarity-based economy (Desroche, 1976; Desmoustier, 2001). Likewise, both emphasise the importance of solidarity, democracy, of projects being rooted in the local community and area, as well as equity and the social aims of the economy. In addition, both fair trade and the social and solidarity-based economy form part of a plural economy, as they mobilise not only commercial resources, but also non-commercial and non-mone-

tary resources (Laville, 1994). Both have emerged from pre-existing social movements and associations, a fact which has two positive consequences. Firstly, the projects supported can make use of the mobilising power of these movements, both in terms of material resources and in terms of motivation and campaigning. Secondly, “small projects” such as fair trade projects or those involving production of a product or service, benefit because they are part of a bigger project relating to sustainable development, a people-centred economy, an alternative economy and an alternative model of globalisation and international solidarity.

However, fair trade has a number of features which make it stand out from the social and solidarity-based economy.

First, it transmits fairly specific values, including solidarity between producers in the South and consumers in the North, equity in international trade and sustainable development as a key value.

Second, it emphasises a number of equally specific principles, such as the criteria for improvements in the basic living conditions of producers, long-term relationships and agreements incorporating not just a fair price but also sustainable development, financing systems which take account of the need to pay advances to farmers and craft workers, not to mention the promotion of socially aware and responsible consumption.

Third, the fair trade movement has made some highly complex innovations on the organisational front in order to place producers in the South in touch with consumers in the North, by means of purchasing pools (often co-operatives or associations which reduce isolation and are recognised by independent bodies), processing firms (all too often located in the North) and distribution networks.

These networks operate through two different routes (a social economy route made up of small shops which can form a parallel network in international trade, and a corporate route providing very extensive access to the mass distribution market).

The products are certified (labelled) as fair trade by a number of organisations, mostly in the non-profit sector. We must also bear in mind all the individuals and organisations (governmental and non-governmental) who promote the products, most often on a voluntary basis, and who raise awareness among a growing audience.

**Figure 1: Fair trade: actors and organisations**

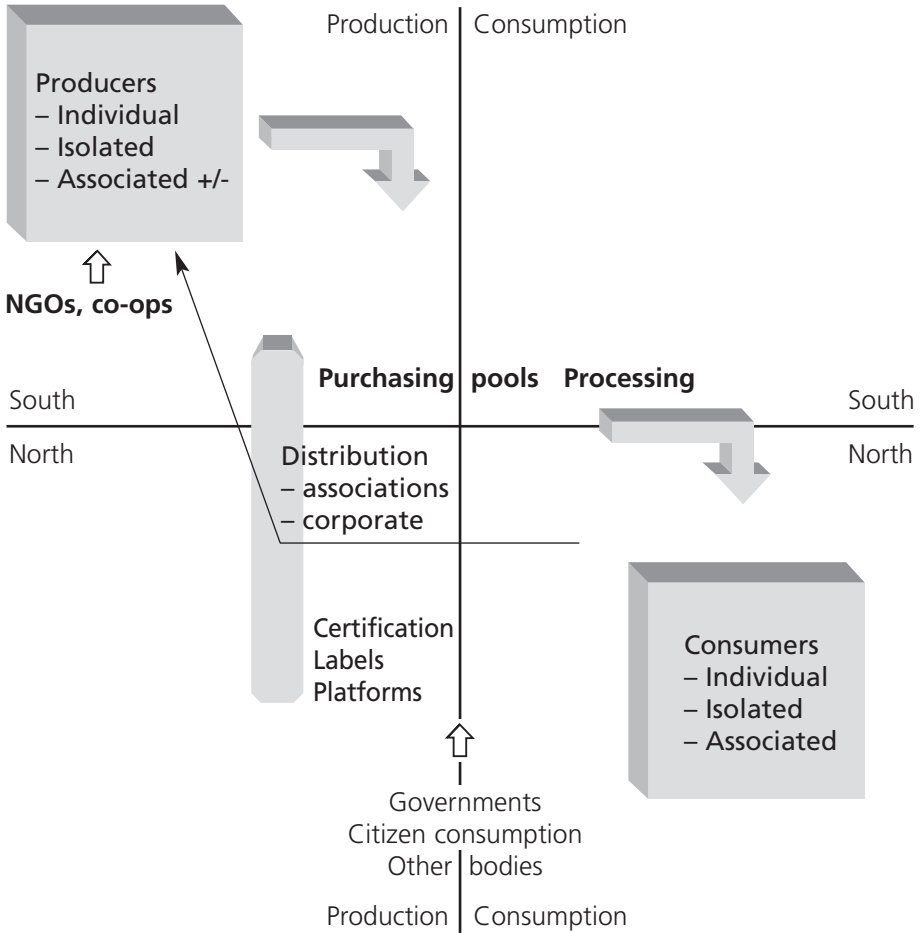




Figure 1 attempts to depict the organisational and institutional complexity of fair trade on two axes: one plotting the relationship between South and North, and the other between producers in the South and consumers in the North. As we can see, for the producers, fair trade means joining forces to form co-operatives or associations and securing a fairer price from the purchasing pool for products which are certified as fairly traded. Labelling on the basis of certification by a recognised, independent body represents an original means of recognising the social dimension; social economy enterprises are usually recognised as such by legal statuses enshrined in laws (relating to co-operatives, mutual organisations and associations) or in properly constituted contracts such as shareholder agreements. By using certification and labelling schemes, therefore, fair trade is exploring a new way of recognising social responsibility and solidarity in the economy. This approach differs from straightforward “branding” as it relies on substantial investments in kind (Boltanski and Thévenot, 1991; Duvernay, 1986), in most cases by independent non-profit organisations, such as NGOs with government assistance (at European level, the Fair Trade Labelling Organization). While they may not be legally binding, labelling and certification schemes are based on inspections and controls which offer guarantees. In addition, they are particularly well suited to situations where the consumers are located in a number of different countries. They also enable mass distribution of products through the major distribution chains, providing access to supermarkets, with the attendant drawbacks compared to small shops (for example, *Artisans du monde*) through which distribution is more limited, but which tend to be more firmly committed to raising consumer awareness.

Thanks to the investments in kind made possible by labelling schemes, fair trade products carry not just material connotations of superior quality, but also symbolic connotations of good citizenship, international solidarity, equity, social justice and sustainable development. In other words, although their primary function is to respond to the immediate needs of producers in the South, they are also a means of expression for the aspirations of consumers who wish to become active consumers and contribute to sustainable development. In this respect, consumers in the North with an interest in fair trade appear more isolated and more varied in their make-up than the participating producers in the South. However, on closer inspection we may find that the most steadfast and committed consumers are supported by institutions and organisations (trade unions, associations, environmental groups, etc.) which keep them informed, raise their awareness and train them to act as multipliers capable of influ-

encing the whole of civil society (socially aware consumers will tend to be more receptive to civil society than to the market alone).

There is scope for extending fair trade, in both the North and the South, without trivialising it. There are at present two possible means of extending it which could be employed relatively easily, since small-scale projects already exist. The first consists in extending fair trade to consumers in the South, and in particular the middle classes in the cities. The second would be to incorporate small-scale producers in the North who operate on the margins of productivist agriculture, either by marketing local produce which travels reasonably well, or through the community-based ties existing between organic producers and consumers prepared to commit to long-term agreements. There is a third approach which, although possible, would certainly be less straightforward. This would entail putting certain producers from the North (for example, producers of local produce not available in the South) directly in touch with consumers in the South, without adversely affecting producers in the South (this approach is clearly the trickiest). In so far as fair trade challenges unjust rules and ways of doing things which have little regard for the environment and the social conditions in which goods are produced, extending it in this way might be justifiable, on the understanding that priority would have to be given for the time being to the small-scale producers in the South and to raising awareness among consumers in the North and turning them into active consumers. At the same time, while extending fair trade in these ways may be desirable, it is clear that the movement cannot by itself define the rules of fair trade to ensure that they respond fully to the needs identified and the aspirations being pursued.

The origins and development of fair trade demonstrate clearly the importance of civil society associations and organisations, not only in supporting and organising activities – which could be done equally well by the state or the market – but also in generating values and a vision tailored to the different groups in society and to a huge variety of situations, in a way which neither the state nor the market could easily achieve. However, the public authorities at both national and international level can do a great deal to help disseminate such practices as regards training and the provision of expertise, as well as through creation of the necessary instruments (agencies, certification schemes, controls, etc.). Finally, fair trade also demonstrates the potential of such initiatives to transform the mass distribution market, at least as regards certain products and certain target consumers.

## Conclusion

As we have attempted to show, we are witnessing the emergence of a new governance paradigm based not on the state-market tandem alone, but also on civil society. While we have focused on the last of these to a greater extent than on the public authorities, we have none the less stressed the fact that the state and the markets are also being called upon to make adjustments, and even restructure: hence the question of governance involving participation by all the stakeholders. The predominant role of the state in regulation will not disappear, but the demands of civil society will no longer relate solely to regulation of the market through a set of rules laid down by experts. The various components of civil society are now starting to interact with the market, prompting it directly or indirectly to take account of the social consequences of economic development and even of social development (as a result, among other things, of the importance of social capital and social cohesion for economic development). Hence, civil society is now calling upon the public authorities to support initiatives which are to some extent independent and which relate directly to production and distribution, as in the case of socially responsible finance and responsible consumption. In other words, the new model of governance promotes a broadening of the range of levers available for bringing about a more responsible and solidarity-based economy. As already mentioned, that does not mean that the economy has suddenly become more responsible or is demonstrating greater solidarity; it does, however, indicate that the challenges facing us are greater than we would have thought possible hitherto, and that the number of relevant actors is greater. These new challenges cannot be met without a widening and deepening of democracy, since the diversity of approaches and sectors involved means that overall co-ordination is not possible without a public space in which to debate it.

Among the initiatives contributing to the establishment of a new model of governance, we have examined two relatively new options: solidarity-based finance and responsible consumption and saving. We found that both encompassed two approaches: one geared towards meeting urgent social needs and the other fuelled chiefly by aspirations for socially useful activities. While the two approaches have features which are specific to them and require different settings in order to develop, it is equally important, in the context of the new model of governance, not to dissociate them, particularly if we are concerned with radical social change. The more neoliberal political regimes and institutions tend to try to

dissociate them, as if social responsibility related only to situations of great poverty and not to the economy as a whole. As far as the neoliberals are concerned, the solidarity-based economy has only a palliative role to play rather than a role in bringing about radical change. In the sphere of sustainable development, the aspirations of sections of civil society frequently develop into social emergencies a few years later. Initiatives based on such aspirations often act as a test bed for social innovation. Hence, in a number of European countries and in Canada, notably in Quebec, the social and solidarity-based economy is being seen increasingly as a necessary component in the economic and entrepreneurial “biodiversity” of our societies. While these civil society initiatives do not constitute an alternative development model in themselves, they are helping to reshape systems of regulation and governance, production and consumption.

In talking about the biodiversity made possible by the new model of governance, we must not overlook the publicly owned companies and social economy enterprises which, like the initiatives in the solidarity-based economy, have their roots in national territories and are committed to meeting the dual challenge of ensuring economic profitability while pursuing social aims. Despite the fact that the largest of these companies are evolving within a competitive market and that many of them face the threat of privatisation, they continue to be governed by a set of (co-operative or mutually-based) rules or by political mandates which distinguish them clearly from other forms of enterprise (Monnier and Thiry, 1997; Lévesque, 2002). Most are distinctive in terms of their decision-making procedures, their receptiveness to the demands of civil society and their openness, no doubt to varying extents, to projects forming part of a more solidarity-based economy. While socially responsible finance and responsible consumption concern all capitalist enterprises, the same should automatically be true of all publicly-owned and social economy enterprises. This is particularly the case since it would enable them to rediscover their original *raison d’être*, not in a spirit of nostalgia, but in a forward-looking manner. This integrated approach is all the more important, in our view, given that a new model of governance based on state, market and civil society cannot develop without the revitalisation and spread of public spaces, which will be vital to construction of the general interest in an increasingly complex and interdependent world. That is the most important, and most difficult, of the challenges raised by the new model of governance.

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## II. SOLIDARITY: A PRACTICE EXPRESSED IN THE MARKET

### 1. New rights for the exercise of responsible citizenship

by Luigino Bruni, Università di Milano-Bicocca, Italy

*“The challenge is to find ways of ensuring that the market economy contributes to social cohesion and does not function so as to exclude those who are least attractive as consumers” (Strategy for Social Cohesion, 2004, paragraph 31).*

*“The right to development is an inalienable human right by virtue of which every human person and all peoples are entitled to participate in, contribute to, and enjoy economic, social, cultural and political development, in which all human rights and fundamental freedoms can be fully realized” (Declaration on the Right to Development, Resolution 41/128 of the United Nations, 4 December 1986).*

#### Introduction

“These rights do not come from citizenship or from the belonging to a nation, but they are a prerogative of each human being” (Sen, 2003, p. 63). This thesis of Amartya Sen, Nobel Prize winner in Economics, can be a good starting-point for this reflection on rights, economy and responsible citizenship.

Human rights, in fact, are a concept wider than citizenship: we first are human beings and then we belong to a city or civil society. At the same time, to say person is to say relationships, and then community, city. Individuality and relationality are two basic dimensions of the person.

The kind of citizenship economics knows, however, is at least unusual. On one hand, economics puts the consumer at the centre: “consumer sovereignty” is one of the methodological pillars of the economic theoretical system. On the other hand, the human being is called “consumer” not “citizen”, and the only way of exercising one’s sovereignty is to “exit” from the firm (or market) that we do not like, and “enter” into the one we like. The “exit” option remains the only tool available to the con-

sumer ... a very strange sovereignty, particularly if the market is characterised by perfect competition – the “ideal” market every economist has in mind – where consumer sovereignty disappears since each consumer is too small to have any power to impact market demand. In other words, economics is characterised by the contradiction of declaring the centrality of the consumer, but, at the same time, to deny that the consumer is a citizen with more rights than just exiting or entering the market – I will return to this at the end of the paper.

About individual rights, however, political economy has more to say. In fact, the tradition of political economy has emphasised more – or exclusively – the value of the individual: in the eighteenth century, the first economists conceived political economy as a tool (they thought the main tool) for liberating human beings from unchosen ties and links – those of the “compulsory” pre-modern social environment – leaving people free to choose the community and the relations they like.

In what follows, I will focus on a few points that I consider to be relevant for the issues the 2004 forum is facing:

- To discuss how political economy has conceived its role for improving the implementation of human rights, namely the right to freedom, to equality and to development.
- To reconsider other tools for exercising responsible citizenship, in particular the “voice” option.
- To claim that the issue of reciprocity is a key element for both citizenship and rights.
- Once citizenship has been recognised as a matter of reciprocity, my final proposal is the need for a “civil” responsibility than is more than the traditional “social responsibility” of the company.

### **a. Market, equality and freedom**

The birth of modern political economy is associated with the insurgence of two principles that had been forgotten during the *ancien régime*: the principle of equality and the principle of liberty, both linked to the value and dignity of the human being, of the person. Western society, although penetrated by and deeply rooted in Christian doctrine, was, before modern times, an “unequal society”, whose relations were based

on the hierarchical principle. The eruption of the market economy and of market society has started a slow, but steady, cultural process that has undermined the vertical social structures of the feudal society, and has also initiated a progressive but radical change of that world.

One philosopher who was very attentive to this incoming process was Adam Smith, the universally acknowledged first modern economist. His major economic book, *The Wealth of Nations*, was not by chance published in 1776, the same year as both the “Virginia Bill of Rights” and the United States of America’s “Declaration of Independence”. In the “Virginia Bill” we find: “all men are by nature equally free and independent and have certain inherent rights, of which, when they enter into a state of society, they cannot, by any compact, deprive or divest their posterity; namely, the enjoyment of life and liberty, with the means of acquiring and possessing property, and pursuing and obtaining happiness and safety” (Article 1). And in the USA declaration: “all Men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the Pursuit of Happiness”.

And, again, not by chance we find in both declarations the expression “pursuit of happiness”, coupled with liberty and equality. Life, liberty and the pursuit of happiness were announced as “rights”. In fact, “public happiness”, was the name political economy took in the mid-1700s in Italy (*pubblica felicità*), and in France: the end of the new science was conceived to be increasing the happiness of nations, to which the “wealth” of nations was just – although important – one means to this end.<sup>1</sup>

In what sense, though, can the economy – according to these first economists – contribute to happiness, liberty, and then to human rights?

In Smith we find a clear answer to this question, when we look at his vision of the relationship between market, freedom and equality.

One of the most famous passages of his *Wealth of Nations* (Smith, 1776), is the following: “It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their

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1. Also Smith’s choice of the word “wealth” instead of “riches” of nations is a sign that the Scottish moral philosopher thought that there was a strict connection between wealth and happiness – “Perhaps”, as Malthus a few years later commented, “Dr Adam Smith has considered these two inquiries as still more nearly connected than they really are” (Malthus, 1798, p. 304).

self-love, and never talk to them of our own necessities but of their advantages" (Smith, 1776, Book 1, § 1.2.2). Not everybody, however, knows the context in which this sentence is derived. Just a few lines later, Smith began the chapter with a discussion on the "the disposition to truck, barter, and exchange" (§ 1.2.4), which he considers to be "one of those original principles in human nature" (§ 1.2.2), since "nobody ever saw a dog make a fair and deliberate exchange of one bone for another with another dog" (ibid.). Thus when a dog wants a bone from one of his equals, he can only yank it away from him with force, or beg his master with yelps and wags. In this context Smith says: "Nobody but a beggar chooses to depend chiefly upon the benevolence of his fellow-citizens". The message can be obvious: market relations are between equals, and so allow us to achieve the benefits of the division of labour with dignity and self-respect. It is more consistent with human dignity for us to satisfy our wants through the market than through pre-market relations of generosity, patronage and dependence. For Smith, then, the market itself is a dense network of relationships within which individuals, motivated primarily by self-love, co-operate as equals for mutual benefit.

Even though Smith recognises that for a person it would be more human to have a world based on love and friendship, he observes that, "his whole life is scarcely sufficient to gain the friendship of a few persons" (ibid.). Thus, in modern market societies, in spite of the fact that friendship is humanly superior and preferable to market trade, friendship is not enough for us to obtain everything we need, whether it be meat from the butcher, bread from the baker, or beer from the brewer.

The three perspectives that open before us are:

- to live like beggars who "depend on the benevolence of the butcher" for their meals: in modern terms, assistentialism;
- to take what they need illegally: theft and homicide;
- "trade and commerce" freely with others: the market.

If, in great and civil societies, we choose to trade instead of begging and waging wars, we cannot put too much confidence in the benevolence and fellow-feelings of other citizens to satisfy our needs, but everyone "will be more likely to prevail if he can interest their self-love in his favour" (ibid.). The market permits us to peacefully obtain the things we need from others even when they are not our friends. Indeed, only the



beggar decides to depend on others' benevolence. In a realistic view of the modern commercial society, love and reciprocity are not enough for ensuring a free and decent life, and so subsidiary mechanisms must be sought. In this perspective – common to most classical economists – it is the market itself which allows a civil society to grow in such a way so that it is not left to violence to fill the gaps which friendly mutual assistance cannot reach. At the same time, it steers society away from becoming a multitude of beggars “assisted” by a few rich and benevolent people – exactly the scenario from which Europe was struggling to emerge in Smith's lifetime. Thus, for Smith and his fellow economists, the market is one of the principal expressions of the civil society, it is itself civil society.

But there is more to say.

## **b. Market, society and interpersonal relations**

An interesting consideration that we find in Smith and the other philosophers of Scottish Enlightenment (Hume, Hutcheson and Ferguson) is the idea that the market sets up the conditions for experiencing free and disinterested human relationships in which true friendships can flourish. In fact, according to these economists, the existence of the markets makes it possible to go beyond the feudal logic of ally versus enemy, and so go beyond instrumental and/or status relationships. They set up conditions necessary for equality, without which true friendship cannot exist. The beggar cannot be a friend to the benefactor: “According to Smith, the replacement of *necessitudo* by commercial society brings with it a morally superior form of friendship – voluntary, based on ‘natural sympathy’, unconstrained by necessity” (Silver, 1990, p. 1481). The commercial society allows us to choose our friendships freely and for the sake of “virtue”, as Aristotle insisted, and not according to some necessity.

So, to Smith and the founders of modern political economy – as well as to the Italian Genovesi or Verri, who within the market mechanism see the work of Divine Providence – the market is not in opposition to equality and freedom, but, actually, is considered as a major instrument for reaching true equality and freedom, true human rights.

Smith tends to see commerce as the first stage in the development of civic society. This precedence is clear in Smith's economic history. In two chapters of the *Wealth of Nations*, he explains how during the Middle Ages, the order and good government of the towns gradually spread to

the surrounding country, undermining previous relations of feudalism (pp. 397-427). Smith characterises feudalism in terms of vertical relations of patronage and dependence. Feudal societies began to decay when, motivated by individual self-interest, the landed proprietors diverted their surplus from the maintenance of retainers to the purchase of luxuries that were manufactured in the towns. As an unintended consequence, the proprietors lost the basis of their former power and authority. Because of the division of labour in the market economy, purchasing power does not translate into political power as it does under feudalism.

Each tradesman or artificer derives his subsistence from the employment, not of one, but of a hundred or a thousand different customers. Though in some measure obliged to them all, therefore, he is not absolutely dependent upon any one of them (p. 420).

Thus, the extension of the market makes possible a society of horizontal relationships – a society in which relationships between people are based on equality and reciprocity.<sup>2</sup>

There is, however, some difference in how the relationship between the market and friendship (or genuine reciprocity) is considered: for the Scottish, the market creates conditions for experiencing true friendship but outside the market (that remains essentially the place of instrumental relationships). The Neapolitans (and in general the Latin tradition of civil economy), however, see market relationships themselves as relations of reciprocity. It is interesting to note that while for Smith the peculiarity of the human being with respect to other animals is “the disposition to truck, barter, and exchange”, for Genovesi the peculiarity of human beings is reciprocity: “How is man more sociable than other animals? ... [It is] in his reciprocal right to be assisted and consequently in his reciprocal obligation to help us in our needs (*Lezioni I*, cap. 1, § XVII, p. 14).

This attitude towards market, freedom and individual rights is fostered today by those institutions or cultural movements that see in every extension of markets an extension of freedom, equality and human rights. A tradition that has always had its supporters throughout the history (it is enough to think of the French economist Bastiat in the nineteenth century, and of Luigi Einaudi or Von Hayek in the twentieth). In this approach, any form of intervention in the market is considered to be a dangerous encumbrance to their smooth running, and therefore every

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2. On this see Bruni and Sugden, 2000.

intervention, such as a proposal for regulation of financial transactions, strikes against freedom.

At the same time, from the very beginning of classical political economy (the first name that comes to mind is Thomas Malthus), a parallel stream of thought has begun to flow, a tradition of social thought that considered any enlargement of the area of the market as a step backward for civilisation, human rights and freedom. This line of thought includes such thinkers as Owen, Proudhon, Marx and the Marxian tradition, John Ruskin and Thomas Carlyle (the inventor of the label “dismal science” for political economy), and, in the twentieth century, Karl Polanyi and Marcel Mauss. Today, the French sociologist Serge Latouche can be considered an archetype of such an approach: for him saying market is to say something against human flourishing and rights, that is, the market economy with its institutions is perceived as a threat to civil life. Furthermore, according to this tradition the market is a place where the mighty exploit the weak. As Polanyi puts it, the expansion of the market quickens “society’s desertification”. Thus civil society is called to take action and protect itself from markets, because their logic totally erodes authentically human relationships (such as friendships, trust, gratuitousness, reciprocity, etc.), which are characterised as being non instrumental, and are – according to this approach – incompatible with economic rationality, which is based on instrumentality.

### **c. What type of freedom and what type of rights? The “civil economy” perspective**

Although I cannot share Polanyi’s and Latouche’s radical critique of any form of market, nevertheless my strong impression is that market society has not maintained its promises. In this respect, Sen again comes to our assistance.<sup>3</sup> On the one hand, he recognises, with Smith, that development itself brings freedom as it creates the objective conditions for the recognition and implementation of human rights; on the other hand, development has to be measured primarily in terms of freedom and rights, not of commodities, income or wealth. Freedom, in particular, is part of good life; it is not just a means (it is also a means), but it is primarily an end in itself. In this sense development is (or can be) freedom and rights, because it increases the range of choices, the set of alterna-

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3. Among the many of Sen’s works, on this topic see Sen, 1993.

tives, and therefore makes, or can make (within given institutional and cultural pre-conditions), people flourish.

But, what type of freedom are we actually talking about? Negative freedom (freedom “from”) is not enough within a rights-centred perspective: we need positive freedom (freedom “for”), namely the freedom of choosing the type of life we have reason to appreciate. Particularly relevant is the concept of the “right to development”, which is a combination of both positive freedom and individual rights.

What does it mean to recognise that every person has a right to development? First, the formal freedom to enter the market is not effective if people do not have the capabilities for being effective actors in the market. It is true, as Smith reminds us, that once the beggar manages to bargain with the “butcher”, the beggar becomes more free; however, in particular in those countries where the “beggars” are many, most important is the analysis of how one can effectively enter the market. In fact, without a process of empowerment that allows a shift from relationships of dependence (economic, familiar, political, etc.) to relationships among equals, freedom remains just an abstract desire, or a nice expression in documents about human development.

Nevertheless, economic development is, at least potentially, positive freedom, as it liberates people from primary needs, which, if not satisfied, obstruct the pursuit of a good life. If one is hungry, one can hardly cultivate the highest dimensions of existence, on which the quality of life mostly depends: if, thanks to economic development, he/she is able to eradicate hunger, he/she will be freer.

Finally, economic growth and development translate effectively into positive freedom when, within a given geographical area, there are institutions and cultural conditions that make it possible for goods to be transformed into well-being.

An increase of GDP, therefore, is not a good measure of freedom – as the experience of human development has been telling us for decades. If my income increases because I win a lottery or receive international aid, yet it does not increase the level of human growth, this increase in wealth can actually produce a decrease in the quality of life, in real happiness.

If, instead, my income grows together with democracy, participation, human rights, the quality of my interpersonal relations, and/or the access

to medical care, then the same increase in income can actually be transformed into more freedom and well-being.

From this standpoint, what is the meaning of microcredit, ethical finance and critical consumption, or fair trade? These experiences, far from rejecting market relations as inhuman, utilise market mechanisms for human development. In fact, all these experiences are embedded in the market economy: microcredit charges an interest rate, ethical finance does not deny a return, and fair trade is not “aid”, but trade. Critical consumption is not for the elimination of the market nor does it consider any sort of economic interaction as uncivil. On the contrary, this movement intends to exercise democratic control over normal market relations, and in doing so tries to extend the area of citizenship by means of using its “voice”, even in the market.

#### **d. Exit or voice? Or both?**

“Exit and Voice” is the famous model introduced by A. Hirschman (1970). As it is known, the main thesis of Hirschman’s book is to complicate the ordinary way of understanding how the market and politics function. He claimed that it is not correct to consider “voice” the only tool in politics, and “exit” the only tool available in the market. Hirschman’s book wanted to challenge the deep-rooted idea that in the political domain the exit option is not available or comes at a high cost: because of this, people can express their preferences only by protest or voice, whereas in the market, having the exit option available (if I do not like a product I leave that firm for another one), the voice option is not considered. Furthermore, the exit option gives a signal to that firm that it has to modify something in order to survive: exit is seen as an efficient tool for working of the market mechanisms.

A typical example of the efficacy of the exit option is the use of vouchers in the education market: to introduce a voucher means to transform a political domain based on voice into a market based on exit. That is, through the voucher, families can much more easily choose the school they like and, at the same time, send a signal to the unchosen school to increase the quality of its service. In this approach – that of Milton Friedman, for example – the recipe is not to use both tools (exit and voice) in both domains, but rather to transform as many domains as possible into markets.

Hirschman's proposal, instead, is radically different: why not try – he claims – to use both tools in both domains? Namely, use more exit in politics and more voice in markets?

When Hirschman's book was published, both extensions were considered unrealistic: how could one use the exit option in politics, and how could one use the "voice" option in markets? In fact, in the 1970s political life was ideological (there were few exit options from political parties), and in the Fordist society there was little room for voice: products were standardised and civil society had not yet developed political tools for making "voice" work effectively to influence supply. What does it mean, then, to extend the voice option into the market? In its essence, it means to extend the right of citizenship, and to make citizenship more responsible, if it is true, as it stands, that citizenship would be highly expressed by means of civic and political participation. Exit is also a citizenship tool, but it is relationally poorer and less responsible than voice.

Why is voice so important for a civil society and for a civil economy?

- i. Firstly, voice aims at recovering lost quality: in markets of social quality, when important relational and civic dimensions are at work, recovering the lost quality means responsibility.
- ii. Secondly, voice is more costly (in terms of effort and time) and to use the voice tool requires a person to make a choice, to decide intentionally to commit to a better civic life. Exit is always the easier solution – although in some cases it may be the only one available. Nobody can deny the importance of the exit option especially in rigid and blocked political situations, but voice is more relational, responsible and civil, because it means entering into a relationship with the counterpart, a relationship that the exit option avoids.
- iii. Thirdly, voice is more responsible because we can never exit completely from a given market. I can choose to renounce a product because of, for example, ethical reasons, but the product often remains in the markets, polluting our society (and me). If I feel a sense of belonging to a wider civil community, I will do my best before playing the exit option – especially in markets particularly relevant in terms of social responsibility.
- iv. Finally, usually in markets of social quality – such as education, services for the elderly, health care, social care, etc. – we underestimate the cost of the exit in terms of relationships: relational goods are usually fostered by voice and threatened by exit.

### **e. Beyond corporate “social” responsibility: civil consumers and civil companies**

In this context I see the great civil importance of microcredit, fair trade, the economy of communion,<sup>4</sup> and critical consumption: these are tools for a responsible use of both exit and voice options: voice is the first step that aims at a recovery of the lost (civil) quality. Only once the voice option fails does the exit option come into play (that is, boycott). In this way responsible citizenship flourishes.

What are the new rights for responsible citizenship?

Here I would propose the right to voice, coupled with the right to exit (a right that markets know and spread very well, as said above). What does it mean to recognise the right to voice? I would stress a few dimensions directly related to companies.

Today, corporate social responsibility (CSR) is becoming very popular; sometimes it is seen as a panacea of all problems concerning ethics, justice and responsibility in markets. I claim that for implementing responsible citizenship, social responsibility is not enough. Why?

The standard way of understanding social responsibility deals with ethical codes, social accountability, and similar tools. In fact the social dimension does not imply face-to-face or personalised relationships. It is the type of sociality of the welfare state, where the social is measured in terms of equity. In this context, a company is socially responsible when it is correct with all stakeholders, does not pollute the natural and social environments, and follows objective standards of social quality. For instance, the SA 8000 social accountability system standard elements – child labour, worked labour, health and safety, freedom of association and right to collective bargaining, discrimination, discipline, working hours, compensation and management systems – are very important dimensions that deal, however, with codified social quality, based, mainly, on the equity principle.

The civil companies, in fact, are those expressions of civil society that are capable of inventing an institutional framework and a governance able, on the one hand, of liberating the demand from the supply empire,

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4. On the experience of the economy of communion, which involves 800 firms sharing their profits, see Bruni and Zamagni, 2004 and Gold 2004.

making the demand the centre of the system, and, on the other hand, of making the consumer responsible. In other words, the difference between civil and social companies is the following: while the social companies operate on the supply side with the aim of humanising the production (that is, by organising democratically the production process on the basis of the equity principle) civil companies act also in the demand side, with the aim of enabling consumers to interact relationally with the supply subjects (cf. Bruni and Zamagni, 2004, Chapter. 7).

### *i. Sociality and relationality*

Thus, for a responsible citizenship we need more: we need relationality not just sociality, where relationality means “to refer to forms of human interaction in which the identity of the participants as particular human beings has affective or cognitive significance” (Gui and Sugden, 2004, p. 1).

The word citizen comes from *civitas*, and *civitas* means not only the principle of equity, but mainly the principle of reciprocity, personalised relationships. For this reason, a corporation and a market looking for responsible citizenship cannot be content with social responsibility alone: it needs civil responsibility, that is to recognise a right to voice and participation to consumers, considered as citizens. Thus, the civil consumer has the duty – if he/she wishes to be civil – to enter into a relationship with the firm (before exit), and the civil company has to recognise the right to voice and to participation of the consumer-as-citizen who, in this way, becomes a “prosumer”, that is consumer and producer at the same time. In some markets, in fact, civil consumers and civil companies are more urgent than in other markets: I am referring to the above-mentioned market of social quality, relational markets where the most important quality is not codified and depends heavily on the capability of the firm of involving the consumers-citizens in conceiving and producing the product or the service.

### *ii. Hierarchy and reciprocity*

Furthermore, the organisational form of a social company is normally for profit or capitalistic, and the basic organisational principle is hierarchy. Most of the emphasis on governance is about leadership and the duties and powers of company directors. Yet, the normal organisational form of a civil company is based on the principle of reciprocity and the key issues on governance are about participation of all company actors (not only or mainly directors) – a typical civil company in Italy is the social co-opera-



tive. In fact, the external attention to relational quality through the recognition (as an example) of the right to voice is not enough: a company is civilly responsible if it creates a pluralistic and polyphonic governance, based on reciprocity.

### *iii. Reputation and trust*

Finally, another difference between a social company and a civil company, and therefore between social responsibility and civil responsibility, deals with the distinction between reputation and trust. To a social company reputation can be enough, as reputation is a matter of codified quality: that is, “reputational risk management” or “environmental reputation” are key issues in CSR.<sup>5</sup> Reputation presents characteristics closer to a standard economic good, while trust is a typical relational good, that is a good made of relationships, where the identity and the intrinsic motivations of the agents are essential ingredients of its value and existence. Trust needs genuine interest for the consumers’ well-being, while reputation can be justified only on the basis of an instrumental (although legitimate) calculus. Thus, a company aiming at corporate civil responsibility (CCR) cannot only be content with reputation, without trust it cannot develop its mission.<sup>6</sup>

## **Conclusion**

The challenge of responsible citizenship today is to find ways for allowing all three regulating principles – trade, redistribution and reciprocity – to co-exist even in the market.<sup>7</sup> We certainly need efficiency, but we cannot do without equality, and above everything else, I dare say, we need reciprocity. The principle of reciprocity is the foundational principle of both contract and redistribution: we can trade and redistribute wealth just because we recognise in the first place that we belong to a social pact, to a common terrain.

Therefore, responsible citizenship and true human rights require reciprocity, as the whole western tradition, from Aristotle to modernity,

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5. See, for instance, the World Bank Institute's documents on CSR (<http://www.worldbank.org/wbi/corpgov/csr>).

6. On “relational goods” see Gui and Sugden, 2004.

7. Cf. Bruni and Zamagni, 2004.

knows: citizenship comes from *civitas, polis*, and to say *polis* is to say reciprocity. Without gratuitousness (which reciprocity by necessity embodies) reciprocity becomes just a contract, and the *civitas* cannot survive, since it is more than a contract or cash nexus.

Even rights are a matter of reciprocity: my right can only be effective if somebody else – person or institution – recognises my right. The declaration of rights can be a first important starting-point, but, sooner or later, reciprocity is needed. This assumes, of course, that true humanity begins when we overcome the boundaries of the individual and enter into the territory of the person, the territory of reciprocity.

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## 2. Ethical and socially responsible finance : scale, responses to social cohesion challenges, and difficulties

*by Jean-Paul Vigier, President of the European Federation of Ethical and Alternative Banks and Financiers (FEBEA)*

### a. The origins

The origins of ethical and socially responsible finance lie in private initiatives which were often prompted by religious, social or trade union movements. The objective in all cases is to offer those who are outside the economic or financial mainstream a chance to enjoy benefits hitherto reserved for the affluent: loans, and insurance cover for sickness, old age or accident.

Thus the creation of specialised instruments (pawnshops), private banks and later the appearance of larger-scale initiatives such as the *Raiffeisen-banken* (agricultural credit co-operatives), credit unions, etc. are the fruit of a constant move towards securing access to credit for the less well-off.

These initiatives were in every case the work of private groupings which were always motivated by a desire for justice or charitable endeavour and which gradually grew in size because they met an obvious need at a time when the banking system was only interested in the property-owning classes and in developing industry and large-scale commerce.

Governments took note of these phenomena, encouraging such initiatives by granting them tax concessions or opportunities for guaranteed rates.

As a result these experimental ventures evolved into major banking and financial groups, helping their customers to raise their standard of living and thus becoming banks for the middle classes, a sure sign of their success.

These advances occurred only in the industrialised countries, however, and consequently they followed the pattern of economic and social progress achieved in those countries. Countries formerly under colonial rule and collectively designated for convenience as “the Third World” did not follow this pattern. The financial support they received, whether from the state or through NGOs, was all in the form of donor aid.

## **b. The developments**

New approaches began to emerge in the early 1980s. First there was the experimental Grameen Bank in Bangladesh, whilst in Europe the World Council of Churches set up the first “ethical bank” (EDCS), now known as Oikocredit, which granted loans drawn from a pool of savings built up by voluntary deductions from income. These ventures led to a change in attitudes towards financial solidarity with the developing world. Original initiatives then took shape in France and subsequently in other countries too: ethical investment funds, investment companies and guarantee funds, which sought to provide funding for economic activities drawn from savings amassed in Europe. SIDI in France and the Rafad Foundation in Switzerland thus added to the effort begun by the EDCS.

During this same period a forgotten form of poverty, linked to unemployment and exclusion, reappeared in Europe. This meant that people in that situation found themselves in the same position of hardship which existed in earlier centuries or in the poorer countries.

Prompted by the need to respond to these situations of hardship, and to foster local development based on solidarity of proximity or conviction, alternative or socially responsible institutions came into being and developed. These sought to make up for the inadequacies of conventional banks, often taking their inspiration from methods successfully applied in the countries of the South and using conventional banking methods, but removing the motive of commercial profit.

At the same time, globalisation of the financial system, together with mergers and consolidations in the banking sector, created a need for local solidarity, both as a hedge against adversity and as an effective means of job creation and funding for innovative projects.

The desire to use new instruments of this kind to manage the economy differently is equally apparent in the concern for sustainable development, which emphasises respect for human beings and the environment and looks to the long-term future rather than focusing on short-term profit.

These initiatives typically have three essential features:

- they are a response to real funding needs to help individuals or groups lift themselves out of poverty;
- these instruments are used to encourage the growth of new activities which carry a risk and which conventional banks are reluctant to fund:

- environmental protection, education, social measures, etc. – especially at local level;
- they seek to prove that the economy can have a “more human face” and can be used more for the benefit of humankind.

### **c. Scale and constraints**

The major difficulty encountered by these various organisations is, in essence, that they are fragmented and in some cases very small. By their very nature and origin, geared as they are to the local context and to small-scale credit, they do not have the critical mass they need for each of them to develop.

But the answer does not lie in mergers, which would deprive them of their originality and their presence on the ground.

They also, sometimes, have to contend with laws which are ill-suited to their circumstances and size. And they must, somewhere, find essential collateral to cover some of the risks to which they are exposed and which, by their very nature, are greater than the risks which conventional banks have to bear.

They thus feel the need to grow, in order to broaden their field of action but also to influence society and make their vision of socially responsible and active finance accessible to as many people as possible.

It is thus vital for them to forge alliances with other bodies of the same kind and similar purpose, so that they can, collectively, obtain the resources they lack and potentially gain the support of “friendly” banks and establish synergistic relationships with them.

They also need to establish dialogue with government bodies at national and European level in order to secure, not preferential treatment, but adjustments to the tax system and regulatory framework which can help them to meet the needs of those for whom they represent the sole source of funding.

The challenge for such organisations in these relationships lies in finding the right balance between loyalty to their objective and the degree to which they have to compromise in their dealings with rules and regulations and administrations.

Because the essential question with these initiatives is clearly this: how practically effective are they in improving society and how high is their profile in that work of improving society? Invariably, the answer is that the scope of their operations must be broadened and their scale intensified.

Most of these organisations were set up by groups of generous and intelligent enthusiasts whose beliefs and experience gave them the strength of conviction to provide a financial as well as an ideological base for their solidarity. They also sold the idea to a wider circle of savers and investors who shared their convictions and were attracted by the novelty of these original ventures. But a change of scale necessarily means that these initial groups have to be made bigger, in order to reach a public which is bigger but obviously motivated by different and less passionately held views.

To achieve that, these organisations need to make their voice heard and to band together so that their views and concerns carry weight with governments and public opinion.

For this reason we see them joining together to form national or European groupings, such as FINANSOL in France, for example.

In this way, working collectively as a kind of professional association, these institutions acquired common resources for promoting themselves in society and were able to present themselves as a single partner in their dealings with governments.

But it was still necessary to get governments interested in these initiatives.

#### **d. Relations with public authorities**

Governments were initially indifferent to something they perceived as an unrealistic ideal or as conscience salving, but they gradually came to understand the benefits of these ventures. Because they planned to use existing financial instruments, because they answered specific needs which were not being met by the banking system, because they opened the way for discovery of a new way to use savings, the socially responsible finance institutions received a sympathetic hearing when they outlined their ideas and activities to parliaments and government ministries.

As a result of their operations and by being part of a far broader wave of ethical finance, they convinced a growing number of savers to use ethical and socially responsible investments to make their economies more productive in terms of the social benefits generated.

This was also a factor in the new interest shown by governments. But governments also recognised the value of socially responsible financiers in bringing money into areas which the banks by and large ignored: creation of jobs to reduce social and employment insecurity, social housing for the disadvantaged sections of society, the redevelopment of abandoned areas, local development using a short financial loop, funding of organic farming, development of local culture, etc.

In tandem with the creation of these institutions, measures for the provision of microcredit modelled on the countries of the South were developed. Adapted to the countries of the North, microcredit made it possible for thousands of people to set up in self-employment and enabled very many of those living in precarious circumstances or in poverty to find employment. Unlike the socially responsible financial institutions which use savings, microcredit is financed primarily by aid from the state or private sector. But although it is essential to the survival and human dignity of many men and women who suffer hardship, it nevertheless remains an instrument of economic survival and as such it has to be underpinned by the banking system. It is here that the socially responsible financial institutions can act as a vital bridge, enabling persons excluded from the system to get into or back into economic activity.

### **e. Necessary negotiations**

Legislative or regulatory decisions are needed to help these initiatives develop and to bring about this change of scale which is essential if their activities are to be sustainable and widespread.

In fiscal terms, first of all, savers must be encouraged to invest in socially responsible financial institutions, in order to move beyond the narrow circle of ideologically motivated enthusiasts.

Secondly, socially responsible institutions must establish a political dialogue, so that their voice is heard, together with the voice of those who have benefited from funding made possible by the investment of savings.



In this way they will gain a small but real place in the normal structure of existing financial institutions.

What matters here is getting socially responsible financiers recognised as a real financial and professional force, so that they are seen as “mainstream” players in national and European finance rather than well-intentioned “amateurs” who nevertheless have some measure of usefulness at the margins of society.

There is likewise a need for recognition from the banking world. Admittedly, some wealthy banks or finance houses already participate actively in socially responsible finance and support it. Particularly, of course, the “social economy banks”. There is a partnership in place, built on respect and mutual interest, which opens the way for broader and more fruitful co-operation. Gradual implementation of the requirements of “Basle II”, with curtailment of the credit opportunities which banks can offer for small-scale projects, should prompt the banks and socially responsible financiers to put their heads together on this and find a shared response to this challenge.

Discussions on the subject by the banks, socially responsible financiers and governments would also be extremely useful.

## **f. Building the future with networks**

But in order to meet these expectations, socially responsible financial organisations need common development aids and structures which will enable them to operate at European level, since in matters of finance the ultimate decisions are manifestly taken by the European Union.

This same thinking led to the foundation of FEBEA, the European Federation of Ethical and Alternative Banks and Financiers, a grouping of sixteen – soon to be nineteen – finance companies and banks representing ten European countries. The objective of this association is twofold: to introduce common financial instruments in the area of collateral and capital input, and to help create and develop new socially responsible financial organisations in Europe.

FEBEA's members intend, in due course, to set up a European ethical bank which will make socially responsible finance a visible feature of the European scene. Clearly, this second-tier bank would play an essential

role in funding new financial bodies and as a potential intermediary between existing banks and small businesses under “Basle II”.

This initiative is promising in that its founder bodies have drawn up a plan which will be implemented by those FEBEA members who are able to carry it through on behalf of all the member institutions.

The following entities have been set up: a mutual guarantee fund – the *Garantie solidaire mutuelle* managed by Crédit Coopératif in France – and a financing company under the name SEFEA, which is managed by Banca Etica in Italy.

The former has been operational for two years, providing FEBEA members, and other institutions too, with guarantees allowing them to boost their borrowing capacity and thus intensify their activities.

SEFEA gives capital and subordinated loans to FEBEA members who are keen to expand, but also to European organisations that wish to transform themselves into financing bodies, a trend observed in central Europe or in Spain.

FEBEA has also decided to direct SEFEA's operations towards intra-community financing for projects located in two or more European countries. (Council of Europe proposals on this are currently being studied with interest.)

SEFEA has also been given a third area of activity, funding projects in countries of the South in collaboration with its members. A project in Algeria is currently under consideration, and another in Honduras. A special working party, comprising FEBEA members working together with the developing countries, has been formed to apply the specific instruments needed for these activities.

Another part of FEBEA's remit is to forge ties with community authorities which may lead those authorities to take an interest in socially responsible finance and provide the incentives and encouragement necessary to bring about the changes of scale we talked about earlier. Talks are under way with the European Investment Fund (EIF) with a view to a financial participation by the EIF in the mutual guarantee fund. The negotiations are tricky, because this project, involving a number of financing companies and banks from several EU member states, is something of an unknown quantity as far as current procedures are concerned. This clearly underscores the need to obtain recognition of the special, specific nature of

ethical and socially responsible banks at European level. Work is under way here with some national parliaments and the European Parliament on a proposed European statute of ethical and socially responsible financing companies and banks. The aim is to determine what role these should play within the European banking system, decide how they should operate in the funding of specific general-interest sectors, and explore ways in which small-scale projects might be funded.

FEBEA, by creating financial instruments appropriate to local funding structures, seeks to help these to develop and be as effective as possible on the ground. Its aim is not to build a centralised European financing agency with local branches, but rather to encourage the work of small-scale establishments which draw on local solidarity for the resources they need in pursuing measures of local development.

That work is, naturally, anchored in a policy of solidarity between small-scale establishments and institutions which are bigger and older. FEBEA also strives to make the experience gained by all its members available for use in new local initiatives.

It acts as a partner to European authorities in offering a response to the needs of populations and regions whose expectations are not met by the banking system.

### **3. Responsible consumption : an answer for social cohesion**

*by Francesco Gesualdi, Centro Nuovo Modello di Sviluppo, Pisa, Italy*

#### **a. A new concept of consumption**

It was in the mid-1990s, with mounting globalisation, that responsible consumption became the subject of more widespread debate in Europe. Consumers began to realise that familiar products such as shoes, clothing, and toys were no longer being produced in unionised factories in their own country but in factories far away in eastern Europe or the Far East where workers were denied even the most basic rights. Reports of various journalists spoke of a situation that defied imagination, with wages below the poverty threshold, extremely long working hours, workers being confined to their workplace, denial of the right to organise and even, at times, child labour.

Meanwhile, the press has revealed how the process of liberalisation has occasioned other tragedies. Producer countries and consumer countries have failed to renew agreements on commodities such as coffee or cocoa, with the result that prices have slumped to their lowest level in the last one hundred years. Behind their cup of coffee, consumers have realised, lies a wealth of small producers and hired labourers who have been reduced to abject poverty.

It is a similar story with bananas. New World Trade Organization rules are obliging the European Union to amend the customs tariff regime relating to bananas, a regime that had provided a certain stability to production and guarantees to both plantation workers and small farmers in Africa and the Caribbean. The new situation has unleashed fierce competition, with Ecuadorian bananas emerging triumphant, in spite of that country's sorry track-record in terms of worker exploitation and environmental pollution in that sector.

Similarly tragic tales also lie behind fish from the coasts of Africa and Asia. The European Union spends an average of €270 million a year on agreements securing Europe's fishing fleet the right to fish in the seas off countries such as Senegal, Mauritania or Angola. From the macroeconomic point of view, it is said that these agreements contribute significantly to the development of the countries concerned. But small-scale

fishermen could tell another tale. They recount how since the arrival of European fishing boats, pure marvels of modern technology, they have been forced out of business, since with their small fishing nets they no longer catch anything. Many of them have been ruined and have decided to seek their fortunes in the cities, living in shanty towns. Meanwhile, the nutritional health of the population has deteriorated since fish is now rarer and more expensive on the local market.

## **b. The society-related issues of consumption**

Social issues are but one aspect of the problems surrounding our consumer habits, environmental ones are another. World consumption levels are beginning to jeopardise certain essential natural balances, eroding the reserves of various natural resources. Forests are a case in point. At the beginning of the twentieth century, the world's total surface area under forest represented 5 billion hectares. By the end of the century that figure had dropped to 3 billion hectares, with a net loss of 40%. Currently, we are destroying our forests at the rate of 160 000 km<sup>2</sup> a year, an area corresponding to half the size of Italy. Some may seek comfort in the fact that at that pace it would take 300 years before all our forests were destroyed. However, we do not need to wait until the last tree is felled before we start feeling the consequences of a deforested planet.

Fish stocks are another case in point. According to a study published in *Nature* in May 2003, of the large fish present in the world's oceans in 1950 only 10% remain today.

Then, there are minerals, which in certain respects are more sorely affected than flora or fish stocks, since they have the drawback of being non-renewable resources. It has been calculated that at current rates of consumption, zinc reserves will last only 25 years, silver 17 years, lead 21 years and copper for another 28 years. Were we to imagine an increase in consumption of 5%, something that is highly likely given the approach adopted by countries like China, India and Brazil, then they would be depleted in 16, 13, 14 and 18 years respectively.

Then there is water. Today already, more than 2 billion people have difficulty obtaining water for drinking, washing and cooking. That figure includes not only people living in arid or semi-desert areas, but also people living in the outskirts of major metropolises.

Finally, we should not forget oil, the increased price of which is a reminder that it is no longer as abundant a resource as it once was. Everyone now agrees that we are approaching the production peak, which explains the emergence of so many oil-related wars.

What is absurd is that the battle for control of oil reserves comes at a time when the planet is telling us we should be using less oil. Of course, it does so in its own way, in the form of natural disasters such as violent storms. It is the problem of the greenhouse effect, a phenomenon caused by the build-up of CO<sub>2</sub>, which leads to an increase in the earth's temperature triggering a chain of events, the most important of which is climate change.

The responsibility for such destruction is not the same for all peoples of the earth, since consumption, as we know, is very unevenly distributed. With 76% of world consumption, the old industrialised nations, although they represent only 15% of the world's population, account for the lion's share. For example, they consume 55% of the world's energy, 70% of world paper and 40% of world meat. They possess 74% of the world's cars and 55% of the world's telephones and mobile telephones. At the same time, they account for 50% of all CO<sub>2</sub> and produce an average 560 kg waste per capita per annum, compared with 180 kg per capita for an inhabitant of Tunis.

At the same time, we know that half the world's population lives in conditions of abject poverty or almost. In other words, they have a right to eat more, dress more, wear more shoes, obtain better health care, study more and travel more. But they cannot until the well-off agree to go on a strict diet, because it has been shown that if we wanted to bring everyone up to the standard of living of the United States, we would need five planets. The calculation is a scientific one, based on the ecological imprint, a concept developed by American researchers in order to assess the impact of our consumption on nature. Every American uses 9.70 hectares of land, compared with an Indian who uses 0.77 hectares. Italians are in the middle with 3.84 hectares. If we take all the world's fertile land, dividing it among the world's population, then every inhabitant is entitled to an imprint of 1.9 hectares. Much of the world's population is below that figure, but since the well-off far exceed it, the average imprint is 2.28 hectares, which is 20% higher than the permissible figure. It is no coincidence that CO<sub>2</sub> is building up in the atmosphere and that we need another planet already.

### **c. In search of new, socially responsible attitudes**

All this has made consumers realise that consumption cannot be considered a private matter, since every time we buy something we run the risk of becoming an unwitting accomplice to situations of exploitation, human rights violations, environmental destruction and global injustice. The alternative is responsible consumption, which entails paying particular attention to rights, equity and the environment when shopping.

Responsible consumption is reflected in a variety of initiatives that can be divided into three categories: ethical consumption, alternative consumption and sustainable consumption.

#### *i. Ethical consumerism: demonstrating a new sense of responsibility*

Being an ethical or discerning consumer means carefully choosing everything we buy, not only from the point of view of price and quality, but from the point of view of a product's history and of the choices made by the companies producing it.

Here are some questions to ask about individual products: is the technology used high or low on energy consumption? What toxic substances have been produced during its manufacture, and how many? How many will it produce during its lifetime and disposal? Was it manufactured using recycled or new raw materials? Was it made using resources from tropical forests?

When dealing with products from the southern hemisphere one must ask the following questions: what were the working conditions in which it was produced? What price was paid to small farmers? Was land taken out of food production for the purpose? Were the resulting profits used by landowners to seize more land at the expense of small farmers?

Sometimes a single product may appear perfect in every respect, but what if it is manufactured by a multinational with responsibility for so many other polluting activities, that exports hazardous waste to the Third World, that exploits workers in eastern Europe, that colludes with the military sector? It is for this reason that before buying any product it is essential to know something about the general conduct of manufacturing companies.

Let us take the example of a cheese sold under the brand name Fattoria Osella. From the label we learn that it has been made by a company of the same name, something which immediately inspires confidence, conjuring up as it does the idea of a small Italian farm run by committed farmers lavishing affection on their cows and individual attention on each of their cheeses.

This idyllic vision is possibly somewhat exaggerated and were we to enquire into Fattoria Osella we would probably find that no criticism could be levelled at the treatment of staff, the handling of livestock or the way in which the cheese is made. But were we to inquire into who owns Fattoria Osella, we would find not your Italian small farmer, but Kraft, a food multinational active on both sides of the Atlantic. But that is not the end of the story, because on closer inspection we discover that Kraft is part of Philip Morris (today's Altria), a tobacco giant currently conducting an aggressive advertising campaign, especially in the southern hemisphere, to target new smokers, in particular among the young.

There are other companies, however, that are part of multinationals with links to the manufacturing of arms. The most important areas of investigation here are labour relations, the way in which business is conducted in the southern hemisphere, links with the army and attitudes towards the environment, but we should not underestimate other aspects such as the reluctance to divulge information, irresponsible sales and shady business practices.

Being an ethical consumer is rather like going to the polls every time we go shopping, casting our vote on company conduct by rewarding the worthy and sanctioning the others. Ultimately, companies come to understand the kind of conduct that wins consumers' approval and adapt to it accordingly, creating a new type of competition based not on a product's aesthetic or economic properties but on social and environmental choices.

In recent years, market surveys have been paying increasing attention to ethical consumerism. In the United States, consumers who are sensitive to the social and environmental properties of products, and who represent almost one third of the adult population, have earned the status of a separate demographic category in market research, where they are identified using the acronym LOHAS – Lifestyles of Health and Sustainability.



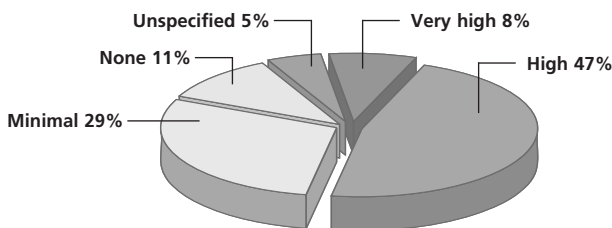
All the market research conducted recently suggests growing attention on the part of consumers to the issue of corporate social and environmental responsibility and ethical and environmental product content. In Italy, a survey carried out in 2002 by the Public Opinion Survey Institute (Ispo) revealed that 74.4% of consumers felt companies should attach greater importance to the working conditions of their own work-force and 71.2% to the environmental impact of their production. Finally, 70.8% even wanted to see companies playing an active role in the promotion of socially and environmentally sustainable economic development. It further emerged from the survey that a growing percentage of Italian consumers, albeit still a minority, preferred products from companies with an aura of social responsibility, with some being prepared to pay more for their products, a trend which, according to Ispo President Mannheimer, will no doubt increase in the years to come.

The most far-reaching studies of ethical consumerism have been carried out in the United Kingdom, where consumer activism is particularly well-developed thanks to the work of a vast network of associations and NGOs active in the field of corporate responsibility. It was a British association, moreover, that in 1992 was to produce the first guide to ethical consumerism in Europe – *New Consumer*.

Research commissioned by the Co-operative Bank in 2000 from MORI (Market and Opinion Research International) remains the most comprehensive and detailed study to date ever to be carried out into ethical consumerism.

The study reveals that more than half of Britain's consumers are receptive to the question of corporate social and environmental responsibility and consider it important to take social and environmental considerations into account when making their purchasing decisions.

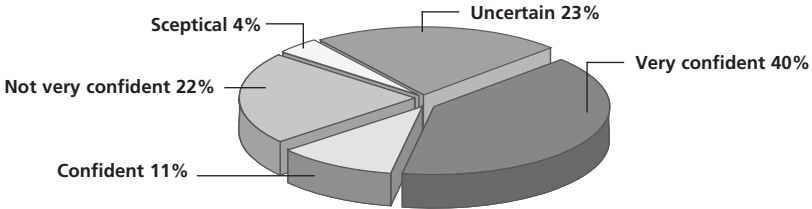
**Attention paid by British consumers to social and environmental issues in their purchasing choices**



Source: MORI. Sample of 946 GB residents aged 15+

The study also highlighted widespread consensus among consumers about the effectiveness of consumption as a means of promoting greater corporate social and environmental responsibility. 51% of British consumers feel they can influence companies' behaviour and level of accountability through their own purchasing choices.

**The belief of British consumers in their ability to influence the actions of companies**

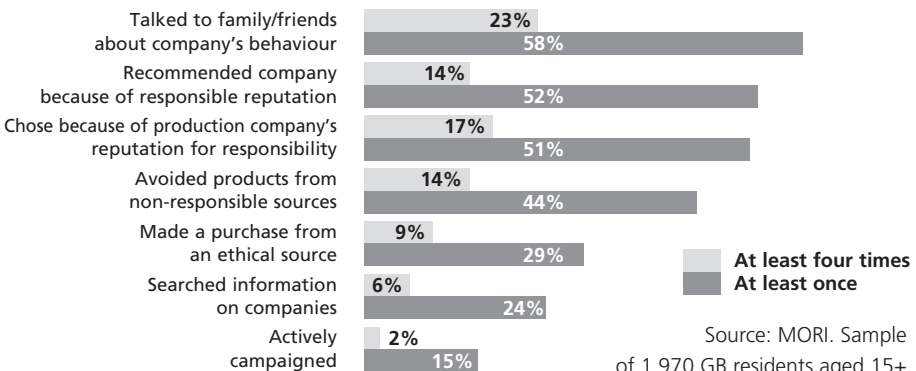


Source: MORI. Sample of 1 970 GB residents aged 15+

From a behavioural point of view, although a relatively low percentage of British consumers – although certainly not a negligible one – claims to be personally involved in pressure campaigns and boycotts, and to be active in seeking information on the conduct of companies, around half state they have either chosen or avoided a product at least once in the course of 2000 on account of the behaviour of the company producing it. Some 29% said they had made a purchase in the same year on exclusively ethical grounds. Finally, more than half of consumers claim to have raised the subject of companies' social responsibility with family or friends at least once in the course of the preceding year.

**Commitment to responsible consumption**

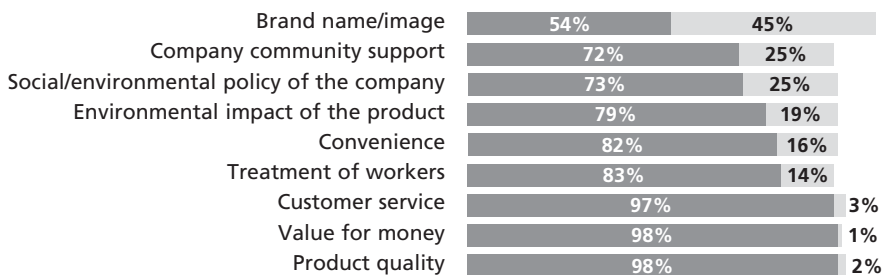
(percentage of respondents having taken one or more initiatives in support of responsible consumption in the previous twelve months)



Source: MORI. Sample of 1 970 GB residents aged 15+

As regards the criteria governing choices, 83% of respondents considered working conditions to be an important criterion. The impact on the environment and the contribution made to the local community were considered important criteria by 79% and 72% respectively.

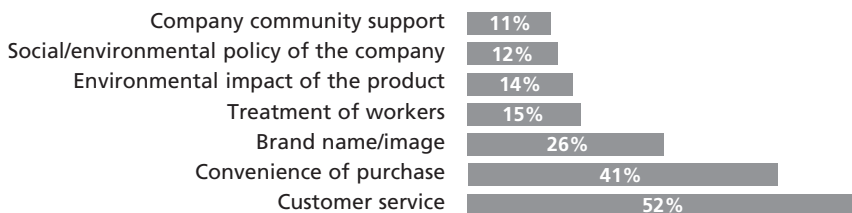
**Importance attributed by consumers  
to individual selection criteria**



Source: MORI. Sample of 1 970 GB residents aged 15+

On closer inspection, however, social and environmental criteria were decisive in the choices of a minority only. Faced with two products of comparable price and quality, working conditions were considered a persuading factor for only 15%, while only 14% paid attention to the environmental impact. Finally, only 12% attached any importance to a company's having a clear policy on social and environmental issues, and only 11% valued the support given to the local community.

**Persuading factors in the purchase  
of products of comparable price**



Source: MORI. Sample of 1 970 GB residents aged 15+

## *ii. Alternative consumption*

Ethical consumption is a relatively recent strategy. Before that, there were basically two means available to consumers: boycotting and alternative consumption. Boycotting is the organised refusal to purchase a particular product or range in order to exert strong pressure on an individual firm to change behaviour deemed unacceptable. Alternative consumption, on the other hand, is a form of consumerism organised outside the traditional economy implementing economic approaches inspired by fairness, solidarity and sustainability. One of the first forms of alternative consumerism was that of fair trade which sought to purchase products from the southern hemisphere directly from small producers in order to secure three major benefits: a fair price, an additional charge earmarked for community development, and pre-payment in order to end dependence on money-lenders.

Worldwide, fair trade products are being supplied by 370 producer organisations in 45 countries, employing 800 000 farmers and labourers. If we include members of their families, fair trade can be said to benefit some 5 million people.

Fair trade, which is now widely established in all countries of the European Union, has a large public following and has become increasingly popular since its launch by the major retail distribution networks. A study conducted in 2002 by the firm GPF&A found that approximately 8 million adults in Italy (8% of the population) had discovered fair trade and that 4 million had bought a fair trade product at least once. Two thirds of the latter were prepared to pay more than for brand-name products if quality and performance were the same.

In Great Britain the figures are even more encouraging. According to a MORI study carried out in March 2004, 39% of the population recognises the fair trade label and 63% purchase fair trade products.

At European level a study was carried out in 1997 by Eurobarometer on behalf of the European Commission. It revealed that 11% of Europe's population had purchased fair trade products and that 74% would be prepared to buy fair trade bananas if they were available in all shops. Finally, 39% said they would be prepared to pay 10% more for fair trade bananas.

## *iii. Sustainable consumption: the future challenge*

Responsible consumers know that the challenges before us are so daunting that it is not enough to choose companies on the basis of their

behaviour or to buy fair trade products. We need more sustainable consumer models, ones that use as few materials as feasible and which produce the least waste possible. This can only be done if we radically revise our whole way of life. Basically, we need to move in the direction of more sober life styles based on reduction, re-use, recycling, and on the local and community perspective.

Two interesting initiatives have been taken in Italy in this respect. The first is Scales of Justice, a campaign that encourages families to reassess their own life style using a family accounting method designed not so much to calculate total spending or diverse items of expenditure as much as to assess whether one's purchasing choices do or do not respect the environment and justice. To date, 800 families have joined the campaign and have shown that it is possible to adopt less wasteful, less energy-intensive, less polluting consumer reflexes through simple choices such as less car more bicycle, less private and more public transport, less meat and more vegetables, fewer global products and more local products, fewer industrial cakes and biscuits and more homemade cakes, fewer deep-frozen foods and more seasonal produce, more tap water and less bottled water, fewer pre-cooked foods and more time in the kitchen, fewer throw-away containers and more produce available loose as and when needed, less fattening meals and healthier diets.

The second interesting initiative is the Solidarity Purchasing Groups (GAS). These are groups of families that have come together in order to purchase produce directly from small local producers, thus contributing to the local market and developing new economic relations. There are currently 150 such groups in existence. Although each group has its own specific characteristics, they are all inspired by the same ethos and organised along the same lines. For example, tasks are shared out among members on a rotational basis. Different members will seek out producers, collect orders, pick up the produce and distribute it to the other members, all completely free of charge. It is for this reason that the group is defined as being solidarity-based.

But the novelty of the GAS is not limited to relations between members. Relations with producers are also being redefined as what was previously a purely commercial relationship makes way for friendship. Visits and discussions between members of groups and producers lead to greater transparency, more ethical production and sometimes new forms of co-operation. GAS members have been known to give a hand, for example, with more straightforward work in exchange for produce or discounted prices.

Members of the purchasing groups are fed up with an economy dominated by goods and money. They believe in an economy in which individuals, relationships, life, creation are very much centre stage. Their motto is therefore: small, local and in solidarity, since it is only on a small scale and at local level that it is possible to reduce waste, protect nature and transform commercial relations into inter-personal ones.

Inventiveness knows no bounds, as we know, so it was when considering what could be done to widen the circle of the responsible economy that members hit on the idea of information. They started trawling the local area for businesses that were attuned to environmental concerns and social issues. That soon led to the "Rainbow Pages", a directory listing the addresses of organic producers, responsible small businesses, craftsmen and women employing traditional skills, social co-operatives, fair trade shops and purchasing groups in the vicinity, the aim being to flag up the existence of an alternative economy and demonstrate how it can grow if everyone is committed to it. What is important is to attract new members and consolidate internal cohesion as we are still vulnerable and it is only if there is a strong sense of solidarity among consumers, among producers and between consumers and producers that we will be able to stand firm and prosper. It is for this reason that there is increasing talk of the need for solidarity-based economy districts.

A number of municipalities, including those of Rome and Turin, are expressing an interest in these new economic approaches and are considering forms of co-operation. This is significant since a shared economy network cannot involve only consumers and producers, but must include credit institutions, access to loans having always represented a stumbling block for the small producer.

#### **d. Action to make consumption socially responsible**

Experience has shown that responsible consumption, together with protest campaigns, does work. What happened with the Chiquita company is a case in point. Until 2000 it was a multinational with an appalling social and environmental reputation, but thanks to the international pressure of consumers, fair trade and trade union organisations both at local and international levels, Chiquita has modified its behaviour in recent years. It has adopted a code of conduct, it has joined the Ethical Trade Initiative in Great Britain, it has qualified for SA 8000 certification in respect of some of its plantations, it has signed an agreement with

international trade unions to uphold union freedoms and has received environmental approval from the Rainforest Alliance.

Del Monte Kenya is another example. Until 2001 its treatment of pineapple plantation workers was in flagrant breach of ILO conventions: wages were not enough to meet basic subsistence needs, it failed to provide adequate protection against pesticides and flouted trade union rights. In 1999, the Centro Nuovo Modello di Sviluppo and the Kenyan Human Rights Commission organised an international campaign bringing combined pressure to bear on Del Monte from European consumers and Kenyan workers. Del Monte ended up signing an agreement in which it undertook to resolve all the issues raised in the campaign. It also agreed to a watch-dog committee made up of local associations to ensure effective compliance with the agreement. Finally, in 2003, Del Monte was granted SA 8000 certification.

Further examples are Starbucks, owner of a chain of coffee shops, and of Procter and Gamble, a major coffee company in the USA through its controlling share in Folgers. Under pressure from consumers, both agreed to purchase 2-3% of their coffee under fair trade conditions.

At a more general level, thanks to the action of responsible consumers, corporate social responsibility is at last finding its way onto the agenda and more and more initiatives are being taken to ensure better working conditions for workers in the southern hemisphere. Social and environmental certification initiatives are also on the increase.

Responsible consumption could, however, achieve much more were it to become more of a mass phenomenon. That would be possible if there were greater awareness, if information were to circulate more freely and if preference were given to ethical consumption. Significant initiatives could be taken in respect of each of these points at institutional level.

### *i. Through education*

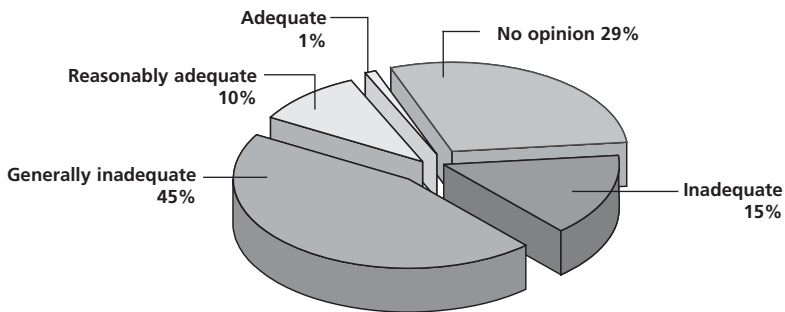
The first initiative concerns schools. You are not born a responsible consumer, you become one through an education which cultivates a sense of responsibility, which promotes participation and which puts a premium on being consistent on a personal level. Schools, then, have a central role to play, and need to include responsible consumption alongside other subjects on the curriculum. Pupils need to be helped to understand the social and environmental implications of consumer choices. They must be helped to understand that politics is not just confined to the polling booth,

but that it includes consumer choices, savings and other everyday acts. They should be educated in fair and sustainable purchasing choices and encouraged to air these issues at home. They need to acquire the techniques that will enable them to select products on the basis of the whole background to those items and the behaviour of the companies that have manufactured them. Were schools in all European Union countries to include responsible consumption on the curriculum we might at last have consumers in Europe who are no longer the passive recipients of advertising but who can dictate to the market, consumers who have woken up to their responsibilities and also to the power they can wield. It is a power that needs exercising to the full to force both the market and, consequently, companies to adopt behaviour more mindful of rights, fairness and the environment.

## *ii. Through information*

The second initiative concerns company transparency, since ethical consumption presupposes knowledge of corporate behaviour. Access to information remains a critical consideration today, as the MORI study quoted above has shown: 60% of British consumers felt they did not have enough information on companies' social and environmental behaviour to make purchasing decisions. The ISPO study carried out in Italy also reveals that 71.7% of Italian consumers complain how difficult it is to obtain information on corporate choices on human rights and regard for the environment.

**Opinion on the availability of information  
to enable the British public to become ethical consumers**



Source: MORI. Sample of 1 970 GB residents aged 15+



Until now, the demand for information has been met by grass-roots associations such as Ethical Consumer in Great Britain, the Centro Nuovo Modello di Sviluppo in Italy or IMUG in Germany. However, investigating corporate behaviour in Europe remains extremely difficult as there is no obligation to publish certain information, and what is in the public domain is hard to trace since it is highly fragmented. For example, trying to find out with any certainty whether a company has been found guilty of environmental offences would require sifting through the judgments of all the domestic courts over the last few years, something which is virtually impossible. The situation would be very different if the European Commission were to produce an annual list of all the companies in the Union that have been fined or sentenced on environmental grounds. If similar reports were also published for breaches of labour law, misleading advertising or non-compliance with consumer legislation, research would be much easier. Incidentally, this is what already happens in the United States.

At the same time we would need to regulate the format of social balance sheets. In the absence of legislation, each company does what it likes and many concentrate on information of little interest with the sole aim of making an impression on the collective imagination. In short, many social balance sheets are but crude public relations instruments rather than information tools.

Such a situation is detrimental to all and particularly those companies that wish to take their social responsibilities seriously. The European Union therefore needs to define the guidelines governing social balance sheets. Companies will presumably do everything they can not to have to account for the more questionable aspects of their activities, but in order to invest and consume ethically we need to know everything there is to know about a company's choices, both those with a positive and those with a negative impact. Otherwise we would be handing companies a further advertising tool with the blessing of the public authorities.

Social balance sheets should, in particular, include detailed information on ownership, any possible links with companies manufacturing arms or supplying armies, employment policies, relocation of production, initiatives to guarantee protection of workers' rights in countries with lower levels of legislative protection, the toxicity of production processes and waste products, fines for whatever reason, labour disputes and on-going conflicts with civil society. It is only in this way that balance sheets can become genuine instruments of economic democracy.

### *iii. Through public support*

The third initiative concerns the preferential treatment to be awarded to products produced in socially and environmentally favourable conditions. If we want ethical consumption to triumph then we must reward it in such a way that it becomes attractive. One way would be to envisage preferential tax and customs conditions for products with excellent environmental and social credentials. To begin with, differentiated treatment could be reserved for organic or fair trade products. On the domestic tax level the proposal should not encounter any particular difficulties as there is nothing preventing states from applying a lower VAT rating to the products concerned. At the level of international customs duties, however, some believe that WTO rules would stand in the way of preferential customs tariffs for organic or fair trade goods. Others, however, hold that differentiation on the basis of social or environmental characteristics would be possible as long as this did not breach the principle of non-discrimination between nations. In this respect, reference is made to the exceptions listed in Article XX of the GATT, and more particularly paragraph a of that article referring to the protection of public morals, a concept many consider also includes human rights, economic and social rights, and workers' rights. It would send out a major signal if the European Union were to adopt such a proposal and apply extremely low or zero customs ratings to fair trade products originating in any country in the world. An important date in terms of timing the launch of this new policy could be the entry into force of the new EU regulation on banana imports on 1 January 2006. A differentiated tariff regime, not for countries of origin, but for social and environmental production characteristics would encourage the banana industry throughout the world to adopt more responsible forms of production.

### *iv. Through differentiation*

The fourth initiative concerns the labelling of products with a high environmental and social content. In a world where time is of the essence it is imperative that consumers be offered two seemingly contradictory services: detailed background information and socio-environmental labels for immediate ethical product recognition. In areas such as organic production or fair trade, trademarks are already established practice. One area that has hitherto gone unnoticed, however, is that of worker rights, to the great disappointment of consumers who want to be able to identify on sight those products that have been produced under decent working conditions. One of the reasons for this delay is due to

the complexity of the issues involved. Faced with manufactured goods with a long production history and numerous moves from one producer to another, it becomes difficult to reconstruct the entire production chain back to the original raw materials and it is virtually impossible to verify working conditions at each stage of the process. Some people have suggested concentrating on the manufacturing phase only, but in the global world of today many products include components originating in countries all around the world and once again it is not easy to keep track of every individual component and guarantee the integrity of the whole product. Given the current widespread recourse to sub-contracting, the manufacturing process is often highly fragmented, even including work done at home, so how can all production sites be monitored? Furthermore, production sites are constantly changing as the companies owning commercial brand names reserve the right to continually change their suppliers according to their own commercial convenience. The notion of a permanent guarantee must therefore be ruled out. There are also very disparate views on what constitutes decent working conditions. For some it is the absence of child labour. For others, it implies compliance with all the major ILO conventions, and in particular payment of a decent wage.

Given the complexity of the issues, we should not be surprised at the lack of progress. We must nevertheless continue to seek an appropriate solution. We will probably have to abandon the idea of a product guarantee label and concentrate on a label guaranteeing the good conduct of the companies reaching out to consumers with their own logo and which are therefore to be found at the end of the production chain. This possibility would have the disadvantage of guaranteeing only the final stages of production, but it would have the advantage of being reliable.

We might wish to think in terms of a workers' rights label to be awarded companies that undertake, throughout the entire production cycle, to uphold and ensure compliance with the fundamental rights of workers, as defined by the label's administrators. They would need to prove they have implemented all the internal control procedures needed to constantly monitor the rights they have agreed to uphold, that they have stable relations with their manufacturers and that their pricing policies are such as to allow the payment of decent wages, that they comply with stringent transparency criteria regarding the publication of information on production policy, and that they agree to spot checks anywhere along the production chain by inspectors acting under the authority of the label's administrators.

Obviously, it is better to have nothing rather than to have a label that is not taken seriously, which would end up insulting the dignity of workers and undermining consumer confidence in instruments that have the potential to prove extremely useful. It is for this reason that caution is called for; but this does not mean doing nothing. It would be of great assistance, for example, if a working group were set up at European level to examine the issue of a label guaranteeing social rights. Such a group would need to include representatives from civil society as a whole: trade unions, companies, NGOs and governmental authorities.

In the meantime, the bar code system could be immediately reviewed to allow the traceability of a product at least up to the manufacturing phase. If, by reading the bar code, it were possible to trace the country of manufacture and the name of the supplier, the more concerned consumers could obtain precious information on which to base their purchasing decisions and NGOs could gain valuable information when taking on management in their defence of workers' rights.

## 4. Access to public procurement and responsible consumption by public authorities

*by Anne Peeters, Centre d'étude et d'action pour la cohésion sociale, Free University of Brussels, Belgium*

### Introduction

In the context of globalisation, the role of national public policies has become of crucial importance. By means of various forms of leverage – including public procurement – the public authorities contribute to the practical implementation of international commitments in the field of employment, environment and development. The preparation and application of the Belgian law on a social “seal of approval”<sup>1</sup> highlighted the difficulty in applying preferential criteria promoted by the public authorities to encourage responsible consumption. A number of public authorities in Europe have developed practices along similar lines. Use of public procurement as a means of promoting responsible consumption has many advantages; one of these is that it leads to an increase in the supply of socially responsible products on the market.

The article covers the above aspects and then identifies certain limits and ways of improving the impact of the policy of including ethical clauses in public procurement procedures as a means of promoting responsible consumption.

#### a. The context

The difficulty inherent in the practical implementation of international commitments has led a number of international institutions and national governments to give some thought to the role of public policies and, in particular, public procurement. The fields of international trade and the markets are one of the areas where these commitments can specifically be applied in practice, either by means of sanctions or, perhaps above all,

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1. Law to promote socially responsible production, file No. 2002-02-27/32.

encouragement for production and consumption choices that are more in keeping with the principles involved.

Very shortly after the founding of the World Trade Organization (WTO) in 1995 (Marrakesh agreements), the idea of social and environmental clauses in international trade began to be mooted. This issue had been addressed at the first of that organisation's inter-ministerial summits held in Singapore in 1996. However, under the joint pressure of companies, certain governments and even a number of NGOs, it was shelved, and only occasionally resurrected.

Trade and the markets – and even more so public procurement – can be powerful factors of persuasion, and market sanctions, even as a result of external influence, can play their part in ensuring the implementation in practice of international agreements on the ground. In point of fact, there is a huge gap between the commitments entered into by states and the actual situation on the ground, especially with regard to trade. By focusing on trade, public authorities can help improve the social and environmental aspects of production, above and beyond complying with international agreements or treaties. Here, the main form of leverage is the famous “sympathy effect” generated by the demands of main contractors on subcontractors and suppliers.

**b. Limits of preferential criteria promoted  
by public authorities in public procurement procedures:  
debate on the Belgian social “seal of approval”**

In Belgium, the government in power at the time worked hard to set up a “seal of approval” for socially responsible production. It came into being in 2002 and is awarded by the public authorities to companies and products where the whole of the production chain complies with core ILO standards. In parallel, the government then in power took a number of decisions on introducing social and/or environmental clauses into public procurement contracts. The social seal of approval was therefore seen as a means of identifying socially responsible products, particularly in the context of public procurement. A number of companies have requested this seal of approval specifically for this purpose.

The reactions from the European Commission and the World Trade Organization to the bill were most instructive in highlighting not only the legal

but also the political limits to any attempt to include ethical criteria in public calls for tender.

While the law was still in the draft stage, the European Commission expressed concern about possible undesirable effects on competition, either in that a public seal of approval could be advantageous to those companies which had the material means to obtain it, or as a result of any assistance provided to companies which were less equipped for such an approach. Another example of the limits highlighted in the European reaction was the fact that the competent Belgian authorities were prohibited from actively promoting products carrying this seal of approval, once again because of the risk of adversely affecting competition.

The reactions from certain members of the World Trade Organization, accusing Belgium of protectionism at a – highly symbolic – time when Belgium held the Presidency of the European Union, are further revealing examples of the difficulties associated with a public policy on promoting socially responsible production and consumption.

### **c. A variety of practices**

For many years, there has been much legal and political debate about the inclusion of ethical – social or environmental – clauses into public procurement contracts. This approach was advocated by those who deplored the scant means of genuine action available to organisations such as the ILO and the United Nations Environment Programme. They saw it as an incentive for the practical implementation of conventions and universally accepted principles by businesses, key players in social and economic life. But there too, the most proactive public authorities came up against legal and political constraints. None the less, the public procurement leverage factor remains significant. Public authority consumption represents 16% of total European consumption and in general has a significant knock-on effect.

Several governments have already addressed the issue head on. For example, at a meeting held in Utrecht the day before the last EU Environment Council,<sup>2</sup> the Netherlands State Secretary for the Environment said that by 2010 Dutch public authorities would award at least half of

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2. 14 October 2004, Luxembourg.

their contracts in accordance with sustainable principles. This too, even though we are still in the realms of statements of intent, is a major step forward. A rapid overview of practices in Europe, limited exclusively to purchases of fair trade products, shows that in several countries, there are local and municipal authorities that have chosen to promote the purchase of ethical products. Of course, it is still on a limited scale, but there is a clear trend. For example, several German municipal authorities, such as Munich and Ravensburg, give preference to fair trade products in their public purchasing.<sup>3</sup> In France, several provisions in the law on public procurement encourage public authorities to purchase fair trade products. Municipal authorities in Norway and the United Kingdom too have undertaken to follow a similar line. The United Kingdom has issued guidelines on purchasing fair trade products, whereas Norway has an ombudsman specialising in consumer affairs who can be consulted by consumers. Without going into details on the regulations governing the inclusion of social clauses in public procurement contracts, it is clear that several countries have practices and legislation that pave the way for such an approach.<sup>4</sup> In the European Union this is what is happening in Belgium, Germany, France and Italy.

Directive 2004/18/EC of the European Parliament and of the Council of 31 March 2004<sup>5</sup> on public contracts is a major step forward. This text incorporates the ever increasing body of case-law on the introduction of ethical clauses into public procurement contracts. A major spur to public initiatives in Europe had been a judgment of the Court of Justice, the "Finnish buses" case. The Court found in favour of the Helsinki City authorities, which had introduced an environmental criterion in deciding on the purchase of its buses. The European directive attempts to clarify the situation regarding the inclusion of clauses in public procurement procedures. It appears to accept that such new criteria (in this case ethical,

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3. Monatzeder, Hep and Schulze, Heinz, "Support for ethical and socially responsible community-based initiatives in Munich", pp. 197-201 of the present volume.

4. Petridis, Esther, "Solidarity-Based Economy: A Summary of the Legislation of the European Union and the Member States of the Council of Europe", in Trends in social cohesion, No. 12, Ethical, Solidarity-Based Citizen Involvement in the Economy: a Prerequisite for social cohesion, Council of Europe Publishing, 2004.

5. Directive 2004/18/EC of the European Parliament and of the Council of 31 March 2004 on the co-ordination of procedures for the award of public works contracts, public supply contracts and public service contracts.



socioeconomic criteria) may be introduced into public procurement contracts provided that they are relevant to the contract in question.

The grounds set out in the directive refer to the European Union's international commitments, those that link the Union with the World Trade Organization. In so doing, it sets out the limits and difficulties inherent in introducing ethical criteria into public procurement contracts. The Directive also mentions the idea of encouraging the involvement in the public contracts procurement market of smaller companies; it specifies SMEs but other possibilities are social economy or fair trade undertakings.

#### **d. Introducing ethical criteria in public procurement contracts: the impact on SMEs**

It is more difficult to encourage SMEs, which in certain sectors<sup>6</sup> represent over 95% of production units, to introduce "ethical" quality criteria into their production. On the other hand, they often have close economic, financial and trade relations with the public authorities. The latter's demands are therefore decisive in prompting a sympathy effect and accordingly, there is some hope that there will be an increase in the supply of ethical and socially responsible products on the market.

While the European directive refers to the legal limits of ethical criteria in public procurement contracts, there are also economic limits. The first of these is the possible exclusion from these contracts of small sub-contractors unable to satisfy the requirements set out by the main contractors or unable to bid for the contracts. Signing up to the requisite technical and quality standards means accepting a long and costly process in terms of both financial cost and human resources. This clearly raises the risk of establishing two types of market at world level: an ethical market and a non-ethical market.

A further limit is that the authorities awarding the contracts would have too many criteria to take into account at the same time. Experience has shown that when this is the case in public policies of this type, failure is almost inevitable. For greater efficiency it is preferable to focus solely on a limited number of precise criteria.

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6. The building trade, food and agri-food industry, and certain types of industrial processing.

## **Conclusion: considerations for making public procurement an effective policy**

If the aim of ethical criteria in public procurement is to promote responsible consumption in general, it has to be acknowledged that such policies are useful and necessary but inadequate. Used in isolation they have a number of shortcomings; they therefore need to be supplemented and used in conjunction with other policies.

For example, a key factor in the success of public policies encouraging socially responsible practices is the level of importance attached to adopting the same approach with regard to financial investments, such as pension funds where a degree of transparency is essential. Today, in Europe, there are numerous laws on ethical assets and the introduction of ethical requirements in pension funds.

Recourse to public procurement cannot be divorced from other types of public policy such as awareness-raising, information, support, aid and tax and financial incentives. Ideally, such forms of persuasion should not be inhibiting but, in parallel to public procurement contracts, genuine incentives.

Development co-operation remains fairly infrequent among European governments, in the field of both fair trade and promoting sustainable development and social cohesion in general. While there is no doubt that fair trade is getting ever more attention, aid programmes and projects in the environmental or social sphere – in terms of strengthening the social partners – are few and far between.

The sectoral approach has shown itself to be effective: several countries have adopted practices of this type in public service contracts in the building sector, for example. There is more chance of success in applying environmental criteria in the heavily polluting industries. The car and petrochemical industries, for example, are among the leaders in coming up with innovative practices in the fields of health, safety and the environment.

The debate must remain firmly within the European context, and in particular it must address the difference of levels between the older and newer member states. The requirements with which the latter are asked to comply in the areas of concern to us could also have significant social and economic repercussions unless some form of assistance is provided.

Public policies to encourage an ethical approach and sustainable development must be linked with others. One must at all costs avoid minimis-

ing such policies in favour of major economic and financial factors in a context where strategies would be in conflict. Purely commercial strategies do not necessarily tie in with those thought out along ethical lines. In this respect, it is essential to harmonise European and national policies.



### **III. LEGITIMISING SOLIDARITY IN THE MARKET AS A SOCIAL FUNCTION**

#### **1. Government assistance to promote socially responsible consumption and finance systems within the member states of the Council of Europe**

*by James Harrison, legal specialist in human rights,  
European University Institute of Florence, Italy*

##### **Introduction**

Within the framework of its activities on socially responsible consumption and finance systems, the Council of Europe has tried to bring together information from all its member states concerning support provided to groups which have set up initiatives for socially responsible consumption and finance systems. Questionnaires were sent to all member states and this was followed up with intensive contacts in order to try to find relevant examples of government support. It is possible that some good practices have been missed but in general the data collected enable us to note that until very recently there were hardly any advantages given by governments to support initiatives for socially responsible consumption and finance systems. However, there is a recent trend towards an increase in the support given by states to these sectors.

Government support comes in many different forms and the Council of Europe study called "Solidarity-based economy: a summary of the legislation of the European Union and the member states of the Council of the Europe"<sup>1</sup> offers a useful summary.

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1. See Ester Petridis, "Economy Solidarity Supporting Regulations in the Member States of the Council of Europe and the European Union", in Trends in social cohesion, No. 12, and [www.coe.int/platform](http://www.coe.int/platform)

## **a. Overall presentation**

### *i. The nature of the data analysed*

The analysis in this paper focuses specifically on legislative and other governmental assistance that supports socially responsible consumerism and finance initiatives by private citizens and groups. The Council of Europe's platform is primarily aimed at assisting enterprises and other organisations which utilise systems of trade and investment to achieve social, ethical and environmental goals, as well as responsible consumers and investors seeking those same goals. Assistance that is targeted at these actors will therefore be the focus of the current presentation.

This means that a number of other types of government action which promote valuable social and environmental goals will not be included. In particular, it is outside the scope of this paper to consider more general government policies concerning environmental sustainability, poverty reduction, etc. Such policies will only be considered when they directly relate to promotion of the sectors that form the focus of this project. Secondly, consideration will only be given to those forms of initiative that are governmental in origin. Initiatives that originate from other sectors will not be considered, as they could essentially be classified as voluntary, and do not concern the relationship between governments and citizens. Thirdly, this presentation will concentrate on governmental legal initiatives that are actually in place, or, where they are of particular interest, planned governmental legal initiatives. The analysis will generally not consider campaigns that NGOs and others are undertaking to attempt to persuade governments to adopt measures or attempts to enact legislative measures that were not successful.

This presentation will also not consider two types of related initiatives that have already been thoroughly analysed elsewhere. Firstly, it will not consider government measures to promote the policies of mainstream companies who have made limited social or environmental commitments in the context of their core business concerns (often referred to as corporate social responsibility (CSR) programmes). Rather, the concern in this paper is with enterprises who undertake some form of responsible consumption and finance activity, and this itself is a core concern of (part of) their business. Finally, a number of the legislative initiatives that are listed in the Council of Europe data relate to one specific issue – the regulation of pensions funds, and in particular reporting requirements with regard to social and environmental issues. Much has already been written

on this issue, adoption of pensions regulations is becoming more and more widespread, and it is suggested that the Council of Europe's platform would create more benefit by highlighting some of the less well-known initiatives listed below.

## *ii. Methodology for the presentation*

Due to their widely diverse nature, the different forms of government assistance have been presented in five different categories<sup>2</sup>:

- overall government strategy papers, resolutions and declarations which contain reference to ethical finance, fair trade and responsible consumerism;
- public awareness raising measures;
- financial support – tax incentives;
- the creation of a legal status for organisations that promote socially responsible consumption and finance systems;
- government procurement.

There is a sixth category of government assistance that would be dealt with here – government involvement in environmental or social labelling systems for products – but this is a complex area being dealt with separately in another paper.

In each category, there is a description of the type of initiative under consideration, several of the most advanced forms of government regulations are presented, and finally conclusions are made and recommendations given for how other governments who wish to promote socially responsible consumption and finance initiatives could utilise these mechanisms. All of these different types of government measures relate to socially responsible consumption and finance initiatives of private citizens. However, in different countries around Europe, these initiatives have often been given different labels (for instance what is in this paper termed "socially responsible finance" includes ethical finance, solidarity

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2. These categorisations, as currently organised, do not directly relate to the categories proposed in my previous paper for the Council of Europe (see DGIII/DCS (2003) 26, p. 8ff.), but they are very much inspired by that methodology.

finance, social finance, etc. as it is described in various different countries across Europe). The terms socially responsible consumption and finance should therefore be seen as very widely inclusive of all forms of social, ethical and environmental projects which conform to the definitions provided in the introduction to the paper.

## **b. Overall government strategy papers, resolutions and declarations which contain reference to ethical finance, fair trade and responsible consumerism**

Most governments write environmental and/or social strategy papers which set out their plans for poverty reduction, social cohesion, environmental sustainability and a range of other important social goals. Recognition within these documents of the importance of groups of private actors who undertake socially responsible consumerism and finance is in itself a significant step in that it demonstrates, in principle, governments' support for the sectors. It may reflect a prior commitment to supporting such groups, but, as can be seen from the examples presented below, it can also pave the way for more concrete support through more specific legislative measures. It may also lead to governmental commitments to further research into the type of governmental support that might be appropriate. In particular, reference to socially responsible consumerism and finance in these general strategic documents could be viewed as important starting-points for countries who have not, as yet, undertaken any legislative commitments to promote the social solidarity economy.

### *i. Examples of good practice*

#### *Strategy papers*

Austria's Strategy for Sustainable Development, adopted in April 2002, recognises the important principle that citizens and government need to work together to achieve the goals of sustainable development. It further recognises that socially responsible consumption and finance initiatives are an important mechanism for achieving that goal, and highlights a number of government measures that are being taken to support these initiatives.<sup>3</sup>

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3. [http://www.nachhaltigkeit.at/strategie/pdf/strategie020709\\_en.pdf](http://www.nachhaltigkeit.at/strategie/pdf/strategie020709_en.pdf)



The Austrian strategy recognises the need for a relationship between private enterprises and government that reflects their ecological and social impact, and the need for legal and policy frameworks that are responsive to this.<sup>4</sup> It further acknowledges the importance of increasing the market share of sustainable products and services.<sup>5</sup> Having presented the Austrian Government's recognition, in principle, of the importance of citizens undertaking socially responsible consumption and finance initiatives, the strategy presents a "first steps" guide to achieving its sustainable development goals.<sup>6</sup> In this guide it recognises both the importance of ethical and ecological investments, and the need for responsible consumption including promoting organic farming and fair trade initiatives.

"Project Ethical-Ecological Investments" aims to support and expand the market for ethical and ecological investments in Austria through public relations and information work<sup>7</sup> (see section on promotion for details below). "Action Programme Organic Farming" explains the plan to increase "organically managed farming surfaces" by 50% in the following five years.<sup>8</sup> Finally, "Project Initiative TransFair" aims to promote the sale of fair trade products with information campaigns including advertising, sales promotion measures and regional action weeks over the following three years with the aim of boosting the market share of such products.<sup>9</sup>

The Belgian National Plan for Sustainable Development (2000-2004) discusses promotion of socially responsible production and consumption, as well as considering how to promote ethical investment funds.

The Belgian plan acknowledges that the promotion of goods produced in a socially responsible manner should be emphasised as a positive development, and is preferable to taking action to place sanctions on countries that do not meet labour and environmental standards. The plan goes on to set out a number of ways in which this commitment to responsible consumption is enforced by concrete policy measures. It sets targets of a 4% market share for both organic products and products

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4. Ibid., p. 48ff.

5. Ibid., p. 58ff.

6. Ibid., p. 112ff.

7. Ibid., p. 132.

8. Ibid., p. 133.

9. Ibid., p. 144.

which are labelled as coming from socially responsible production. Similar targets are set for public procurement. It also sets a target of having ten products bearing the ecological label made in, or imported into, Belgium by 2004. The plan also highlights the proposal to implement a social label for goods produced in Belgium and the rest of the world according to the core labour standards of the ILO.<sup>10</sup>

The Belgian plan also notes the importance of research in order to ascertain how best the government can increase sales in fairly traded produce.<sup>11</sup> Thus, it is stated that there will be a study of possible ways to develop and promote fair trade, which has since been produced.<sup>12</sup> This study highlighted the beneficial effects that fairly traded goods have on producers and the steps which the government could take to aid further expansion. Particularly emphasised in the study is the role that governments could play in promoting fairly traded products to consumers, as well as assistance with setting up appropriate financing arrangements and help in improving the quality and range of products available. The Belgian plan also contains proposals for a working group to be set up to look at the “green” reform of taxation, and included within this mandate is to study how the tax system could be used to encourage ethical investment funds.<sup>13</sup>

The German Programme of Action 2015 (concerning poverty reduction) encourages and supports responsible consumption, and in particular fair trade as well as socially responsible finance initiatives.<sup>14</sup> It recognises the important role that private sector organisations can play in enhancing environmental and social standards, for instance by establishing social and environmental labels.<sup>15</sup> It therefore seeks to establish a programme to promote voluntary ecological and social quality labels in close co-operation with enterprises and labelling initiatives.<sup>16</sup> With regard to socially

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10. “Belgian National Plan for Sustainable Development (2000-2004)”, p. 26.

11. *Ibid.*, p. 103.

12. “Economie Sociale – Note stratégique trans-sectorielle, 14 Novembre 2002”, Royaume de Belgique, Service Public Fédéral, Affaires Etrangères, Commerce Extérieur et Coopération au Développement.

13. “Belgian National Plan for Sustainable Development (2000-2004)”, paragraph 622ff.

14. <http://www.bmz.de/themen/Handlungsfelder/armutsbekaempfung/download/ap2015elang.pdf>

15. Page 34 mentions Rugmark, Flower Label and Transfair.

16. *Ibid.*, p. 12.

responsible finance initiatives, the report states that the German Government considers the concept of “ethical investment” to be a “good way of giving greater attention to concerns related to poverty reduction and social development”.

Subsequent to the programme of action, the German Government produced an implementation plan which provided concrete steps by which the stated objectives could be achieved.<sup>17</sup> In particular, it recognised the important role that the government can play in promoting public knowledge of the sectors. It provides substantial financial support for public information campaigns on fair trade,<sup>18</sup> and the promotion of new product ranges of fair trade goods,<sup>19</sup> as well as other measures including fair trade codes of conduct,<sup>20</sup> and help to African farmers in low income countries with the production of fair trade goods.<sup>21</sup>

### *Resolutions and declarations*

As well as references in overall strategy papers, responsible consumption and ethical finance initiatives can also be highlighted by what we might term “resolutions” or “declarations”, passed by national parliaments, that recognise the sectors and often call upon governments to take specific steps to promote them. In Italy, much attention has recently been paid at the political level to socially responsible consumption and finance initiatives. On 11 March 2003, the Italian Senate adopted a resolution recognising the importance of fair trade initiatives,<sup>22</sup> and calling upon the government to take measures (including public awareness-raising and

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17. Explanatory notes on Programme of Action 2015.

18. Ibid., section B.1.2, “Fair trade information campaign” and section C.1.2., “New fair-trade initiative steps to implementation” which plans to double fair trade sales through a public information campaign, funded by resources from the Programme of Action (€3.3 million), and other federal funds. See text for full details of different sources of federal funding.

19. Ibid., section C.1.2., “A total of €1.75 million will go towards developing and launching new products, in order to expand the range of Fair Trade goods.”

20. Ibid., section C.1.2., “Out of budget funds for implementation of the Programme of Action 2015 a total of €6.48 million will be used between 2003 and 2005 for additional measures relating to Fair Trade and codes of conduct.”

21. Ibid., section C.1.2., “An amount of approximately €1 million has been earmarked by the Federal Ministry for Consumer Protection, Food and Agriculture (BMVEL): so far for an FAO project to assist African farmers in low-income countries of West Africa with the production and export of Fair Trade goods and eco-products.”

22. “Mozione sul commercio equo e solidale”, [http://www.marche.legacoop.it/docs/Mozione\\_Commercio\\_Equo\\_Solidale.htm](http://www.marche.legacoop.it/docs/Mozione_Commercio_Equo_Solidale.htm)

education programmes) to increase the growth of the sector. Also in 2003, parliament adopted a resolution which demands the commitment of the government to support the growth of ethical finance as an important mechanism for reducing social and economic exclusion, to encourage the actions of ethical finance initiatives and to help raise awareness among the public of how ethical finance is an important mechanism for fighting poverty. It calls upon the government to support the ethical finance sector by a law which would give tax advantages to the sector.<sup>23</sup> At the EU level, there have been a number of resolutions from the European Parliament in support of fair trade, which has culminated in the Sustainable Trade Action Plan which contains a number of objectives which specifically relate to standards of “sustainable trade”, “fair trade” or “ethical trade”, etc., and how non-governmental initiatives that help achieve those goals might be supported.<sup>24</sup>

Government resolutions which focus particularly on socially responsible consumption and/or finance can also play a similar role as strategy papers. Although they do not link the sectors to overall strategies on poverty, environmental sustainability, etc., they do raise the profile of the sectors, formalise them and what they stand for, and often include demands for concrete steps that can then be lobbied for. The stand-alone nature of such resolutions can also be seen as an advantage, compared with inclusion of these issues in strategy papers, in that it can be more of a clear focal point for future action.

## *ii. Conclusion and recommendations*

It is difficult to be certain whether government commitment in strategy papers to socially responsible consumption and finance initiatives represent pre-existing commitment to the sectors, or the strategy papers themselves are the catalyst for action. However, reference to responsible consumerism and ethical finance initiatives in government strategy papers and declarations can have an impact on the sectors.

The recommendations made below highlight both the key reasons for including such initiatives in strategy papers and the key points that should be made:

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23. Resolution concerning ethical finance (7-00275), presented by Alfredo Grandi on 3 July 2003 in Session No. 334, <http://www.isfol.it/isfol/download/fln104%20intpar.doc>

24. <http://www.eftafairtrade.org/pdf/Commission%20STAP.doc>

- Recognition: strategy papers, resolutions and declarations are all important official documents where it can be officially recognised that socially responsible consumerism and finance initiatives are important tools in tackling ethical, social and environmental issues.
- Definition: reference to socially responsible consumption and finance initiatives provides the starting-point for an officially accepted definition for their activities, which is important in sectors that have, for the most part, developed free from governmental support and are therefore very much self-defined.
- Implementation: government strategy papers should include specific policy measures to implement their goals, and, in the case of responsible consumption and finance initiatives, this will include concrete steps to promote the sectors.
- Progress reports: strategy papers should require that governments report on progress achieved after a certain number of years, which thus keeps the sectors and their progress on the political agenda.
- Responsibility: strategy papers should put the onus on specific ministries to meet the objectives that are set (as in all the strategy papers mentioned above), thus providing a focal point for the relationship between government and responsible consumption and finance initiatives.
- Research: where governments are unsure of either the way the sectors should be defined or supported, further studies should be mandated in the strategy papers so that governments better understand the needs of the sectors, and the way in which governments can best support their activities (as in the case of Belgium mentioned above).

### **c. Public awareness-raising measures**

The products of socially responsible consumption initiatives are often not as well known to consumers as brands from larger producers who have far greater financial muscle to promote their products. Similarly, socially responsible finance initiatives may be unable to promote themselves to potential investors in the same way that major financial institutions can. This may mean that consumers are unable to take up opportunities for socially responsible consumption or investments because of a lack of knowledge about the existence and characteristics of relevant initiatives.

Public awareness-raising is therefore an activity that governments can undertake, in a variety of different forms in order to inform consumers and investors of the social and ethical possibilities for consumption and investment.

### *i. Examples of good practice*

As can be seen from the government strategy papers which were analysed above, many governments are beginning to recognise the importance of assistance in the promotion of responsibly produced products and ethical investments. The Austrian, Belgian and German strategy papers all recognise that promoting public knowledge of these initiatives is a vital mechanism for encouraging long-term sustainable growth in the sectors.

At the European Union level, the EU has recognised the importance of promotion and information campaigns in supporting responsible consumerism. It has provided funding for a number of public awareness-raising campaigns for a range of responsibly produced goods.<sup>25</sup>

At the national level, of particular interest is the implementation plan for the German Programme of Action 2015 which recognised that: "Trends in neighbouring European countries indicate that there is still considerable potential for raising the market share of fair trade in Germany. In those countries, information campaigns in support of Fair Trade have been a key factor in increasing market shares."<sup>26</sup> As a result the German Government has provided considerable financial support for public information campaigns, both recognising the importance of promoting the fair trade brand itself,<sup>27</sup> and the need to raise public awareness of new products.<sup>28</sup> The German Government also recognises the importance of increasing public knowledge of other sustainable goods and so has undertaken an

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25. A description of the activities of the European Union in support for the fair trade sector can be found in the communication from the Commission to the Council on fair trade, 29 November 1999, COM(1999)619, [http://europa.eu.int/eur-lex/en/com/cnc/1999/com1999\\_0619en01.pdf](http://europa.eu.int/eur-lex/en/com/cnc/1999/com1999_0619en01.pdf)

26. Explanatory notes on the German Programme of Action 2015, p. 28.

27. Some € 3.3 million of this has been earmarked for an information campaign to promote fair trade, launched on 11 November 2003.

28. A total of €1.75 million will go towards developing and launching new products, in order to expand the range of fair trade goods.

initiative which promotes sustainable consumption practices among the general public.<sup>29</sup>

The German analysis of successful European fair trade campaigns is certainly backed up by further examination of the effects of public knowledge on consumption of fair trade products. Research at the EU level suggests that many more consumers would buy fair trade goods if they were able to find them.<sup>30</sup> In particular, this is borne out by the example of Switzerland, which has some of the highest levels of public awareness of fair trade products in Europe,<sup>31</sup> as well as consistently the highest levels of market shares of such products.<sup>32</sup> Substantial financial support from the Swiss Federal Government for public awareness-raising (as well as support from major retailing outlets) has been an important reason for this high-level public awareness and market share for fair trade products.

Another example of how public awareness-raising has been utilised to promote other forms of responsible consumption comes from the Netherlands. In 2003 and 2004 a global organic food campaign was organised by the Dutch Ministry of Agriculture in collaboration with producers, supermarkets, banks and consumer organisations in order to raise consumer awareness for organic food and to considerably increase sales and production.<sup>33</sup>

Alternative methods for raising public awareness of responsible consumption and ethical finance initiatives can be found in France. First, the French Government has created special preferential rates for advertising through the media, so that fair trade organisations are able to obtain a reduced rate for advertising on French television and radio.<sup>34</sup> A second

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29. [http://www.nachhaltigkeitsrat.de/projects/sustainable\\_goods/index.html](http://www.nachhaltigkeitsrat.de/projects/sustainable_goods/index.html)

30. COM(1999) 619, op.cit., p. 8, "The survey also revealed that almost three quarters (74%) of the EU population say they would buy fair trade bananas if they were available in the shops alongside 'standard' bananas".

31. "Fair Trade in Europe – Facts and Figures on the Fair Trade Sector in 18 European Countries – A survey Prepared by Jean-Marie Krier on Behalf of EFTA", at [http://www.eftafairtrade.org/pdf/FT\\_f&f\\_2001.pdf](http://www.eftafairtrade.org/pdf/FT_f&f_2001.pdf) (p.56).

32. *Ibid.*, p. 15, market share for 2001: 3% of coffee (second only to Luxembourg), 4% of tea (best market share in Europe) and for bananas an incredible 15% of market share (11% more than anywhere in Europe).

33. This example was provided by a member of the Council of Europe's working group.

34. Letter from the French Prime Minister to Max Havelaar concerning a special tariff for public advertisements on TV. Mr Raffarin informs Max Havelaar that they have the possibility to contact France Television (France 2, France 3 and France 5), Radio France (France Inter, France Info, France Bleue, Radio Urgences) and the Reseau France Outre-Mer to get a special tariff for advertising fair trade in public media productions.

mechanism applies particularly to socially responsible investments. In France there is also an obligation for pension fund managers to propose to their customers (namely, enterprises who are preparing pension fund schemes for their employees) the possibility of investing in a fund of solidarity enterprises (including social enterprises which are described below). Such an obligation has the effect of promoting awareness of the businesses.

Although there is a lack of other data concerning government assistance for public awareness-raising of socially responsible finance at the national level, at the local level, a number of councils take measures to promote ethical investments and responsible consumerism. For instance, the Munich City Council has published a manual<sup>35</sup> which sets out for the public the full range of ethical and ecological investment opportunities available in Munich.

## *ii. Conclusions and recommendations*

Particularly in the area of responsible consumerism, raising public awareness is seen as an important mechanism increasing market share of products, and long-term sustainability. This is especially true when new types of goods are entering the market, and so they are unknown to consumers and product promotion is likely to have the greatest influence. A similar logic should therefore apply in countries where such initiatives are themselves a new phenomenon. There is more limited evidence with regard to public awareness raising of socially responsible finance, but it is suggested that the dynamics are likely to be similar (see introduction to this section), and so public awareness-raising is important for the same reasons.

For governments wishing to undertake public awareness-raising initiatives, there are a number of issues to consider:

- The most appropriate form of awareness-raising to utilise: this could mean the government conducting its own awareness-raising campaigns, or funding socially responsible consumption or finance groups to run their campaigns, providing special rates for organisations so that they can run advertising campaigns through the mainstream media (as in France) or creating legal obligations to publicise certain types of socially responsible products or investments (also in France).

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35. "Geld ethisch-ökologisch anlegen – Vorschläge und Materialien aus der Münchner Agenda 21 Eine Welt".



- The activities that should be used to promote awareness among the public: for instance, this could be through commercial advertising, alternative campaign methods, special promotion days, educational programmes, etc.
- The amount of money to be spent in order to have a significant impact on public awareness: it would be advisable to examine the campaigns already undertaken (for example, Switzerland) as well as research carried out (for example, in Germany) to examine how best the money can be spent to maximise public awareness, and the amount needed to achieve a positive impact, as well as the activities undertaken.

#### **d. Financial support – tax incentives**

Another mechanism through which governments can also look to support socially responsible consumption and finance is through providing financial support for the sector. It is argued that the lesser rates of return on investments for socially responsible finance initiatives or the greater costs involved in the purchase of fair trade coffee, etc., is a problem in attracting greater numbers of customers. The socially responsible nature of the products and the small size of the producers mean that their products are often more expensive than their non-ethical counterparts. Specifically considered in this paper are tax incentives to investors and consumers. With such tax incentives, socially responsible consumption and finance initiatives should be able to attract more customers to their products/investments rather than relying only on the ethical and social benefit of those products/investments to attract customers and investors.

##### *i. Examples of good practice*

In the Netherlands, under the Green Investment Directive, there has been a tax advantage scheme in operation for green investments since 1995. It promotes access to finance for environmentally sound or worthwhile projects, for example wind and solar energy, organic farming, environmental projects and sustainable building projects. A KPMG report on the scheme explains how it works:

“Investing in the Green Funds Scheme means that individual investors lend their own ‘cheap’ money to the banks, at a lower interest rate, which is then compensated by a tax incentive (environmental tax credit). The ‘green banks’ can then offer cheaper loans to environmental projects.

This encourages the implementation of innovative environmental projects that are less profitable but, in this way, can still receive funding.”

A “green statement” for each environmental project which is to receive investment must be acquired by the investment funds from the Minister of Housing, Spatial Planning and Environment, thus ensuring that the government certifies the green credentials of each project.<sup>36</sup> Investors receive a tax reduction which will lead to an extra 2.5% return on their investments. By the end of 2002 over 140 000 private investors and savers had invested € 3.1 billion in the scheme, an increase of 18% over the previous year.<sup>37</sup>

The KPMG study goes on to explain the positive impact the scheme has had:

“Per euro, the direct environmental benefits are particularly high for a scheme that was only set up as a supporting measure for market introduction of innovative technologies. Every euro that the government invests via the Green Funds Scheme provides forty euros from the private sector for investment in green projects. This is then used to achieve environmental objectives. The government has thus ensured a faster market introduction of new products and techniques such as wind energy and heating/cooling storage. Other activities, such as organic farming, have been intensified.

The Green Funds Scheme contributes to social awareness of both the general public and the business community. The government also encourages banks to contribute to the achievement of national environmental objectives. Under this scheme they become partners, together with the government, in encouraging the private sector to become sustainable consumers and the business community to become sustainable manufacturers. The large numbers of investors, savers and companies that are actively involved in the Green Funds Scheme clearly shows that it is a successful form of public-private collaboration. In financial, technological and social terms, the scheme is clearly profitable.”

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36. “Green Investment Funds: Organic Farming. Netherlands Case Study on Biodiversity Incentive Measures”, Environment Directorate, OECD, at [http://www.oilis.oecd.org/olis/1997doc.nsf/LinkTo/env-epoc-geei-bio\(97\)10-final](http://www.oilis.oecd.org/olis/1997doc.nsf/LinkTo/env-epoc-geei-bio(97)10-final) (p.36-37).

37. See “L’investissement socialement responsable en Belgique – rapport 2004”, Réseau Financement Alternatif, at [http://www.rfa.be/files/rapport\\_ISR2004\\_final.pdf](http://www.rfa.be/files/rapport_ISR2004_final.pdf) (p.39) and “Sustainable Profit. An Overview of the Environmental Benefits Generated by the Green Funds Scheme”, Report by KPMG Sustainability, September 2002.

An OECD report<sup>38</sup> on the effects of the green investment funds on organic farming also noted its benefits – primarily how the market could generate a tremendous amount of money for environmental projects that could never be generated by the government or by the project owners, and at moderate expense to the government. This form of tax incentive was recommended to other policy makers, with the caveat that considerable effort needed to be invested in developing an appropriate scheme and convincing participants of its effectiveness before it was commenced.<sup>39</sup>

The tax-free exemption regulation on green investments now has its social-ethical equivalent in the Netherlands,<sup>40</sup> which has recently been approved by the European Commission.<sup>41</sup>

This provision supports investments in developing countries based on specified development criteria. Investments assist microfinance institutions providing micro-loans of €25 000 maximum each, for co-operatives and fair trade projects. Investment funds are certified based on a project approval by the Minister for Development Co-operation. The fiscal advantage is the same as the one given to investors in “green funds” (2.5% tax benefit on the return on investment).

While the Netherlands certainly has the most advanced form of ethical investment support, there are other countries which also provide for tax relief in certain types of ethical investments. The Belgium Government has authorised the creation of a fund,<sup>42</sup> which provides soft loans and guarantees to companies from the “social economy” sector in order to finance long-term investments.<sup>43</sup> Some 70% of the money in the fund must go to activities that benefit the social and sustainable economy. The other 30% goes to investments that conform to the obligations of Ethibel.<sup>44</sup> The fund

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38. “Green Investment Funds: Organic Farming. Netherlands Case Study on Biodiversity Incentive Measures”, Environment, Directorate, OECD, at [http://www.oilis.oecd.org/olis/1997doc.nsf/LinkTo/env-epoc-geei-bio\(97\)10-final](http://www.oilis.oecd.org/olis/1997doc.nsf/LinkTo/env-epoc-geei-bio(97)10-final)

39. Ibid., p. 47.

40. “Regulation on Ethical and Social Funds 2004”, (2 March.2004), published in the *Staatscourant* No. 44 from 4 March 2004 (DJZ/BR/0163-04).

41. <http://www.eurosif.org/pub2/lib/2004/03/newsl/sect02.shtml>

42. Set up by La Société Fédérale D’Investissement as authorised by *La loi-programme* of 8 April 2003.

43. See “L’investissement socialement responsable en Belgique – Rapport 2004”, Réseau Financement Alternatif, at [http://www.rfa.be/files/rapport\\_ISR2004\\_final.pdf](http://www.rfa.be/files/rapport_ISR2004_final.pdf) (p.31).

44. See [www.ethibel.org](http://www.ethibel.org)

is limited to a maximum of €75 million. Investors who invest in the fund must keep their investments in the fund for a minimum period of five years, and receive a 5% tax relief on their investments (1% per year).<sup>45</sup>

This government initiative has been questioned by some finance institutions for its unfair competition and lack of transparency. Unlike the Dutch system, where any investment fund that meets the eligibility criteria can obtain the tax benefits on offer, in Belgium it is only the government controlled fund that can attract investors with the tax breaks. This means that the government fund is competing with private social and environmental funds, while being able to offer greater financial incentives to potential investors. It is argued that, while the Belgian system might be appropriate for a risk capital fund, which generally struggles to attract private investors because of the high risk involved, it can actually stifle private initiatives trying to create more investment in other social and environmental projects.

In France there is also a system whereby investors can obtain tax advantages by investing in legally prescribed social enterprises.<sup>46</sup> In the UK, there is the Community Investment Tax Relief Scheme<sup>47</sup> which encourages investment in disadvantaged communities by giving tax relief, equivalent to 5% of their investment per year, to investors who invest for at least five years in businesses in less advantaged areas. Investments are managed through community development finance institutions (CDFIs), which provide loans to enterprises in deprived areas, primarily those that would not otherwise receive mainstream financial investment. The CDFIs need to be accredited by the Small Business Service (SBS), a government agency, which monitors whether CDFIs are properly carrying out their mandate. CDFIs must report on an annual basis to the SBS and, amongst other criteria, are required to invest most of their money in enterprises that would otherwise struggle to obtain finance.<sup>48</sup>

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45. See "L'investissement socialement responsable en Belgique – Rapport 2004", Réseau Financement Alternatif, at [http://www.rfa.be/files/rapport\\_ISR2004\\_final.pdf](http://www.rfa.be/files/rapport_ISR2004_final.pdf) (p.38)

46. Law No. 2003-709 (1 August) concerning tax credits for investments in small non quoted companies.

47. See "Community Investment Tax Relief – A Guide for Investors". Only available as a paying publication. Community Development Finance Association.

48. Statutory Instrument 96 of 2003, Community Investment Tax Relief (Accreditation of Community Development Finance Institutions), Regulations 2003 .

Tax relief relating to responsible consumption is less widespread than for ethical finance initiatives. However, there are several examples. In the Netherlands, organic farmers and producers of organic products who obtain at least 70% of their turnover selling organic products are entitled to deduct up to €10 227 from their income taxes. Proposed laws in other countries show how tax advantages for responsible consumption may spread further across Europe. The Draft Agro-Ecological Programme in Bulgaria has proposed financial advantages for agriculture producers in order to encourage them to keep applying agricultural practices aiming at the preservation of the environment: Through financial incentives it encourages the use of agricultural land that is compatible with the protection and improvement of the environment, the landscape and its features, natural resources, soil and genetic diversity, and the protection of endangered and rare species of wild flora and fauna.<sup>49</sup> An Italian legal proposal would provide extensive support for the fair trade sector including, among other advantages, the creation of special funds to support fair trade initiatives, and special tax reductions for fair trade products.<sup>50</sup>

## *ii. Conclusions and recommendations*

The use of tax incentives is a measure that has been very successful in the Netherlands in achieving a large amount of investment in important environmental projects. The new socio-ethical tax regulation in the Netherlands, as well as the UK, and French tax incentive schemes also demonstrate that there is increasing government recognition that tax incentives are a potentially important mechanism for encouraging private socially responsible investment in a range of socially beneficial schemes and projects.

It is too soon to analyse the success of the various social and ethical funds outlined above, since they are all very recent phenomenon. However, the decade of experience with the Dutch green investment scheme does allow some tentative conclusions to be drawn about some of the important factors in creating effective and productive tax incentive provisions for a range of other social and environmental causes. These can be summarised as follows:<sup>51</sup>

49. Measure 1.3. Development of environmentally friendly agricultural practices and activities.

50. XIV Legislatura, 14 April 2003, Camera dei Deputati No. 3892.

51. A great deal of this analysis is taken from the article "Some Thoughts on Mainstreaming Social Finance with the Help of Government: The Example of the Dutch Green Funds" by Jansen, Koert in *Banking and Social Cohesion: Alternative Responses to a Global Market* by Christophe Guene and Edward Mayo, 2001, page 242ff.

- Simplicity: the Dutch green investment scheme was simple to enact, and is easy to understand, both in terms of the funds and the projects they support. In particular the criteria concerning the eligibility of projects are clear, strict and, for the most part, exhaustive. Managers of green funds generally know whether a certificate will be granted and therefore generally only start certification procedures for viable projects, thereby speeding up procedures and increasing certainty of outcomes.<sup>52</sup>
- Certification requirements: because all projects must be certified by the relevant minister, the Dutch Government can ensure that the projects which are the subject of the investment are providing real environmental benefit. Expert certification procedures are vital for ensuring that money is invested in socially/environmentally beneficial projects. It is important that project criteria are not simply relaxed to fit the amount of money from investors that is available as this will lead to decreased project quality and appropriateness.
- Maturity of sector: there had been green funds operational in the Netherlands for quite some time before the government introduced the tax-relief scheme, so that the government could be confident that the fund was run effectively and was providing substantial environmental benefits.
- Transparency: investment funds will need to have transparency mechanisms (for example reporting requirements) to ensure that their activities are open to scrutiny by investors as well as the wider general public.
- Cost-benefit analysis: this will involve consideration of all of the above factors. Future tax incentive schemes need to consider the costs and benefits of the financial support offered. This will require an analysis of whether the tax incentive effectively targets the issue in question, and whether the system is designed in such a way as to maximise a beneficial social and environmental impact at a reasonable cost to the

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52. However, Koert (*Ibid.*, p.243) does question whether the number of quasi-governmental bodies involved in the certification procedure makes it overly long. He further questions one open-ended category in the legislation which allows for “other projects which are to the benefit of the environment and nature”, which he says has led to extensive “trial and error efforts by projects and funds” and a number of less ambitious projects receiving certification, thereby eating up valuable finance with projects that are less worthy from an environmental perspective.

government in lost tax revenue. The Dutch green investment scheme is a good example of a low cost (to government)/high output (sustainable investments) measure.

#### **e. The creation of a legal status for organisations that promote socially responsible consumption and finance systems**

The inclusion of organisations that are promoting socially responsible consumption and finance systems within a legal categorisation, separate from mainstream companies, is one way in which governments can promote such organisations. A legal category for enterprises that pursue such socially valuable aims allows them to be differentiated from other companies that do not primarily pursue such social goals. On the other hand, it does not constrain such “social enterprises” to act as charitable institutions, and therefore different regulations can be applied with regard to, for example, distribution of profits, sources of investment and reporting procedures that are more suitable for small and developing enterprises.

While there are a number of other types of organisations that could be individually considered under this heading – associations, trusts, etc., – these are entities that have long histories in many countries across Europe, and their legal structures have been greatly analysed. The current analysis focuses upon novel forms of what we might term the social enterprise model, which recognises that companies that pursue socially beneficial aims can be differentiated from traditional mainstream companies, and that there can be a number of potential advantages that accrue as a result. In addition, some of the particular regulatory issues facing enterprises involved in socially responsible finance will be addressed.

##### *i. Examples of good practice*

Examples of government assistance are presented below for two different types of social enterprise model. In the first category are enterprises that are deemed social because the enterprises themselves are structured in a socially constructive way, for instance in terms of employing disadvantaged persons or limiting directors’ salaries. The second category includes government proposals for a categorisation of companies as social enterprises because their overall aims and goals are seen to be socially beneficial.

So, under the first category, in France the government has created a legal status for social enterprises.<sup>53</sup> Social enterprises are defined as undertakings that are not quoted on the stock exchange, where the enterprise employs at least one-third disabled persons, persons receiving the state minimum income or long-term unemployed or the enterprise is a co-operative, friendly society, association or company whose directors are elected by the employee members or partners and whose wages are subject to statutory limits. The social enterprise label is important in itself as it is a label that allows customers, clients, etc. of the business to know that it is operating in a way that is helping prevent social exclusion and working according to socially responsible principles. However, there are also further advantages that can be gained by creating such legal categories, in that governments are then able to direct other forms of support and assistance at the businesses in question. In France, therefore, shareholders of social enterprises benefit from a tax credit of 25% on their investments.<sup>54</sup> Furthermore, companies having this legal status can be chosen by pension funds investors in order to satisfy the legal obligation of proposing solidarity funds in employee savings plans<sup>55</sup>. In Bulgaria, special tax incentives are also offered to enterprises which employ particular categories of persons considered vulnerable or disadvantaged in that they have difficulties in finding employment: these include unemployed persons whose workability is defined as in a state of permanent deterioration, mothers of children under the age of 3, certain categories of ex-prisoners and women over the age of 50 and men over the age of 55.<sup>56</sup>

In the second category of social enterprises, there are those enterprises whose overall aims and goals are seen to be socially beneficial. There has been a recent law which creates legal status for such social enterprises (*impresa sociale*) in Italy.<sup>57</sup> To qualify as a social enterprise, the enterprise

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53. Law No. 2001-152 (19 February) on the Generalisation of Employee Savings Plans, Monetary and Financial Code, Articles 19, 21 and 23.

54. Law No. 2003-721. Generally, if at least 50% of the company's capital is owned by physical shareholders, then any company can benefit from this tax benefit, but in the case of social enterprises, this requirement is waived. The tax credit for investors: 25% of investment, but maximum €20 000/year (single) or €40 000/year (couple); investment must be made for five years.

55. Regulation concerning investments in solidarity funds, Law No. 2001-152.

56. Employment Promotion Act 2001, Articles 50-55a.

57. "Delega al Governo concernente la disciplina dell'impresa sociale".



must be undertaking activities of particular social importance, and must not distribute profits to those involved in the enterprise.<sup>58</sup> Those that qualify as social enterprises can then be awarded fiscal advantages.<sup>59</sup> The law mandates the government to put into place, within one year from it being passed, more detailed regulations specifying the way in which this system will operate.<sup>60</sup>

Proposals for community interest companies (CICs) are currently being finalised by the Department of Trade and Industry in the United Kingdom.<sup>61</sup> CICs are designed for social enterprises who want to use their profits and assets for the public good.<sup>62</sup> The proposed legislation should be enacted in 2005 and will include:

- a community interest test designed to ensure that CICs are providing benefit to the community;
- yearly community interest reports, describing the benefits brought to the community by each CIC;
- a cap on the profits that can be made by CICs;
- the setting-up of an independent regulator to administer the system.<sup>63</sup>

In setting up this new type of enterprise model, the government envisages a number of benefits accruing to those who decide to use it. The label “community interest company” will enable customers, investors and other stakeholders of the business in question to know that this is an enterprise being run for the sake of the community. CICs will allow enterprises to put a lock on their assets and profits to ensure they are used for the community interest. Although the government does not envisage providing any particular tax or other financial incentives to CICs, it does plan to structure CICs so they have access to the broadest range of

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58. *Ibid.*, Article 1.1.a. and a.2

59. *Ibid.*, Article 1.1.d

60. *Ibid.*, Article 1.

61. See <http://www.dti.gov.uk/cics>

62. *Ibid.*

63. See the proposed legislation at: <http://www.publications.parliament.uk/pa/ld200304/lbills/008/2004008.pdf> and draft supporting regulations at: <http://www.dti.gov.uk/cics/pdfs/DraftCICregulations.pdf> and explanatory notes at <http://www.dti.gov.uk/cics/pdfs/ExnotesondraftCICregulations.pdf>

finance possible, including from government initiatives such as the Phoenix Fund and community development financial institutions (see section on financial incentives above for details).<sup>64</sup>

## *ii. Particular issues facing socially responsible finance organisations*

It is impossible here to discuss in full the particular issues relating to the setting-up of enterprises involved in ethical finance. However, it is important briefly to set out some of the concerns. The particular cause for concern among ethical finance initiatives is that legal regulation of the financial sector in many countries is set up primarily for the mainstream banking sector, often with insufficient regard to the particular needs of those involved in ethical forms of finance. The range of issues faced requires more detailed analysis than is possible in this short paper,<sup>65</sup> particularly because of the wide range of institutions involved in ethical finance – banks, co-operatives, NGOs, funds, associations, etc. These institutions have different powers, ranges of activities and levels of finance, and as a result require different regulatory frameworks.<sup>66</sup> However, governments across Europe should consider whether inappropriate regulatory systems are unnecessarily preventing new socially responsible finance initiatives from starting up, for instance because of legal provisions relating to minimum capital requirements or supervision requirements.<sup>67</sup> Evidence of regulatory issues being an impediment to such initiatives was found in a number of countries, both in eastern and west-

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64. "Information Paper on Community Interest Companies: International Comparisons". Department for Trade and Industry, UK, at <http://www.dti.gov.uk/cics/pdfs/international.pdf> p.8

65. See *Banking and Social Cohesion: Alternative Responses to a Global Market*, Christophe Guene and Edward Mayo, 2001, Chapter 5

66. For example, see "A Framework for Regulating Microfinance Institutions" – The World Bank, December 1998, p. 4, for types of microfinance institutions and regulatory frameworks needed as a result, at [http://www.mfc.org.pl/doc/backgroundmaterials/A\\_Framework\\_for\\_Regulating.pdf](http://www.mfc.org.pl/doc/backgroundmaterials/A_Framework_for_Regulating.pdf)

67. See report on the session concerning legal frameworks for social finance at the INAISE Conference, 2-4 June 2004, at <http://www.inaise.org/doc%20download/Bratislava/Workshop4.pdf> which mentions a number of the legal issues including problems of capital requirements in Slovenia and the Czech Republic. See also "Social Credit in a Welfare State: Lessons from AIDE" by Maria Nowak in *GUENE and Mayo*, op.cit., pp. 246-247, discussing the lack of a suitable legal framework for micro credit in France. "Community Reinvestment Partnerships: Financial Intermediation and Local Economy Regeneration", by Patrick Conaty, *ibid.*, pp. 258-259, on the need for supportive government regulation for micro-credit. "The Regulation of Social Economy Banking", by Malcolm Lynch, *ibid.*, p.262ff., discussing how credit unions in Ireland and the UK demonstrate the possibility of creating credit institutions "which do not, in their early development, meet the capital adequacy ratios of regulated credit institutions..." but are still prudent and solvent.

ern Europe.<sup>68</sup> Governments should be aware of these concerns in the context of the negotiations currently taking place concerning the supervisory regulations governing the capital adequacy of internationally active banks – commonly known as “Basle II”.<sup>69</sup> Within these regulations space should be left open for the creation of new socially responsible financial initiatives, and governments should apply the exceptions to these regulations wherever possible to promote socially responsible finance.

### *iii. Conclusion and recommendations*

The creation of new legal forms for social enterprises is a very new phenomenon. Analysis of the extent to which these new legal structures have enhanced socially beneficial forms of the economy, and in particular socially responsible consumption and finance systems, therefore lacks the benefits of much experience of how it will function. However, some important points can be made about the potential impact of these legal structures:

- Status: the “social enterprise” (or equivalent) label will enable customers, investors and other stakeholders of the business in question to know that this is an enterprise being run according to a set of socially responsible standards. This could positively affect the business in a number of ways, for example increasing trust in local communities, as well as within public authorities who may be otherwise sceptical of the motives of private sector businesses, when, for example, bidding for procurement contracts.
- Financial advantages: governments can create special fiscal advantages for the newly created type of social enterprises. Even where additional funding or tax incentives are not put in place, access to (or even priority for) existing forms of finance, including from government initiatives, should be secured.

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68. The recent experience of Croatia is instructive in demonstrating the need for appropriate legal frameworks as a prerequisite for the growth of microfinance programme, <http://www.mfc.org.pl/index.php?section=NET&page=Policy%20Monitor01%202> See footnote above for references to issues relating to regulatory frameworks in France and the Czech Republic.

69. “Basle II: International Convergence of Capital Measurement and Capital Standards: A Revised Framework” at <http://www.bis.org/publ/bcbs107.htm>

- Benefit: two different rationales for describing an enterprise as social were set out above – primarily because of their internal organisational structures (for example, France, Bulgaria) or because their overall aims and goals are considered socially beneficial (Italy, UK). This is not to say that the two sets of criteria cannot be combined. However, governments who take up this kind of legal initiative will need to think carefully about the type of social benefit that they envisage the enterprises in question providing. (For instance, another difference is that the UK provisions clearly envisage that the benefit of CICs will be to the locality in which they are based, thereby making it difficult to see how fair trade enterprises could fit within this definition.)
- Regulation: governments will also need to give careful consideration to the way in which they develop “social benefit” (or equivalent) tests, and to the body who decides on which enterprises are recognised as such. Much of the success of the schemes will depend on the design of these parts of the system.

## **f. Government procurement**

Since governments spend around 15% of total national GDP on procurement, their procurement decisions have the potential to be very valuable to socially responsible consumption initiatives. Governments can also act as an example to the wider community on the importance of social and environmental factors in decision making. There are a number of regulatory measures where governments can take action to enhance the public procurement of products produced according to social and environmental criteria, both at the national and local level.

There has, historically, been reluctance in a number of countries to include social and environmental criteria in government decision making on procurement. In public tender procedures, and in many European countries, as well as at the EU level, there have been concerns that the criteria for decision making must always be of an economic nature. However, at the EU level, a new Directive on public procurement<sup>70</sup> confirms the case-law of the European Court of Justice<sup>71</sup> in stating that procurement

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70. Directive on the co-ordination of procedures for the award of public works contracts, public supply and service contracts, 2004/18/EC.

71. *Concordia Bus Finland v. City of Helsinki and HKL* case C-513/99; *Commission v. France*, case C-225/98.

decisions of the public authorities of member states can be made having regard to objective environmental and social criteria. A number of European governments have legislated to include social and environmental factors within the permitted criteria used by public authorities to reach decisions on public procurement and this tendency should be becoming more prevalent throughout Europe.

### *i. Examples of good practice*

There are a great number of government departments, local governments and other public authorities who have incorporated a wide range of environmental and social issues within their procurement decision making.<sup>72</sup> In this analysis, consideration is given to how national governments can best encourage public authorities to include environmental and social criteria within their procurement decision-making processes, in particular through three different policy mechanisms discussed below. The first is by legislating positively for the possibility of including (or even the obligation to include) social and environmental criteria within procurement decision making. The second is to provide more detailed information to public authorities on how they should go about including environmental and social criteria in their decision-making processes. The third is to set targets for the amount of certain types of socially or environmentally beneficial products to be procured by public authorities.

### *Legislation*

With regard to legislation, the strongest and most advanced form of legislation concerning procurement of environmentally sound goods can be found in Denmark. The combination of a 1992 Environmental Protection Act and a 1994 national Action Plan for a Green Public Procurement Policy stresses that both public and private sectors should strive for greener

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72. For example, at European level, the involvement of eighteen European local authorities can be found in the Procura+ initiative which aims to establish a united campaign for fair and environmentally sound public procurement. See "Fair Trade in Europe", report, op. cit., where each country report includes a section on public procurement of fair trade goods. Other examples include Munich City Council, which decided that certain products, for example orange juice and carpets, should be tendered for with respect of the ILO Convention No. 182 against child labour. Since 2002 the City Council of Düsseldorf only buys service clothing for the fire department which has been produced under conditions which respect international labour law standards. In Rome, there are regulations concerning the integration of fair trade products into public procurement. In the United Kingdom around 1 000 local councils consume fair trade products.

production and consumption. All public authorities and national institutions are under an obligation "to the extent possible to use goods or products containing recycled or recyclable materials, or otherwise for environmental reasons to be preferred to other goods or products for the same applications".<sup>73</sup> The fact that public authorities are under an obligation to pursue a green procurement policy, means that the policy is far stronger than anywhere else in Europe (see below). The Danish Government has furthermore introduced a number of circulars to state institutions, voluntary agreements with counties' and municipalities' organisations and sectoral plans (for example, Energy 2000) which target concrete goals for energy consumption, the expansion of alternative energy sources and the reduction of carbon dioxide emissions. The extent to which the Danish approach has been successful, relative to other European countries, can be seen from EU research on green public procurement, which consistently places Denmark at the top end of the rankings in countries surveyed in terms of the amount of green procurement undertaken.<sup>74</sup>

Denmark is alone in placing such a strong obligation on public authorities to favour environmentally friendly products and services in the procurement process. However, there are a number of other countries that have introduced legislation stating the legality of public authorities taking into account both environmental as well as a variety of social concerns when tendering for public procurement. In Austria, as well as ecological concerns, the employment of women, of persons in education, of long-term unemployed, of handicapped, of older workers or other socio-political aspects can be taken into account when taking procurement decisions.<sup>75</sup> The new Polish law on public procurement states that environmental, as well as certain social criteria, may be taken into account by public authorities in deciding upon tender applications.<sup>76</sup>

73. <http://www.epe.be/workbooks/gpurchasing/1.2.html> also see <http://www.un.org/esa/sustdev/sdissues/consumption/denmark021127.pdf>

74. "Study Contract to Survey the State of Play of Green Public Procurement in the European Union", final report, July 2003, ICLEI European Secretariat, Eco-Procurement Programme, <http://www.europa.eu.int/comm/environment/gpp/pdf/iceisstudy.pdf>

75. Procurement Law (BGBl. I No. 99/2002), Section 21, Article 7.

76. Article 91 of the Polish Public Procurement Law of 29 January 2004 states "Tender evaluation criteria shall be price or price and other criteria pertaining to the object of the contract, in particular quality, functionality, technical parameters, use of the best available technologies with regard to environmental impact, exploitation costs, repair services, impact of the execution of the contract on the labour market in the site of the execution of the contract and contract execution date".

Unlike the legislation concerning environmental decision making in procurement, there has not been any real analysis of the extent to which legislation, which explicitly permits social criteria to be included in decision making on procurement, has effected the amount of public authority take-up. Clearly, however, explicit government authorisation of social and ethical criteria being utilised in procurement decision making can only enhance the extent to which public authorities utilise such criteria.

### *Information*

A number of governments provide further help to public authorities by providing detailed information on how social and environmental criteria may be taken into account in public procurement. The Belgian Government has a website<sup>77</sup> for the benefit of public authorities, which provides information on a range of products commonly procured by public authorities, and describes the important social and environmental criteria to be taken into account in the procurement process. It also advises them on how to formulate tenders. The German Government also provides information to public authorities to guide their public procurement decision making. It provides public authorities with a handbook on green public procurement and a website to promote sustainable procurement.<sup>78</sup> The extensive guidance provided by the Danish Government has been described above. Such government guidance is important in that it enables local authorities and other public authorities to know the extent to which they can then address social and environmental concerns in tendering for contracts, and how criteria can be formulated that meet their legal commitments. The importance of this type of information and guidance can be seen in the environmental context, where over 60% of those authorities who carried out little or no green procurement, indicate that lack of environmental knowledge and how to develop environmental criteria are the biggest obstacles to them.<sup>79</sup>

### *Targets*

A further way in which governments can address social and environmental concerns through public procurement is to set targets for the amount of

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77. [www.guidedesachatsdurables.be](http://www.guidedesachatsdurables.be)

78. [www.beschaffung-info.de](http://www.beschaffung-info.de)

79. "Study Contract to Survey the State of Play of Green Public Procurement in the European Union", final report, July 2003, ICLEI European Secretariat, Eco-Procurement Programme, <http://www.europa.eu.int/comm/environment/gpp/pdf/iceisstudy.pdf> (p.15).

public procurement that will meet social and environmental criteria. Thus, the Belgian National Plan for Sustainable Development (2000-2004) sets targets for the government of 4% of all food purchases by public administrators should be products labelled as coming from socially responsible production, and 4% should be products from organic farming.

## *ii. Conclusions and recommendations*

Three particular mechanisms have been presented that governments can use to support all public authorities in taking decisions on public procurement with due regard for social and environmental criteria. All of them can be useful in stimulating the take-up of socially and environmentally responsible procurement in different ways:

- Legislation: the example of Denmark in particular shows that the stronger the obligation to consider environmental factors, the more likely it appears will be the take-up of that type of procurement. Despite the lack of comparative analysis with regard to social issues in procurement processes, it does seem apparent that governments who explicitly legislate to legalise specified social criteria within the procurement process are sending a clear message to public authorities that the government is supporting social conditionality within procurement processes. Governments need to consider, however, the precise nature of the social or environmental goals they are trying to achieve through the procurement process, and adapt their legislation appropriately.
- Information: the second measure that governments can take is to provide more detailed information to public authorities on how they should go about including environmental and social criteria in their decision-making processes, and ensuring that this is done in a legal manner. Such information should include extensive information about the social and environmental factors that can be considered during public procurement decision making, how they can be included in the tendering process, and how these factors should be weighed up in deciding upon tender bids. Evidence with regard to environmental procurement processes shows that lack of such information is the most important reason for public authorities not including more environmental conditionality in their procurement processes.
- Target setting: the third measure highlighted is to set targets for the amount of certain types of socially or environmentally beneficial prod-



ucts to be procured by public authorities. The setting of targets is an encouragement to governments to monitor their actual progress in achieving more socially and environmentally responsible procurement. This is a useful adjunct to the adoption of legal frameworks and the provision of information, since it creates a yardstick by which governments can then judge the extent to which those policy measures have led to real progress in terms of take-up among public authorities.

## **Conclusion**

Behind the diversity of the forms of public support for socially responsible consumption and finance systems throughout Europe, it should be noted that government support is a relatively recent phenomenon. As shown from the examples presented in this paper, many of the support measures that are analysed have had a short lifespan, and so conclusions drawn concerning the benefits they bring and their transferability to other countries are, inevitably, somewhat provisional at this stage. In addition, while it has been possible to find a substantial amount of information about some forms of government assistance, others are mentioned only briefly. This is not an indication of their respective merits, rather it reflects the relative lack of analysis of many of the forms of government assistance under consideration. This points to the need for some form of permanent observatory which could more completely catalogue and analyse the various initiatives under consideration as they progress over time: Europe should be seen as a laboratory, and we need to assess the different experiments that have already been undertaken, and understand the extent to which individual forms of government assistance have been successful in leading to growth in the sector, and the factors that will also make them successful elsewhere.

This analysis is a first step in this direction. It remains to be developed further, particularly by examining more precisely the impact of the different government policy measures and in highlighting the key elements which have played a part in these impacts. In this way methodological lessons could be learnt which could enlighten new policies for future support and dialogue with ethical and socially responsible citizens' initiatives.

## **2. Adapted fiscal rules for the development of initiatives of the socially responsible economy: the Fabius Act on employee savings schemes (February 2001)**

*by Jean-Michel Lecuyer, Director General of the Société d'Investissement France Active*

### **a. The socially responsible economy in France**

#### *i. The socially responsible economy: scope of the definition*

There is no official definition of the socially responsible economy. At France Active, a network specialising in solidarity-based financing of the fight against exclusion and of socially beneficial projects, we define it as comprising all companies whose business activities are motivated (either totally or in part) by a desire to generate social value-added, particularly by developing activities with an element of solidarity towards the excluded, disabled, elderly, etc.

Other organisations also include within their definition of the socially responsible economy activities which generate cultural or environmental benefits, as well as social economy enterprises (co-operatives, mutual benefit societies, etc.).

Socially responsible enterprises usually engage in some form of purely business-related activity (selling goods and/or services to private or public clients). They often combine this income with third-party finance from insurance funds such as the Caisse Nationale d'Assurance Vieillesse pour les services aux personnes âgées (state pensions office for services to the elderly) and subsidies from the state or local authorities, awarded in return for the provision of socially beneficial services.

All socially responsible enterprises are obliged to balance their budgets in order to guarantee their future. In France, some have association status and are therefore non-profit-making. Others, even though they have commercial status, are either non-profit-making or attach secondary importance to profit-making.

*ii. The following sector, employing several hundreds of thousands of people in France, are important constituents of social cohesion*

- The *secteur associatif* (associative or voluntary sector) accounts for 6% to 7% of the paid work-force in France and 3% to 4% of GDP. A recent survey conducted by the *Chambre régionale de l'économie sociale de Lorraine* (Lorraine regional chamber of social economy) showed that, in this sector, 46% of income was private (sale of goods and services, contributions, insurance fund payments) and 54% was public (state, European funds, local authorities).

Some sectors of the economy that include a socially responsible dimension are invested in very heavily by associative networks. One example is the human services sector (5 300 associations employing around 200 000 staff), which, as the Minister for Social Cohesion said recently, has high growth prospects.

- The “integration through economic activity” sector includes 2 100 enterprises (including organisations or firms that help people into permanent or temporary employment or provide work experience, and the *Régies de Quartier* or “neighbourhood management units” assisting social and economic integration in disadvantaged neighbourhoods), which employ 45 000 people.
- There are 500 *entreprises adaptées* (sheltered workshops) employing 18 000 people, 80% of whom are disabled.
- A substantial proportion of the support and finance given to help people with integration difficulties to start new businesses is carried out in France by associative networks: *boutiques de gestion*, ADIE, France Active.
- There are 1500 *sociétés coopératives ouvrières de production* (workers’ co-operative production companies – SCOP) in France, employing 35 000 people.

**b. Socially responsible enterprises face financing difficulties**

Enterprises in this sector have difficulty in financing their own growth because they are either non-profit-making or attach only secondary importance to profit-making and because their purpose (social and eco-

conomic) and income (purely business related, third-party finance, state and local authority subsidies) are mixed:

- The traditional investment capital model does not work for their equity financing needs because there is no prospect of a gain in value.
- The banks themselves are often reluctant to lend money to these organisations because it is difficult to analyse the risk involved with resources that are used for a non-economic purpose.

These financing difficulties are reflected in:

- The lack of equity of socially responsible enterprises, which creates recurring cash flow problems because of the lack of working capital, while a large proportion of their operational income is subject to very long terms of payment (state, local authority and European subsidies).
- Problems with funding their investments and therefore with medium-term growth.

The socially responsible economy is therefore in desperate need of structural financial, particularly equity or quasi-equity financing, solutions in order to facilitate growth. This sector merits support from financial institutions acting in the general public interest:

- It is solvent (able to pay back loans in the medium term) but unable, by its very nature, to make significant financial gains.
- It creates enormous benefits in terms of social cohesion and, as far as the integration of people in difficulty, disabled and elderly people is concerned, it represents the backbone of social cohesion measures in France.
- It makes a hugely positive direct net contribution to the wealth of the nation (according to a recent study, the nation makes a net gain of €42.3 million per year thanks to activities of organisations promoting integration by economic means in the Pays de Loire region).

### **c. Solidarity-based finance providers seek funds for investment**

France Active (of which the Société d'Investissement France Active is a subsidiary) is a non-profit-making association and the largest of a small number of investors in equity or quasi-equity in socially responsible enterprises in France. As at 30 June 2004, it had invested a total of €13.5 million. Each

year, more than 200 socially responsible enterprises, employing several thousand people with integration problems, are financed in this way.

France Active uses three different investment channels:

- input of associative funding that may be claimed back by associations that have a social objective;
- input of quasi-equity, through the *Fonds Commun de Placement Insertion Emplois* (joint vocational integration fund). The total assets of this 10-year-old fund are €95 million, 5% to 10% of which may be invested in socially responsible enterprises at the proposal of France Active;
- investments in capital, current account or participating capital loan from SIFA, an investment company with capital of €19 million.

France Active, like other French financial stakeholders in the socially responsible economy, is constantly seeking solidarity-based funds to invest.

A socially responsible investor must be able to guarantee social benefits and eventual repayment of the funds it receives. However, the financial return on the sums paid in is small or zero.

The social responsibility aspect of the 2001 Fabius Act on employee savings plans has created some marvellously promising opportunities.

#### **d. Creation of socially responsible employee savings schemes**

##### *i. Brief overview of French employee savings schemes*

Some 52% of employees in the commercial sector in France are members of employee savings schemes. These represent a stock of over €50 billion, of which around €7 billion is invested each year.

They comprise employees' earnings from profit-sharing and performance-related bonuses, which are deducted from the company's profits. Employees can choose to pay these sums into a company savings plan, which they cannot access for a fixed period (five years for some plans, until retirement for collective pension savings plans or PERCOs).

In return for the lock-in period, monies paid into company savings plans are exempt from tax and are sometimes topped up by the company.

A large proportion of French employee savings funds are owned by employees of large companies and invested in shares in the company. This option often enables the employees, if they so wish, to benefit from a substantial top-up from the company.

### *ii. Collective pension savings plans (PERCOs)*

In 2001, as part of a major revamp of legislation on employee savings schemes, the French Government perceived the need to make such schemes more democratic by encouraging companies, particularly small companies, to make them available to their employees and ensuring that some of the savings were invested in more diverse (and less risky) ways than simply in shares in the company itself.

This resulted in the creation of *Plans partenariaux d'épargne salariale volontaire* (voluntary partnership employee savings plans), which were replaced under a recent law by *Plans d'épargne retraite collective* (collective pension savings plans – PERCOs).

The distinctive features of PERCOs include the fact that the funds invested are locked in for a long period (until retirement) and that investment in the shares of the company itself is strictly limited (to no more than 5%).

Collective pension savings plans (PERCOs) are long-term savings plans, invested in a diverse way for security reasons and managed collectively. Representatives of company staff and management form the Monitoring Board responsible for PERCO funds, with employees holding the majority of seats.

One particular feature of PERCOs was set out in the Fabius Act on employee savings plans (February 2001).

They are obliged to offer employees a socially responsible savings plan, with the objective of directing a (small) proportion of employee savings towards socially responsible enterprises and thus contributing to the growth of the socially responsible economy.

### *iii. Socially responsible employee savings plans*

The following measures are in place to promote socially responsible employee savings plans in France (see excerpts of legislation in the Appendix):

- All PERCOs must offer employees the choice of at least three employee savings plans, including one socially responsible plan.
- A socially responsible plan invests 5% to 10% of funds in socially responsible enterprises.

Since the 5% to 10% invested in socially responsible enterprises generally achieves zero financial return, the overall yield of a socially responsible fund is admittedly reduced, although the shortfall is amply recouped by the other 90% to 95%, which is invested in a more traditional manner and achieves the corresponding return in the conventional way. Therefore, the socially responsible equivalent of a standard employee savings plan that grows by 4% per year would still achieve 3.8% growth.

Furthermore, employees enjoy significant tax breaks on sums invested in a PERCO (although this is not specific to socially responsible plans). The savings invested and income from these plans are exempt from all income tax.

- Socially responsible enterprises are specifically approved by the state. They include:
  - enterprises at least one third of whose staff were in a difficult situation when they were recruited (long-term unemployed, disabled);
  - associations, co-operatives, mutual benefit societies, provident societies, etc., provided their senior managers are paid in a fixed range (four to eight times the minimum wage, depending on the size of the enterprise).

similar status is granted to bodies which invest at least 40% of their assets in socially responsible enterprises and financial establishments which grant 80% or more of their loans to socially responsible enterprises.

- Enterprises which top up their employees' contributions into a socially responsible employee savings plan may set up a tax-exempt investment reserve equal to 35% of their top-up payments (compared to 25% when they top up a standard PERCO).

Bearing in mind the French taxation rate of 33%, the enterprise therefore makes a tax saving equivalent to 11.55% of its top-up payments (compared to 8.25% when it tops up a standard fund).

We are not aware of any enterprise which has, on account of the (small) tax advantage gained by topping up socially responsible funds, decided to top up these funds more generously than others. It seems that all PERCOs are usually topped up in the same way. The extra tax break therefore does not appear to be a determining factor.

### e. A promising law already in force

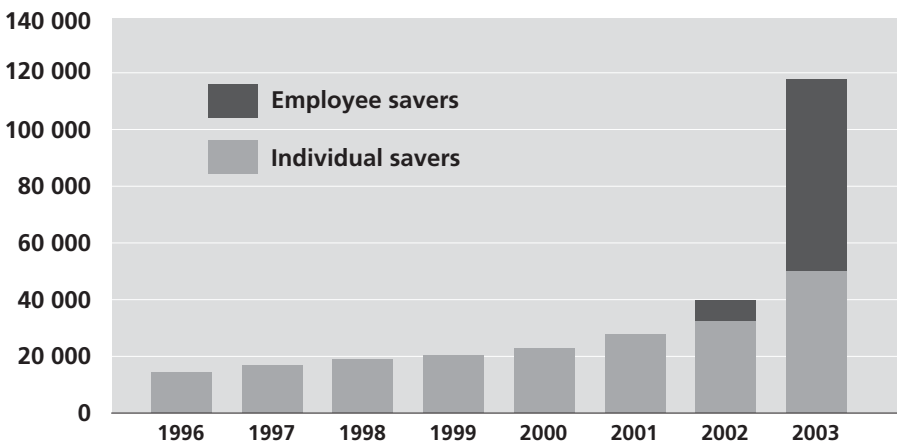
As a result of this shrewd legislation, all employee savings plan managers were obliged to create socially responsible employee savings plans and make them available to staff as part of the PERCO scheme.

These socially responsible plans have indeed been integrated into the range of plans available to companies and their employees, often in the context of general company savings schemes (and not only PERCOs).

Although these funds were only set up two years ago, the consequences are quite spectacular, as demonstrated by the figures published by FINANSOL, which monitors solidarity-based finance systems:

- In the single year from the end of 2002 to the end of 2003, the number of socially responsible savers in France trebled, rising from 39 000 to 116 000, thanks to socially responsible employee savings plans;

**Figure 1: Number of socially responsible savers in France**

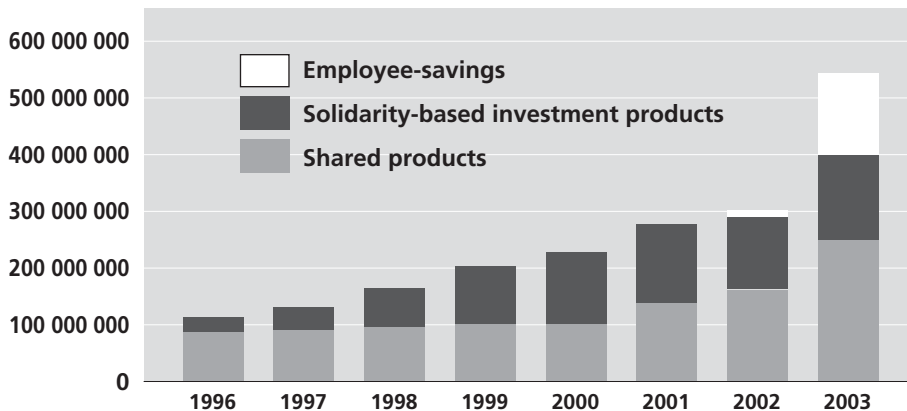


Source: FINANSOL (observatory of solidarity-based finance systems)



- the total sum invested in socially responsible savings schemes in France jumped 76% in a year and now exceeds €500 million. Socially responsible employee savings amounted to €138 million at the end of 2003.

**Figure 2: Level of socially responsible savings in France in €**

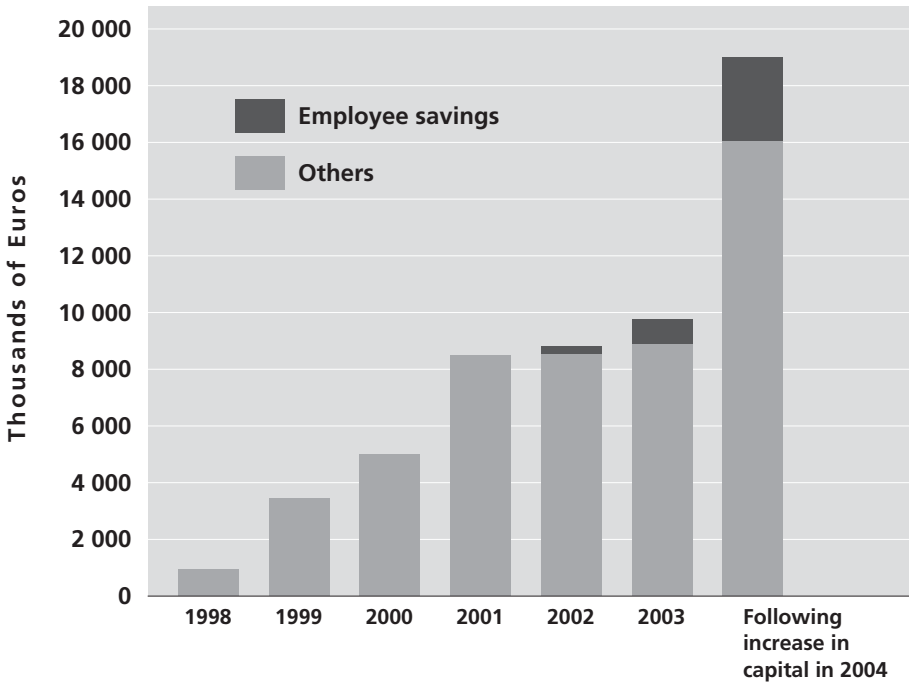


Source: FINANSOL (observatory of solidarity-based finance systems)

- Some companies are very proactive in this area. For example, a large French retailing group decided (as part of an agreement between management and staff) to change a standard employee savings scheme into a socially responsible scheme. As a result, the scheme attracted more than €100 million in employee savings, approximately 10% of the company's total employee savings.
- Socially responsible employee savings schemes are already making a substantial contribution to the socially responsible economy. This is illustrated by the recent growth in the capital of SIFA, to which socially responsible employee savings plans currently contribute €3 million (namely, 16% of the company's capital). In future, this is expected to become the company's main source of finance.

The main innovation of the Fabius Act on employee savings plans is to have made it mandatory for certain employee savings plans to include a socially responsible option.

**Figure 3: Growth of the capital of Société d'Investissement France Active**



Employee contributions to socially responsible savings plans are entirely voluntary, an arrangement under which a proportion (possibly 3% to 4% on average) of employee savings is now being invested in socially responsible funds. Investment in the socially responsible economy is therefore expected to be quite substantial in the years ahead (3% of employee savings would represent an investment of €10 million each year in socially responsible enterprises).

Employees benefit from a significant tax break under employee savings schemes (which are tax-exempt, savings yield included), although this is not specific to socially responsible funds. The small tax advantage enjoyed by companies on their top-up payments to socially responsible funds does not appear to be decisive.

Thanks to the 2001 act on employee savings plans, a small amount of the substantial sum invested in French employee savings plans is now tapped from this main pipeline and paid into socially responsible funds. This sim

ple fact and employee goodwill ensure that the socially responsible economy will now benefit from a regular and significant flow of structural finance.

It is our duty, as players in the solidarity-based finance sector, to persuade companies to promote socially responsible savings plans among their staff, including by topping up their contributions – an excellent way of demonstrating social responsibility.

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## **Appendix: Excerpts from French legislation providing for the creation of socially responsible employee savings plans**

Excerpts from four legislative texts are given below:

### **1 – LABOUR CODE – Article L. 443-1-2:**

Collective pension savings plans must create the possibility for a proportion of the monies collected to be allocated to a fund invested partly in socially responsible enterprises.

### **2 – MONETARY AND FINANCIAL CODE – Article L. 214-39:**

Between 5% and 10% of the assets of socially responsible funds must be invested in approved socially responsible enterprises.

### **3 – LABOUR CODE – Article L. 443-3-1:**

Definition of the conditions in which an enterprise may be officially recognised as socially responsible.

### **4 – GENERAL FISCAL CODE – Article 237 *bis* A:**

Companies which, as part of a collective pension savings plan (PERCO), top up their employees' contributions to a socially responsible fund are entitled to set up a tax-exempt investment reserve equal to 35% of these payments (compared to 25% for a "standard" employee savings plan).

**LABOUR CODE**  
**(legislative section)**  
**Article L. 443-1-2**

I. – A collective pension savings plan may be created under the conditions laid down in Part III of Book 1.

The monies or securities paid into participants' accounts must be locked in until retirement.

A Council of State decree lists the exceptional circumstances, linked to the participant's situation or plans, in which the aforementioned monies or securities may be released prior to retirement.

(...)

II. – Payments into a collective pension savings plan may, at the participant's request, include performance-related bonuses or earnings from profit-sharing, as well as other voluntary contributions and company contributions referred to in Article L. 443-7.

(...)

III. – The rules of a collective pension savings plan must provide that a proportion of the monies paid in may be used for the acquisition of shares in funds invested, within the limits laid down in Article L. 214-39 of the Monetary and Financial Code, in the socially responsible enterprises referred to in Article L. 443-3-1 of the present code.

**MONETARY AND FINANCIAL CODE**  
**(legislative section)**  
**Article L. 214-39**

(...)

The provisions of the present article shall also apply to socially responsible funds which may be subscribed to in the form of a collective pension savings plan, as defined in Article L. 443-1-2 of the said code. The assets of these socially responsible funds shall be made up as follows:

(a) between 5% and 10% shall comprise shares issued by socially responsible enterprises approved in accordance with Article L. 443-3-1 of the Labour Code or by venture capital companies referred to in Article 1-1 of Act No. 85-695 of 11 July 1985 setting out various economic and financial provisions, or by joint high-risk investment funds referred to in Article L. 214-36, provided at least 40% of their assets comprise holdings in

socially responsible enterprises referred to in Article L. 443-3-1 of the Labour Code;

(b) the remainder shall comprise securities transferable within a regulated market, shares in joint investment companies that invest in such securities and, incidentally, liquid assets.

A maximum of 5% of funds that may be subscribed to in the form of a collective pension savings plan may be invested in shares that are not transferable within a regulated market, without prejudice to the provisions of (a), or in the company which set up the plan, or in companies linked to within the meaning of Article L. 444-3 of the Labour Code. This limit shall not apply to shares in joint investment companies taking the form of securities held by the fund.

**LABOUR CODE**  
**(legislative section)**  
**Article L. 443-3-1**

Under the terms of the present article, socially responsible enterprises shall be defined as companies whose capital shares, if they exist, are not transferable within a regulated market and:

a) either at least one third of whose staff were recruited under employment contracts of the type referred to in Article L. 322-4-20 or as persons mentioned in the first paragraph of Article L. 322-4-2, or can prove that they are classified, pursuant to Article L. 323-11, as severely disabled or entitled to a place in a sheltered workshop or employment aid centre; in the case of a one-person enterprise, the aforementioned conditions shall apply to the individual concerned;

b) or which are established in the form of an association, co-operative, mutual benefit society, provident society or a company whose directors are elected directly or indirectly by the employees or members, on condition that the total sum received from the company by any of the latter, apart from properly justified expenses, does not exceed, on a full-time per annum basis, 48 times the monthly salary paid to a full-time employee receiving the minimum wage; however, in companies with at least 20 employees or members, this condition shall be met by 19 out of every 20 employees or members. The remuneration of the employees or members concerned shall not exceed, for an annual or full-time post, 84 times the monthly salary paid to a full-time employee receiving the minimum

wage; company directors are defined in the first paragraph of section 1 of Article 885 O *bis* of the General Fiscal Code.

Socially responsible enterprises which meet the aforementioned conditions shall be approved by the administrative authority.

Similar status shall be granted to bodies which invest at least 40% of their assets in socially responsible enterprises or credit institutions which grant 80% or more of their loans and investments to socially responsible enterprises.

Securities issued by socially responsible enterprises mentioned in the previous paragraph shall be defined as equity securities, debentures, promissory notes, cash certificates, current account advances and participative loans granted or approved by the said enterprises.

Socially responsible enterprises shall include in the appendix to their annual accounts information attesting compliance with the conditions laid down in the present article.

## **GENERAL FISCAL CODE**

### **Article 237 *bis* A**

#### **II. 1.**

(...)

Companies may set up a tax-exempt investment reserve equal to 25% of the additional payments they make to collective pension savings plans referred to in Article L. 443-1-2 of the Labour Code. This figure is raised to 50% for additional payments invested in securities providing access to the company's capital.

Companies which, as part of a collective pension savings plan set up in accordance with Articles L. 443-1-2 of the Labour Code and pursuant to the provisions of Article L. 443-7 of the same code, top up the contributions of their employees for the acquisition of shares in funds governed by paragraphs 15 to 18 of Article L. 214-39 of the Monetary and Financial Code may set up a tax-exempt investment reserve equal to 35% of these additional payments. The fund must retain shares in socially responsible enterprises or acquired entities for at least two years.

(...)

### 3. The Green and Social Funds System in the Netherlands<sup>1</sup>

by Theo Van Bellegem, Ministry of Housing,  
Spatial Planning and Environment

#### Introduction

Initially the financial sector had little interest in matters relating to environment and sustainability. Gradually this has evolved. The introduction of the Green and Social Funds System in the Netherlands proved that if the financial sector, the private sector and government are willing to cooperate and to be innovative they can develop effective and efficient instruments that contribute to sustainability and to social cohesion in society. The system is beneficial for all stakeholders and pushes development in the North and in the South. The system is tax induced and incorporated in the national tax system. However this does not mean its principle is only applicable within the tax system in the Netherlands. Using specific, very limited alterations of tax systems it would be possible to introduce this type of policy instrument in other countries.

#### a. Financial sector and sustainability

The attitude of financial institutions with respect to sustainability shows important differences. These differences are the result of a gradual development. Considering this process, five phases of the banking sector's attitude to the environment, and social aspects can be identified:

- indifferent phase;
- defensive phase;

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1. Dutch Regulation on Green Investments (Regeling groenprojecten 2002), Dutch Government gazette, *Staatscourant*, 2 January 2002, No. 1, p. 31; Regulation on Green Funds Abroad (Regeling groenprojecten buitenland 2002), Dutch Government gazette, *Staatscourant*, 2 January 2002, No. 1, p. 43; Regulation on Cultural Funds (Regeling cultuurprojecten 2004), Dutch Government Gazette, *Staatscourant*, 23 December 2003, No. 248, p. 25; Regulation on Ethical and Social Funds (Regeling sociaal-ethische projecten 2004), Dutch Government gazette, *Staatscourant*, 4 March 2004, No. 44, p. 10.

- preventive phase;
- innovative phase/offensive phase;
- sustainability phase;

At the outset, in the indifferent phase, there was less obvious reason for the financial sector to be involved in environmental and social matters. The common opinion was that after all the primary production of the sector itself did not result in any obvious pollution or direct social impact. It was considered to be a matter of the clients of the financial sector. The financial sector's environmental and social impact was in fact less direct and less self-evident.

Gradually, the realisation has dawned that environmental and social effects constitute a potential risk and a potential problem. In the defensive phase the financial sector strongly denies having anything to do with environmental and social impacts and takes a critical and wait-and-see attitude towards any measure the government takes. The environmental and social impact is viewed as a risk and as such these threats cannot be controlled.

A change in attitude occurs at the next phase, the preventive phase. Instead of active opposition, denying involvement and defensive behaviour, containment of the problem becomes the new strategy. Financial institutions attempt to carry out checks on environmental risks in any standard assessment of a credit application. In the same way, financial institutions refuse to be involved in negative social projects or to deal with companies that are involved in such projects for example, companies involved in tropical rainforest deforestation, child labour, etc. They are aware that these projects and companies cause a direct image risk and consequently a commercial risk and, therefore, they try to manage such phenomena. Any expected detrimental effects are therefore neutralised in advance.

The next phase – the innovative or offensive phase – goes considerably further. From being a manageable risk or a risk to be managed, the environment and social issues become a market. Innovative products are developed to take advantage of market opportunities. Examples of those products are: specific lease products, thematic project-related investment funds, other funds, liability insurance, etc. These types of products need a reliable provider. A supplier whose image is not one of social and environmental awareness will not come across in the market place as being reliable even if they introduce an ostensibly good product. Consequently, suppliers of sustainable products will have to see to an



image that appeals to potential customers. This will gradually change the financial institution. The traditional business activities are reconciled with new sustainability-related products. A bank no longer stresses that they are “not black” but that they are green and social.

This may result in a final stage, the sustainability phase. In this phase social and sustainability criteria are part of the total business, and sustainable and social innovative products become normal products. In the Netherlands, banks like Triodos and ASN are in the fifth phase. The development of those banks demonstrate that sustainable banking can become normal sound economic business.

## **b. Tax-induced innovative banking products**

At a rather early stage, the Ministry of Environment in the Netherlands became aware of the importance of the financial sector for its policies. Regular discussion with the Dutch Bankers Association was started for information exchange. This co-operation resulted in the development of innovative financial products such as green funds, social funds, a green mortgage system, green operational lease with accelerated depreciation for environmental investments and tax deduction for such investments. Moreover, the financial sector became involved in problems such as soil clean-up, climate trade, etc.

An important reason for the Ministry of Environment’s desire for co-operation was the realisation that this sector was important and that this would speed up development towards sustainability.

## **c. The Dutch Green and Social Funds System (GSFS)**

### *i. General features*

The tax-induced funds in the Netherlands are different from any other known system. The most striking differences are:

- the funds operate on a project basis and not on a company basis (for example, by investments in shares or participation);
- the funds are restricted to designated environmental, social or cultural projects;

- the role of the government. The system was initiated by the government, the government provides tax exemption and plays a role in the designation of the type of projects;
- the GSFS offers a financial tax advantage for the investors and for the entrepreneurs who own the project.

**ii. Mechanism**

In the Netherlands, private persons are subjected to income tax. Income derived from savings or investments (for example, interest or dividends) was subjected to the top rate of tax. When a person invests in a green or a social fund the income derived from this investment is exempt from income tax. In the next table, an example is given of how the system works:

**Working mechanism of the GSFS**

	<b>Normal commercial</b>	<b>GSFS</b>
Net interest saver	2.5%	2.5%
Tax	2.5%	0%
Gross interest saver	5.0%	2.5%
Bank interest costs	5.0%	2.5%
Bank: costs, profits, risk	1.0%	1.2%
Interest level for loan entrepreneur	6.0%	3.7%

The assumptions used in the example may be different for different market situations but the example shows how the system operates. In this example the tax advantage amounts to 2.3% of the interest rate of the loan for the project. In practice it is more complicated. The interest rate for an investor in the fund is lower. Part of the difference is used to compensate the saver for a lower interest rate. Due to the tax advantage, this lower rate is compensated.

The tax advantage is therefore partly used to compensate the saver in order to get normal revenue and partly to offer a lower interest rate for the project.

In practice, the GSFS is a “soft loan system” for green or social projects. In this way the system promotes investments in projects.

### *iii. Types of funds/types of projects*

There are three types of funds: green funds, social funds and cultural funds.

#### *Green funds*

The green funds invest in energy, nature, and environmental projects in the Netherlands, Aruba, the Netherlands Antilles, developing countries or countries in transition.

#### *Social funds*

The social funds invest in social projects in developing countries.

#### *Cultural funds*

The cultural funds invest in cultural projects in the Netherlands.

For each type of project, specific criteria are applied.

It is clear that part of the tax money is used in favour of the project. Hence there are more criteria. The projects eligible under the system are selected on the basis of general criteria. The major ones are:

- high level of environmental, social or cultural benefits;
- no negative impact, no negative side, effects;
- low economic return. Projects with a high economic return should be realised without tax support;
- economically self-supporting, no bottomless-pit projects;
- only new projects can qualify.

### *iv. What is the role of the stakeholders and why do they participate?*

In the system there are four major stakeholders: the government, the funds, the private savers and the project owners. In the system, each of them has its own role and responsibility. The saver or private investor invests in a fund. When the fund owner (bank) has an entrepreneur with a project that may be eligible for the scheme, the government is asked for an allowance to contract a loan for the project. The government agency processes the applications and delivers a green, social or cultural certificate. With this certificate, it is allowed to contract a loan for the

projects. The project owner who has a certificate can shop around and negotiate with the funds in order to get the most profitable conditions for the loan.

The GSFS is successful because the various actors co-operate. One of the major questions is why do the stakeholders participate. The stakeholders have various grounds for participation in the system.

### *Government*

The government had various motives in introducing the system:

- *Sustainability and development*

A sustainable society needs more than the prevention of pollution. A sustainable society requires new economic activities like sustainable agriculture, renewable energy, etc. In today's market these activities are not yet profitable enough to be introduced on the desired scale. Since the Dutch Government wished to speed up the introduction and dissemination of these low-profit activities and assumed they should be self-supporting in future, a way had to be found of providing an economic incentive in order to lower the cost during a transition period.

With respect to development it is clear that the traditional official development aid (ODA) is important but that more is needed. What we need is to create economic activities in the South that make people economically independent in the long term. What we need is activities in the private sector to make the South self-supporting. Therefore more attention to new local entrepreneurs, etc. is required.

So both for sustainability in the North and for economic development in the South, we need a new focus on economic activities and not just a continuation of the traditional way of pushing activities and spending money.

- *Loans versus subsidies*

Sustainable projects or development projects require a high financial input such as 70% of the total invested capital. Subsidies will never meet this high level. A 70% loan is often better than a subsidy of 20% to 30%.

- *Private capital*

The increase of environmental investments and the pushing of economic development requires capital. Governmental capital would not be enough. Capital provided by the private sector was the only way to achieve the goals.

- *Skills of the financial sector*

The object was to create economic activities that would be self-supporting. The government or its agencies are not able to judge the economic potential of projects and entrepreneurs. By using the private financial sector with its skills we can ensure that the entrepreneurs are able to create sound economic projects. The government therefore needs the skills of the private financial sector.

- *Awareness of citizens*

The involvement of private savers increases the awareness of citizens. This creates support for environmental and development policy.

- *Awareness of the financial sector*

As discussed above, the attitude of the financial sector towards sustainability is changing. The introduction of sustainable and social financial products affects the attitude of the financial sector. Promoting sustainability and development does not tolerate being involved in projects that achieve the opposite. The introduction of the GSFS has promoted sustainability and development awareness of the financial sector and pushed them forward.

### *Private persons*

Why do private savers invest in the GSFS? Hardly any research is available at this point. Nevertheless we can point at some important elements:

- *Normal return*

In the past some ethical funds operated in the Netherlands. Those funds had a very low return. The amount of money in these funds was rather low. Due to the tax incentive the return from green and social funds is still moderate but more or less competitive with other funds. In our opinion the system owes its support to numerous investors who are willing to make money available provided they get a moderate to normal return. They want their money to be used for “good” projects but cannot afford a very low or no return. They need the money for pen-

sions, etc. This group accepts a moderate return in the knowledge that the money is being used in an appropriate way.

- *Good projects/no “black projects”*

A lot of people who invest in the system want to support “good” projects. Some people are concerned about nature and development, others do not want good projects but want to avoid “black” projects. They do not want their money to be invested in projects destroying biodiversity or violating human rights (for example, through child labour), etc.

- *Low risk*

The system is organised by the banks in a way that the risks involved in the system are very low. The usual collateral is being taken by the banks and insurance mechanisms can be applied.

- *What criteria and assessment of projects?*

People who want to avoid black projects or who want to invest in good projects may invest in ethical funds. In practice people find it difficult to know the criteria and the way the assessment is performed by commercial ethical funds. Sometimes people are even not interested in all the specific criteria and the assessment. They only want to be sure the money is invested the “right way” and that the assessment is “reliable”. The involvement of the government convinces them that the projects are the right ones and the assessment of the projects is performed in a non-biased way. This may contribute to the willingness to participate in the system.

### *Financial sector*

- *Social/environmental awareness*

As stated above the social and environmental awareness in the financial sector is growing. Notwithstanding the considerable differences between banks, the development is clear. This increasing awareness contributes to the willingness to contribute to the system.

- *Competition*

The major banks in the Netherlands participate in the GDFS. A financial institution cannot afford not to offer this product because a specific group of customers wants to participate. This was demonstrated when the green mortgage system was introduced. This is part of the green fund system but a part with low (or no) profitability for the banks.

- *Normal product/normal return*

The object of the system was to make environmental and social products part of normal business activities in the sector. Development in the South and sustainable use of nature and environment should not depend on welfare but be provided with a sound economic basis. This means that the system aims at providing normal financial products with a normal profitability. This normal profitability regards both the private investors and the financial sector.

- *Image*

The market value (at the stock exchange) of a company depends on its profits and its image. Corporate image may influence customers. Participation in the system contributes to the image of a bank. Moreover the participation of the banks contributed to a more positive image of the financial sector as a whole.

### *Project owner*

The project owner has important reasons to join the system:

- *Availability of capital*

In the past it was very hard to contract a loan for projects such as wind energy or organic farming. The activity was considered to be risky and organic farming was seen to have a weak economic basis. No wonder the financial sector was not eager to invest in this type of projects. Due to the system, availability of capital improved.

- *Low interest rate*

The loans contracted under the system have a relatively low interest rate compared to the normal commercial loans. So it is profitable to join the system.

- *Quality level*

For some types of investments, the qualification of the project means that it meets specific standards that guarantee the quality of the product. For example, in sustainable housing it is difficult for a private person to know what is sustainable in practice. When is a house sustainable? In the green mortgage system, criteria were developed for sustainable housing. So people investing in these houses know that they meet high standards without having troubled themselves with best building technology.

## **d. Experiences, and difficulties with the laws and the system**

### *i. What was and is the social impact of the system in the Netherlands and abroad?*

The social and economic impact was important, in particular:

- The system made people more aware of social and environmental development. Today about 170 000 people participate in the system. When in the past, due to budget cuts, it was suggested to reduce the system it appeared that the system was strongly defended by an overwhelming majority in parliament, in the press and by public opinion.
- The system contributes to social and environmental projects. The system has an important impact. The amount of money involved in the projects (over the lifetime of the system) now equals about €3.5 billion.

The most important projects in the Netherlands are:

- Forestry and nature conservation: new forests, landscape conservation, ecological migration zones, etc.
- Agrification projects: experimental projects to use agricultural products instead of chemicals.
- Renewable energy: for example, solar energy, wind energy, biomass energy.
- Sustainable housing: including the green mortgage system. Houses with low energy input, low water use, those using less harmful chemicals, those easily demolished and those using a higher level of recycled material.
- District heating projects: projects using “waste heat” from industry or from combined-cycle power generation. The energy is used for heating residential buildings.
- Green label greenhouses: projects to reduce the use of minerals, chemicals and energy in horticulture.
- Organic agriculture projects.
- It is difficult to quantify all the effects of the system. Some effects can be quantified and may give an impression of the environmental impact of the system.



The most important projects in the developing countries are:

- Microcredits: for small companies or private persons and social projects in developing countries.
- Nature, forestry and biodiversity: conservation projects.
- Renewable energy: for example, solar projects and wind projects.
- Eco-tourism projects.
- Organic agriculture: projects aimed at producing crops under good environmental and social conditions.
- Public transport.

Due to the system, employment, under good social and economic conditions, could be achieved for a few thousand people in the South.

### *ii. The system is efficient*

A few years ago, KPMG conducted a survey on the efficiency of the system. It appeared that the system was efficient in that the cost for reducing environmental pressure was low. Moreover it is cheap for the government. Every €1 of government money makes available €40 of private capital.

### *iii. The system contributes to further development of awareness of the financial sector*

It is clear that the system influenced the financial institutions in the Netherlands. Since the introduction of the system all our major banks have at least a few employees who work on the system. Their permanent activity influences attitude and awareness. Banks are getting involved in more social and environmental issues. They develop a broader range of activities. They introduce and implement standards for environmental aspects and take into consideration the human rights situations of the project, of their customers, etc.

### *iv. Difficulties: the system as such is good but not a miracle*

In many situations the system is a useful tool. The stakeholders in the system co-operate and are convinced that they should go on with it. They prefer systems like this. The system can be applied in other countries as

well. Nevertheless sometimes the stimulus provided by the system is not effective or not strong enough. Two important points can be mentioned.

Firstly, sometimes, the lower tax rate is not enough for the project owner. Especially to get very innovative projects started up, additional policies and instruments are required.

The second point deals with projects in the South. These projects have a high risk. This implies that they often do not fit in the system we have at present. The low return for the investors does not fit with risky projects. This is really a drawback of the present system. We are convinced that the projects in the South contribute to social and economic development and create more economic independence. The introduction of a guarantee system for specific projects in the South may have a beneficial impact. Such systems exist in other policy fields such as the export credits guarantees.

#### **e. Applicability of the system in other countries**

The system is applicable in other countries. The fact that it is part of the national tax system in the Netherlands does not imply it is not applicable (in an adapted way) in other countries. At the Informal Ministerial Conference of the Ministers of the Environment of the EU in Maastricht this year, it was concluded that innovative instruments like the system in the Netherlands may also contribute to innovation, and the dissemination of the system was recommended.

#### **f. The future: further legal steps being considered**

The system was changed only marginally because it works well. As mentioned above, the system has two points in need of attention:

Firstly, it is clear the level of the financial incentive is limited. The incentive is not strong enough to push projects that need a high financial input (for example, research and development projects). This is inherent in the system. The solution is to create synergy with other incentives focused on research and development.

The second limitation of the scheme is the risk of projects in developing countries is rather high. This is caused by the political situations in those countries and by the specific features of the projects. The high risk is a

real threshold for the financial sector. The only way to improve this is to introduce a guarantee system which covers part of the risk.

A suggestion has been made to start such a system based on official development aid. Others suggest developing a system based on private and public resources.



## 4. Statutory frameworks for action in the solidarity-based economy

*by Xavier Boos, Officer for the Social and Solidarity-based Economy, Alsace Regional Authority*

### Introduction

Commitment means action: this presupposes a minimum of organisation and a set of operating rules and rules of engagement.

Taking action also means undertaking something, in the general sense, in other words carrying out and successfully completing a project. The scheme of commitment under discussion in this forum relates essentially to the transformation of society's relationship with the economic sphere. Presenting the subject in these terms amounts to asking how an economic act can give rise to policy. Can the interaction between politics and economics be reinforced by the legal dimension? I will examine the legal argumentation briefly before outlining proposals and practical courses of action.

#### a. How the law can help us act

Examining how the law can contribute entails asking why we should have recourse to the law, and to what end? Above all, it means reaffirming the importance of the law at a time when the trend is towards informality and frameworks for action which are not enshrined in and fixed by the law.

##### *i. A role for the law in defiance of the trend towards informality*

The current trend is towards networking, mobility and flexible interpersonal ties.

Involvement in politics and in associations is no longer a long-term or permanent proposition but is becoming increasingly ephemeral. No longer is political mobilisation the exclusive preserve of the established political parties; it takes place more readily in a context of communities mobilising behind a specific cause, with informal networks brought together by circumstances.

Businesses operate in a similar fashion. The types of business structures in vogue are changing significantly. Hence, having employed the pyramid and matrix models of organisation, businesses are breaking down barriers and organising in networks characterised by a high degree of openness and virtual interconnections between independent sites and operators, outside the physical premises of the company. It is only a short step to a situation in which each person involved in production is supposed to become a fully-fledged entrepreneur. It is worth looking at the implications of this trend, not often realised to be so highly instructive in terms of how society is evolving.

Do established legal frameworks, perceived as overly rigid, run counter to this trend? Have legal rules come to act as a brake on this form of contemporary action?

If we take this view we are overlooking the power of the law and its contribution by way of providing a secure base for action, sharing of responsibility and predictability in the settlement of disputes. This approach also overlooks legal innovations which enhance the capacity to act, such as the concept of a legal entity. This legacy from Roman law makes it possible to shake off physical and interpersonal constraints, to move from the specific to the universal and the timeless, and thus to operate on a large scale. Likewise, contractual relationships in commercial law make it easier to establish numerous contacts thanks to contractual standardisation. Making use of these innovations is not inconsistent with a certain degree of flexibility.

## *ii. Statutory frameworks which foster democracy*

Promoting citizenship and social cohesion in the economy means being able to identify, select and make wise use of those legal forms which promote democracy and social usefulness from amongst the range of legal forms under company and civil law. They do exist, in the shape of legal statuses established on the basis of groupings of people, forming part of the extended family of the social economy.

The German term for the social economy – *Gemeinwirtschaft*, or “doing business together” – reflects how it operates. The social economy encompasses co-operatives, mutual societies and associations, all of which share the same historical roots and the same operating principles: placing people at the centre, making decisions in a democratic fashion, pursuing non-profit goals, storing up positive outcomes and, finally, developing and

promoting the individual and his position in society. These principles, invented by the Rochdale pioneers in the nineteenth century and echoed in the 1980 social economy charter, still hold good today.

These legal forms for the social economy exist throughout Europe. In recent years, businesses have been established in the social and solidarity-based economy along co-operative lines, as in the northern European countries and Italy, and in the form of associations, as in France.

Although the solidarity-based economy movement has an outward rather than an inward focus, the latter being more prevalent in co-operatives and mutual associations, the search for appropriate statutory frameworks pushes or simply gravitates towards closer links and a special partnership between the social and the solidarity-based economy. In France, for example, this natural alliance has taken the form of regional chambers for the social and solidarity-based economy which unite all the different components which may have the breadth of cohesive territories.

## **b. A new way of doing business together**

The programme for the Council of Europe forum calls upon us to promote and support what has the potential to become a movement. It is also an opportunity to reflect on the innovative nature of these initiatives and ask how we should structure an appropriate framework to underpin the process.

### *i. A framework conducive to collective innovation*

The initiatives under discussion in this forum are primarily economic in nature. They are resolutely innovative in how they relate organisations and the economy. They are all concerned with reappraising modes of interaction, whether in the private sphere, for example associations for the preservation of small-scale farming (AMAP, *Associations pour le Maintien d'une Agriculture Paysanne*), which transform the relationship between producer and consumer, or between the public and private spheres. The success of new concepts such as social usefulness (methods for gauging which have still to be devised) testifies to a new way of looking at action. Participatory democracy, too, is transforming relations between citizens and their political representatives.

All these new trends inevitably place demands upon the established legal framework, which is changing accordingly. In France, the recently emerged legal form of the collective interest co-operative (*société coopérative d'intérêt collectif*) makes it possible to establish a society with a mixed membership bringing together producers and customers; the membership must include employees and beneficiaries, with optional membership for public authorities.

We are apt to assume that the law lags behind real life, and merely institutionalises relationships that are already established. This is not necessarily so. The law may also make provision for and encourage experimentation, and should be allowed to do so in relation to learning organisations and the establishment of new communities of practice. The main challenge in respect of these innovative forms, as a number of speakers pointed out, is how to bring together the different players and encourage them to work together in order to arrive at a “win-win” situation.

## *ii. Towards a development framework which upholds the principles of the solidarity-based economy*

Forging closer links is all very well, but a framework still needs to be found which will encourage development or form the basis for a development strategy.

I should like to come back to the overhaul of the state-market tandem proposed by Mr Benoît Lévesque, and its transformation into a new paradigm involving state, market and civil society. The authorities have a tendency to place themselves in the forefront of this process. Moreover, if you ask a French elected representative to define the solidarity-based economy, the reply is not uncommonly: “I know what it is and I practise it by supporting the integration of young people and integration via the economy”. This makes no allowance for the fact, which history teaches us, that when it comes to the social and solidarity-based economy, the civil society players are autonomous and have often paved the way and taken the first steps, to be followed by the authorities and, in some cases, by the market.

What does the future development of the social and solidarity-based economy need? Using a formula frequently found in business management, I shall identify four ingredients of a development strategy which form a “magic square” of key factors for success.



The very first ingredient is a group of men and women who are motivated and prepared to make a commitment. In order to attract people committed to the cause, it is necessary to raise awareness and inform people as to the stakes, values and potential of this sector of the economy. The low profile of this sector in the media is a sign of the level of importance currently attributed to it, and hence the potential for growth.

Secondly, these players must also include people capable of sustaining projects, in other words professionals; this will involve training and upgrading skills. The importance of training was emphasised earlier. It is undoubtedly important, but is it enough? I would echo the observation made by Mr Benoît Tremblay,<sup>1</sup> stressing the importance of research and development, monitoring, accumulating capital in the form of a library of readily accessible knowledge (what is now called economic intelligence), and choosing a training strategy which places the emphasis not on specialist training but on providing teaching on the social and solidarity-based economy through as many courses as possible.

The third ingredient in the development strategy is ideas and opportunities for action, guided by the objective of democratising economic action. The fourth and final ingredient is funding.

But the real magic of this square lies in the fact that it has a heart, a central driving mechanism which lends impetus to the process and moves the strategy forward. I made a plea earlier for better use of the legal forms within the social economy and for closer ties between the social economy and the solidarity-based economy. In France, this drawing together is well under way, but is it too soon to describe it as a movement? Is it already strategically oriented?

The French regions constitute an ideal framework for forging closer ties and injecting dynamism thanks to the formation of regional chambers for the social and solidarity-based economy, which bring together the bodies representing co-operatives, mutual societies and associations as well as regional networks of the solidarity-based economy. What remains to be worked out are the means of co-ordination between the authorities and these regional chambers, which have association status and are therefore

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1. Benoît Tremblay, "The example of Quebec (Canada)", presented during the Round Table on Citizen Commitment in the Economy: Local and International Experiences organised, 3 November 2004 at the Pôle Européen de Gestion et d'Économie (PEGE), Strasbourg, on the day before the Council of Europe forum.

neither public agencies nor chamber organisations, a status which would allow them to benefit from special tax arrangements. Their very limitations will oblige them to be innovative and strategically oriented.

## **Conclusion**

The scope of this Council of Europe forum, and the impetus behind it, are to be welcomed: it provides an opportunity to deconstruct the relationship between the political economy and society. It is commonplace that the market economy and democracy go hand in hand and converge almost automatically. Having the courage to deconstruct these relationships and regard the forging of such relationships as a necessary task will breathe new life into a movement aimed at human progress and social cohesion.

## 5. Investments in ad hoc structures and support for networks

*by Simon Pare, Head of Quality Control and Research and Development at Max Havelaar*

### Introduction

For over forty years the international fair trade movement has shown that trade can have a significant and lasting impact when it comes to improving living and working conditions for small producers and workers in developing countries, while protecting natural and environmental resources. From its modest beginnings, the fair trade movement has forged a worldwide network that now brings together hundreds of thousands of small producers organised in associations or co-operatives, workers on plantations and in factories, thousands of importers and distributors, NGOs and labelling organisations. These organisations co-operate within a trade system that affects tens of millions of consumers.

The four main international trade federations concerned are:

- FLO – Fairtrade Labelling Organizations International;
- IFAT – International Fair Trade Association;
- NEWS – Network of European World Shops;
- EFTA – European Fair Trade Association.

Since 2000 the four organisations have been co-operating informally within the FINE group to give substance and international coherence to this flourishing movement.

In 2001 the members of FINE drew up a common definition of fair trade: "Fair trade is a trading partnership based on dialogue, transparency and respect, which seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalised producers and workers – especially in the South. Fair trade organisations (backed by consumers) are engaged actively in supporting producers, awareness-raising and in campaigning for changes in the rules and practice of conventional international trade."<sup>1</sup>

1. Free trade is based on standards that include payment of a guaranteed minimum price that, at the very least, covers production costs and a decent wage. For further information about these standards, see: [www.fairtrade.net](http://www.fairtrade.net) and [www.ifat.org](http://www.ifat.org).

Since early 2004 the four federations have acted as a joint lobby to influence international debate and help change world trade practices.

At present the large majority of companies do not internalise the cost of their social and environmental impact. Those who support free trade are convinced that it is necessary to incorporate the social, environmental and economic cost of goods and services in prices in order to make trade sustainable and avoid distorting international markets. Many governments and international institutions argue the case for sustainable development; those who support free trade have been putting such rhetoric into practice for the last forty years.

### **a. Fairtrade Labelling Organizations (FLO) International**

Among the bodies that support fair trade, Fairtrade Labelling Organizations (FLO) International is responsible for establishing standards for staple products and inspecting and certifying parties involved in trade, in particular producers' organisations.

The certification procedure means that FLO complements the other members of the international movement (IFAT, EFTA, NEWS).

FLO's national bodies (Max Havelaar, Fairtrade and TransFair) award a "label" to fair trade products whether they are distributed by those specialising in fair trade or by conventional commercial undertakings to enable consumers to identify fair trade products easily and be sure that fair trade standards have been complied with during production and marketing. National bodies are also responsible for:

- establishing contracts with, and monitoring, national traders;
- promoting fair trade and the fair trade label among consumers, companies and the authorities in the domestic market, generally in close co-operation with national bodies involved in other fair trade networks.

FLO, on the other hand, undertakes activities on behalf of its members and the fair trade movement generally:

- establishes fair trade standards according to the type of producer (small producers' organisations/plantations/factories) and product;
- arranges the inspection and certification of producers and transactions between the parties involved;

- helps to market the products concerned and disseminate information about the market;
- supports producers' organisations that need assistance with management, quality concerns, marketing, etc. in order to benefit fully from the fair trade system.

Thus about a million families in forty-nine Latin American, African and Asian countries now benefit from fairer trading conditions. In 2003 world sales of FLO-certified fair trade products amounted to €450 million, reflecting an increase of 43% between 2002 and 2003 and considerable progress on the British (61% in terms of volume), French (81%) and Italian (400%) markets, not to mention a booming United States market (where 93% more fair trade coffee was sold in 2003 than in 2002).

Apart from higher wages and the longer-term partnerships that are established between producers and buyers, the impact of fair trade on producers is reflected in terms of organisational and inter-organisational support. The fair trade practised by the members of FINE has made for dialogue between producers in different countries and continents and made it possible to set up national, regional and international networks to ensure that the interests of disadvantaged producers are better represented.

## **b. Support for networks**

### *i. Labelling organisations*

FLO's ambition in the coming years is to persuade more national and regional fair trade labelling organisations, both in the southern hemisphere and in European countries, to join. Comercio Justo Mexico recently became the first member in a producer country, and the first regional initiative is under way in Australia and New Zealand.

FLO is currently supporting the establishment of a labelling organisation in Spain by providing the benefit of its expertise and a start-up loan. FLO can, however, support only organisations that are endorsed by existing fair trade undertakings and civil society in the country concerned. In the case of the Baltic states and central and eastern European countries, which represent substantial prospective fair trade markets, and ones where fair trade can make for the emergence and recognition of a "civic economy", FLO adopts a policy of sponsorship through its national bodies closest to the countries concerned (in Finland in the case of the Baltic

states, and in Germany and Austria in the case of their neighbours). As this enlargement comes about, it is important that European non-governmental organisations already involved in fair trade and similar fields should help promote national or, better still, regional organisations.

In the producer countries, FLO's intention is to work with continental networks of certified free trade producers (in Latin America, for example) to set up national/regional labelling organisations that could, in addition to the increasing public awareness of fair trade, work to support certified producers.

## *ii. Local support*

It is FLO's national bodies that support the establishment, in each country, of regional and local groups bringing together various parties involved in the socially-committed economy and working closely with regional firms engaged in fair trade. Max Havelaar France, for instance, has devised a policy of funding and regular training for these groups, which are themselves networked and actively involved in formulating national strategy.

FLO does not play a direct role in supporting local activities: this is the responsibility of its members. The existence of an international federation is, however, important, in that the federation serves as an example, acts as a guarantor and draws the members together. FLO organises regular exchanges among its members to disseminate examples of good practice and useful information. For instance, the Fairtrade Foundation in the United Kingdom and Max Havelaar France are trying to co-ordinate schemes<sup>2</sup> to involve local authorities in the promotion of fair trade and the consumption of fair trade products.

In the producing countries, the importance of the FINE members' action lies in the local development momentum created by access to an international market under advantageous commercial conditions. Not only do the producers organise themselves in co-operatives or associations, and not only does the additional income make for a more professional body, but there are numerous examples of existing fair trade organisations merging locally with others that want to take advantage of this market, of improved co-ordination of the policies of producers' organisations at regional and national level and of increased dialogue with local authorities in connection with the improvement of infrastructure – all of which are spin-offs of support for an alternative global market from FLO and FINE.

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2. The schemes are called, respectively, "*Fairtrade Towns*" and "*500 villes pour le commerce équitable*".

### *iii. Support for firms*

Neither FLO nor its national bodies buy or sell products, and they are not directly involved in commercial undertakings. They help international and national companies, respectively, improve access to products bearing the fair trade label, give these products a higher profile and make them better known. This support for firms includes advice on how to set up distribution channels and on provenance, types of products, etc.

Clearly, the national bodies have a special relationship with firms that are 100% fair trade, as does FLO, which co-operates in particular with EFTA, in its capacity as a federation of fair trade importers, to help devise a policy and strategy common to their respective members, even though such agreements need to be validated on each market.

### *iv. Ethical finance*

The national bodies work regularly with ethical finance institutions to fund fair trade awareness and promotion schemes, while the ethical finance requests received by FLO tend to be for the organisation of events bringing together the various parties in the sector (for example, the London FLO Forum in September 2003).

Ethical finance can play an important role in future, alongside public funding, in:

- supporting regional and national awareness campaigns;
- supporting bodies that pass on the message at local level, this being a vitally important means of raising awareness locally;
- supporting fair trade schemes emerging in other European countries;
- providing funding to enable certain producers' organisations to pursue specific programmes (connected with quality, for instance) or, more generally, providing advance financing and offering loans at preferential interest rates.

## **c. Change of scale**

Despite the substantial increase in sales, which has made it possible to have a greater impact on producers, fair trade still accounts for less than 0.01% of international trade. A change of scale is therefore needed if

fair trade is to spread to millions of new producers and genuinely change the pattern of trade.

The main obstacles to this change are:

- the shortage of resources for publicising and promoting fair trade and the fair trade label, enhancing the impact on consumers and transforming purchasing intentions into actual purchases;
- customs barriers, which hinder the expansion of fair trade in certain produce (for example, bananas, rice and sugar) because they artificially exacerbate the difference in retail price;
- a code of practice for procurement contracts that restricts local and regional authorities' scope for consuming fair trade products;
- the need to step up support for producers to enable them to meet market requirements in terms of quality and logistics.

#### **d. FINE's proposals for a Europe-wide Council of Europe promotion campaign**

The following measures at European level would provide substantial support for this form of ethical, sustainable trade:

- recognition of FINE's definition of fair trade;
- promotion of this definition and fair trade among the member states of the Council of Europe and the European Union so that they foster an awareness of fair trade among the authorities and the public, incorporate fair trade into the code of practice for procurement contracts and adopt fiscal and legal measures to further its development;
- promotion of the emergence and expansion of fair trade undertakings in Council of Europe member states where they do not yet exist;
- encouragement of dialogue between the Council and other international organisations and institutions (EU, OECD, ILO, UN agencies, development banks) in order to establish joint action programmes;
- possibility of providing financial support for information campaigns, training programmes and technical assistance schemes for producers' organisations.



## 6. Training and professionalisation of management and workers in the ethical finance sector

*by Matt Christensen, Executive Director of the European Social Investment Forum (EuroSIF)*

### Introduction

This article highlights why and which kind of training and professionalisation is needed for the workers in the ethical financial sector. Some examples of the values, especially the differences in values between the traditional financial sector and the ethical financial sector, will be shown and linked to an actual ethical financial system in practice. Ultimately, this article will point out some of the challenges that the sector of training initiatives will continue to face as well as some ideas on how the support of public authorities may help it to move forward.

#### a. Necessity of training and professionalisation

Many ask, why is training needed for ethical finance sector workers in the solidarity-based economy? Unfortunately, if somebody wants to become an ethical financial worker, it is very difficult to receive training. In the traditional financial sector, different possibilities exist: there are universities, dedicated training centres to the subject of finance and banking associations with long-created forums for training opportunities.

On the other hand, if somebody aims to work in the ethical financial sector, there are limited opportunities for training. There is almost no university training, or what exists is new and developing. Thus, training usually takes place on the job or in seminars. This may include dedicated training sessions as inductions or on a regular basis, or attribution of tutors with senior experience to new recruits. One reason for this is the lack of other forms of training. Another reason is the cost associated with training large numbers of people, among which are many volunteers. A third reason is that a lot of relational aspects of stakeholder relationship management will best be learned from experience. Companies who work for the ethical finance sector usually cannot find anyone with an ethical financial training. As a rule, they recruit people from a financial

background and then teach the environmental/social issues. Again, this points out the urgent need for a more formalised training that currently is not very easy to find in the market-place.

As far as actual subject matters in the traditional financial sector are concerned: over the years there have evolved certain metrics that have been agreed upon as standard. These include: return on investment (ROI), return on capital (ROC) and return on assets (ROA), all of which are used in the traditional financial sector. Again, if the training for the ethical finance sector is considered, there is a limited amount of data that have been agreed upon. Subject matters (metrics as well) are only evolving and are in the process of being properly defined (for example, social metrics).

Finally, another important approach for the professionalisation of training in the ethical finance sector is the need for accreditations. The traditional financial world offers different possibilities: there is the CFA (chartered financial analyst), the accreditation of the American Bankers Association (ABA), and the Certified Practising Accountant (CPA Australia). It is possible to get a Master's in Finance, a Ph.D. in finance, and of course, a Master's in Business Administration (MBA). The accreditation process concerning training in the ethical finance sector is – in contrast – only in its infancy. It is rather difficult to receive a corresponding MBA in ethical finance. In fact, when incorporating sustainability in their programmes, MBA schools are generally training their graduates to lead companies in a more sustainable way rather than training them to directly enter the social economy as either social entrepreneurs or community investors. Fortunately, there are trends to start moving in that direction. Some schools now offer courses such as “Systems thinking for sustainable development” as part of the core curriculum. For the future it will be necessary to find accreditation programmes and agreement across different geographical regions for standard metrics, which point out for example how to measure the return on social capital.

## **b. Differences in “values” between the traditional and the ethical financial sector workers**

What are the ideas about values and what are the differences between some of the traditional financial sector and the ethical finance sector values? The traditional financial sector values have been largely based on Milton Friedman's notion of economics (free market capitalism) and the idea that governments are primarily responsible for social issues. That is

why the financial sector essentially continues to look at the inputs and outputs around data based on financial return and financial risk, but not necessarily on social return and on social risk. A small but growing minority consider that there is a need to start doing things differently in the traditional finance sector (for example, that measurement should change), but the mainstream community today is still largely measuring things on profit maximisation and financial returns. The other piece of the puzzle is that the financial sector generally considers these issues to not be their problem, but their clients' problem. The financial sector pushes the ethical aspects regularly away from themselves and on to their clients, but does not actually tackle the questions themselves.

The values of the ethical finance sector workers have a more holistic approach. They are based more on accountability and responsibility for social criteria and not just financial risk returns. That starts with something as simple as the environmental risk of a credit loan, and then it can go from there on to a number of different initiatives. Another means of how those values are manifested in the ethical financial sector world is the fact that ethical financial sector workers can be held accountable for the way that they distribute funds. Their compensation may be directly linked to their success in showing social capital returns. Finally the ethical financial sector is also about the notion of being open to partnerships, especially public-private partnerships, which can ensure social and financial returns. Such an example will be demonstrated below with the social venture capital of Bridges Community Investments.

### **c. Values in action: ethical aspects linked to the financial sector – The example of Bridges Community Investments**

One example where ethical values have been put in place with financial systems in an innovative manner concerns the UK-based company Bridges Community Investments. It was started by Sir Ronald Cohen, founder of Apex Private Equity and considered one of the most successful venture capitalists in Europe over the past twenty years. One of his insights after twenty years working in the field was that there was little that venture capital was doing for social inclusion. He has set up a successful entity, a €60 million venture capital firm, of which €30 million comes from private investors and the other €30 million from the UK Government. This public-private partnership takes a new look at ethical investment. For example, Bridges takes "equity" positions in its invest-

ments rather than offering loans; thereby they try to create successful businesses which in the long run should lead to successful communities. Furthermore, they target the most high-risk areas in the UK as indicated in government poverty criteria. Moreover, they only target potential entities that have less than 250 employees and some of the groups that have received financing have only 2 or 3 employees. Most important are the three social criteria that the firm applies with regard to their investment target strategy: 35% of the employees of any entity receiving money must be from a "risk" area; the market, where this entity will sell its products, must be focused on the local people, who reside in this risk community; and third, at least 50% of non-salary expenditures should go to local businesses, suppliers in the risk area. So the project has an holistic approach, creating successful communities and bringing social cohesion back into the game of finance.

Finally, the employees at Bridges Community Investment receive contractual incentives both on social and financial metrics. They are rewarded by the amount of social cohesion that occurs in its investments over time, by measuring social and financial returns on the investment.

#### **d. Challenges for the training of solidarity-based workers**

The first challenge is that there are still very few mainstreaming opportunities for training initiatives in the solidarity-based working environment. They have been largely started by the social banks or by social entrepreneurs, who come from more traditional backgrounds and who decided to move into this sector. Therefore internal co-worker training is often the only option. This shows in terms of education – the ethical finance sector is still not a core activity of educational institutions. In fact, in MBA programmes, training in this area will be one elective among forty different course offerings, so it is definitely not something that is taught as a part of the core infrastructure. In top graduate and doctorate programmes, few departments are dedicated to the corresponding academic research. Business school education teaches ethics and sustainability as a niche rather than within the core curriculum. What typically happens now is that those who are interested in receiving training at the present moment are from the fields of government or non-profit organisations, but not often from businesses and so the business environment is not gaining the benefit of training.

### **e. How to promote training initiatives for the ethical finance sector?**

Three approaches are presented here. Firstly, business schools need to develop specific modules to train social entrepreneurs and/or social bankers. For example, the Said Business School in Oxford has created a social entrepreneurship programme funded by one of the founders of E-Bay, Jeff Skolls. This programme, which is only in its first phase, is dedicated to linking the financial sector with social cohesion. The training schedule contains a professional management programme with specific social and sustainability items along with an organisational methodology. Another aspect of the programme is that it seeks to create partnerships with other academic institutions across Europe as well as with governments. The European Commission has been targeted as well as foundations and business leaders. So there are earnest efforts to bring in different entities that will help to provide a new approach.

Secondly, prizes can be an interesting means toward the fostering of training initiatives, for example prizes for good research or prizes for academic programmes working on ethical financial issues. The “Global Social Venture Competition” is a successful example from the business schools arena, which has been going on for the past three years. The Global Social Venture Competition began in 1999 with one MBA school and has been extended to include other schools from the US and Europe with the objective of actively supporting and promoting the creation and growth of successful social ventures around the world. Prizes are awarded across North America and Europe to the students, who come up with the best business plan with a social business focus.

Thirdly, fellow programmes and networks which bring initiatives together with financing should be encouraged. Good examples include Ashoka, CECOP and the Schwab Fellows Program.

### **f. The role of public authorities in the training and professionalism of solidarity sector workers**

Public authorities have a key role to play in the professionalisation and training of workers and volunteers in the social economy. They should first of all continue to support the training initiatives that exist and then try to multiply and augment the initiatives. Part of the problem is that training has not been on the agenda as a core requirement, so when

public authorities put funds together, they do not include training as an important part of it. A challenge for the future would be to find ways to integrate training for the ethical finance sector as an essential part of the budget for programmes that receive public funds.

Secondly, academic support would be an excellent area for public authorities to consider, especially with regard to accreditations. Trying to create means for students to be accredited in these areas will naturally bring a whole flow of research and thinking to this field. It would also help interested persons to receive training prior to working in the field.

Finally, other practical means, which could be provided by public authorities include: tuition support, tax relief or tax minimisation for a period for those who are investing their careers in this area; reduction of social charges for social entrepreneurs; and official recognition of professional experience in the form of credits for further studies.

## **IV. AREAS OF DIALOGUE AND SHARED COMMITMENT TO ASSERT SOLIDARITY IN THE MARKET**

### **1. Education: a vital space for solidarity-based and responsible citizenship**

*by Marie Arena, Minister President of the French Community  
with responsibility for Education, and Minister for Education  
of the Walloon Region*

#### **Introduction**

I would like to thank the Council of Europe for organising this forum on a theme which is close to my heart as Minister President of the French Community in Belgium, but particularly so as Minister for Education. It is hard to imagine discussing the topics of solidarity-based finance, responsible consumption and ethical and civic-minded behaviour without mentioning education, which I believe forms the very basis for such ethical behaviour.

I finished my university studies in 1988: not once during my five years of studying economics was the question of ethics mentioned. Business, the law of supply and demand and free competition were amply dealt with, but the subject of ethics was never raised. And yet 1988 is not all that long ago. Nowadays, the climate is changing in universities and there are courses on ethical conduct and sustainable development. I venture to hope that the young people who follow those courses will be even more intent on defending ethical values.

More generally, I would like to mention positive globalisation. Very often, when we talk about globalisation, we talk about the damage it does, to the environment, society, etc. A greater focus on positive globalisation in schools and universities would undoubtedly bring about a real change in civic commitment. Hence, in my capacity both as Education Minister and Minister President of the French Community, supporting cultural diversity, I would like to outline here the views I espouse within my government and my country.

This paper will focus on three main themes:

- What does it mean for a government to engage in the construction of a welfare society?
- What new contribution can I make to your activities concerning the role of the authorities, based on principles for action rather than specific techniques?
- How can we make a firm political commitment to promoting ethics?

### **a. The ethics of shared responsibility for a “welfare society”**

As far as the welfare society is concerned, the Strategy for Social Cohesion as revised by the Committee of Ministers on 31 March 2004 clearly constitutes a major contribution to the construction of a new socio-economic paradigm which committed citizens and all governments are, or should be, hoping to see. Paragraph 17 of the strategy introduces the concept of shared responsibility, meaning that the welfare of all must be a shared goal for which everyone is responsible, involving a kind of *ménage à trois*.

This *ménage à trois* of state, market and civil society is not always easy to put up with in practice. Means of organisation must be found which do not evade conflict – a fact of life in a healthy society – in order to move away from the welfare state model towards a welfare society model. This means that the state does not shoulder responsibility for everything: however, abolishing the role of the state forms no part of my plans, ideas or political actions.

On the contrary, we need more state involvement and greater regulation of the globalisation process. We also need better state involvement. Consequently, when we defend the state, we are defending the institution not for its own sake, but for what it can contribute in terms of value-added for citizens through its regulatory activity. In my view, the state alone has the legitimacy to lend greater coherence to the conflict inherent in the *ménage à trois* in which it is, needless to say, an important factor.

My government in the French community has made a firm commitment to the concept of the welfare society. How did we commit ourselves to this approach?



For political leaders, it is more difficult to expand upon this concept of a welfare society through discussion and partnership with all the players than to take a leading and more authoritarian role by seeking to impose a choice of activities on the ground. Discussing and consulting with the players takes time and to some extent involves questioning the political action being taken at a given time, as well as changing habits and reassuring those concerned.

We have opted, then, for this more difficult approach which is slower but involves all the stakeholders. Let us take the very specific example of education.

We are in the process of negotiating what we call a strategic contract for education, in which all those involved will sign up to common goals and means of achieving them. Each player will have clearly identified (but evolving) responsibilities within an overall long-term project. It is important to ensure that all the players are in agreement as to the assessed situation at the outset of a project. Everyone must agree on the means deployed to overcome the problems encountered in education, but also on their respective roles.

This is a difficult and complex task, as it means bringing together schools, head teachers, teachers, parents, pupils and enterprises (both employers and unions). The wider civil society must also participate in the education projects. Hence, an overall, balanced and progressive project must be devised, in which all the stakeholders share a common goal.

Each player must have an overview of the process rather than just defending his or her own position, as in the past. For instance, as parents they used to want their children to attend the best school, while teachers wanted their classes to be as uniform as possible, head teachers wanted adequate resources to run their schools and politicians wanted education to be egalitarian, that is accessible to all, free and conducive to social advancement.

If each individual and each group remains entrenched in its own position no progress can be made, as each party seeks to pass on responsibility to someone else. It is important, therefore, to unite these players in order to be able to demonstrate to parents that an egalitarian school is one in which there is a good social mix that will not disrupt their children's education, quite the reverse. It is important to convince parents, teachers and head teachers. This takes time, because individual interests are often much more powerful than collective interests.

That, then, is the context in which we embarked upon the strategic contract for education. We also wanted to make the point that politicians and the public authorities cannot wave a magic wand. A similar picture can be seen in the European institutions, or rather the European policy sphere. It is easy for individual member states to argue that something is not their fault and that the blame or, more rarely the credit, lies with Europe.

## **b. Ethics to cope with complexity**

In Belgium, there is currently a crisis of confidence among citizens vis-à-vis politics: it is vital that we restore that confidence. This can be done only if there is transparency, if we can tell the different players what we are capable of, but also what we cannot achieve on our own, because we need the support of all our citizens.

Let me then say a little about complexity. I believe we now live in a society in which we try to make out that everything is simple. To buy food we have only to go to the supermarket; to obtain a particular piece of information we have only to turn on the television and switch to a particular channel; and to obtain certain information we have only to switch on a computer and surf the Internet. This ostensible simplicity disguises a complexity which is now completely inaccessible to citizens: I would suggest that we are too much inclined to excuse ourselves by giving out so-called information.

Information overkill means the death of information. Unless we teach citizens to view this information critically and construct their own model for questioning it, we will never have responsible citizens or ethical consumer practices. Efforts to develop questioning strategies must therefore begin with the education system, to enable our children – tomorrow's adults – to ask themselves the right questions and thus be capable of using the information available to them.

We have opted for the complex approach not out of a wish to make things more opaque, but because that is the reality of our society; we want to equip citizens with the tools to comprehend that reality.

### **c. A five-point code for political action to promote ethical behaviour**

The second topic I would like to raise is a code of conduct for political action in this sphere. It is not enough to have the will to create a welfare society by bringing together all the players from the political and public arena, civil society, business and trade unions – we also need a political code of conduct. Here are five principles for such a code:

#### *i. Promoting a project-led approach*

The first point in a political code of conduct is to promote a project-led approach. Responsibility stems from an individual and collective capacity to construct projects. Here again, this is the more complex option. It is easier to be a consumer rather than a participant in a project. But a consumer of what? What are we consuming in cultural terms and in terms of goods and services? It is important for our citizens to adopt an overall, project-led approach.

Being involved in a project enhances our capacity to manage change. We must therefore provide our citizens with this project structure in order to give them a voice and enable them to change things. An approach which focuses on change and discussion is preferable to an exit logic,<sup>1</sup> which may not involve any change. A system based on dialogue, change and projects, on the other hand, requires adaptation by society, an approach which has much more to offer.

To take one example: the Belgian Minister for Health is working on citizens' capacity to make their health part of a project. This means promoting, from a very young age, the kind of behaviour which will help the individual manage his or her health assets. This is the kind of approach that is needed and which political leaders must promote.

We in the Ministry of Education conform to this approach. For example, we are planning a campaign against junk food and unhealthy eating habits. We want to tackle this problem. Of course, young people do not want to be stopped from consuming sugary foods, fizzy drinks, waffles and suchlike at school. They want to be free to consume what they want,

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1. Bruni, Luigino, "New rights for the exercise of responsible citizenship", p. 67 ff.

and they must be allowed that freedom. But we have a duty as well to equip them with the critical capacity to be aware of the effects of certain products and certain habits on their health, which is their most valuable asset. By doing that we can help them to become involved in a long-term, not just a short-term, project.

This campaign against junk food and unhealthy eating will incorporate the notion of ethical consumption. It is not enough to consume for the good of our own health: we must also ask ourselves whether we are consuming for the good of the world. Does what I consume affect only me and my selfish needs, or does it also concern other people on the planet and, if so, how?

When I go around giving talks in schools, I meet children and ask them what criteria they use for buying their trainers. The first criterion is, of course, brand: they all know the major brand names. The second and last criterion is price. Many children do not ask questions about where goods have been manufactured, who made that pair of shoes and in what conditions, whose interests are being served and how durable the product is. This whole set of questions never occurs to many children, and this is an area where we need to act as quickly as possible. Our junk food project focuses on sensible consumption from the point of view of the individual, which is of course important, but also from the point of view of others. This is a whole new educational concept which we plan to promote.

## *ii. Promoting a culture of evaluation in order to break out of individualism*

Clearly, when we devise a project, we do not do so in isolation: what we do has an impact on everyone else. The second principle is that, in order to break out of individualism, we need to promote a culture of evaluation and learn to ask ourselves the right questions.

I recently attended the first showing of our film *Palais des images* (Hall of Images) which is being released to schools. Over three quarters of an hour this film shows, in a very educational and instructive way, what has gone wrong with the world in social, environmental and political terms, dealing with strategies of war and their effects not on individuals as such but on the world as a whole. After the screening of this film, 10-year-old children leave the room with tears in their eyes. In three quarters of an hour it is possible, simply through messages and

images, to ask questions and prompt children to ask themselves questions. As politicians we have a clear duty to develop tools of this kind. Heated discussions and debates understood only by intellectuals may well ask the right questions but remain inaccessible to the population as a whole.

What we need to develop are educational tools which are accessible, real and put the right questions to the whole of society. I would ask all of you, in your different spheres, to join in this analysis and support this process. That is what my government and I are trying to achieve.

### *iii. Developing the capacity to analyse information critically*

Making information available is not enough. All too often governments and organisations assume that because information has been sent out it has also been received. They are wrong. The information sent out is accessible only to those who have the means of obtaining it. Not all households have Internet access. Moreover, even those people who are “switched on”, who have physical access to the information, may not have access to the necessary critical and analytical tools. Hence, as the third principle, I believe it is important, in order to promote ethical behaviour, to develop critical and analytical capacities. That is where education comes in.

### *iv. Developing a sense of contributing to society while embracing complexity*

Principle No. 4: we must face up to the notion of complexity, and stop telling people that everything is simple. We must be able to state simply that the world is not simple.

We must shed the complex we have about complexity. We cannot mobilise people if they have the feeling that society is too complicated and there is no point in taking action. We must be able to explain complexity without having a complex about it: any act, however small, has an impact in this respect. We need scientists of the highest calibre who understand complexity but are also able to explain in simple terms how citizens, in their day-to-day lives, can take action at their own level and change something or create a snowball effect in order to have a real impact on how the world goes round.

*v. Promoting the idea that conflict is a place of exchange and confrontation*

The fifth principle concerns the notion of conflict. Today, I face demonstrations from sections of the French community in Belgium. Some people accuse me of being too tolerant. My reply to them is that a society which protests is a healthy society. I mean that quite sincerely. I would say simply that we must, in our democracies, develop the sense of conflict, not armed conflict, but conflict as a forum for dialogue and confrontation: that is what our democracy is all about. Without this, huge problems arise: people who are no longer able to ask themselves questions, no longer believe that they can be agents of change. We must therefore instruct people not in conflict but in the right to have their say, in other words in the forums where they can express themselves.

These are the five political principles which I strive to live by and which I ask my government to implement systematically. They comprise a message relating to the role of citizens, the process of questioning by citizens and ethical behaviour. We will never achieve ethical behaviour or make ethical tools accessible, whether in relation to finance, consumption or anything else, unless people can be taught to ask questions concerning origins and to engage in dialogue on these behavioural issues.

## 2. Support for ethical and socially responsible community-based initiatives in Munich

*by Mr Hep Monatzeder, Mayor of the City of Munich,  
and Mr Heinz Schulze, co-ordinator of Agenda 21 "One World"*

### **Hep Monatzeder**

Munich is one of the few municipalities in Germany, indeed in Europe, to have given particular priority to the "One World" theme as part of the local Agenda 21 consultation process. Other themes are, of course, also covered by the local Agenda 21 in Munich, including renewable energy sources and sustainable management. However, this article is limited to the "One World" theme.

It is reasonable to ask why this particular theme was picked out and formed the subject of a special forum. What was the reason behind this? It was generally agreed that sustainable development only made sense if the city of Munich, in its various activities, took into account the interests of the people living in the less prosperous Southern countries.

We decided to place the "One World" Forum within the structures of this city. At the forum, citizens, groups, projects, societies and associations from Munich banded together in a network in order to discuss the theme and work out what could be done in Munich to support the "One World" initiative.

The local Agenda 21 consultation process in Munich has long since been concluded and the "One World" Forum is over. However, what remains is an effectively functioning network in our city between organisations and citizens involved with the "One World" theme, as well as good relations between this network and the municipal authorities. Relations between the different partners are co-ordinated by Mr Heinz Schulze, co-ordinator of Agenda 21 "One World".

As far as this network and co-operation with the municipal authority are concerned, a set procedure has been developed for dealing with issues of social and international justice. Representatives of various initiatives regularly submit proposals and ideas concerning priorities or problems that need addressing. They obtain detailed background information from experts and their international partners, as well as details of solutions

attempted hitherto, before raising these matters with the municipal authority. The City of Munich then convenes roundtable meetings, at which possible local action can be discussed with experts, local business representatives, community organisations, consumer groups and, of course, the municipal authority.

The municipal authority helps community activists to implement their ideas (for example, campaigns, events, educational programmes), but always endeavours to set an example and take the initiative. One example concerns fair trade. The first step was the organisation of a sale of fairly traded products at the Munich municipal authority headquarters, together with the serving of fairly traded tea and coffee. This example was then followed by some of the city's largest companies (those that run the city's exhibition centre, Olympic park, zoo and residential buildings). Finally, following discussions with major retailers and the association of hotels and restaurants, many of Munich's shops and restaurants have begun to sell fairly traded products. Turnover from fairly traded products has doubled. In addition, Munich's own brand of fairly traded, organic coffee has been launched.

One difficult issue which the City of Munich has finally tackled is that of criteria for awarding contracts. Munich, which as a large city has a certain market influence, has resolved, when calling for tenders, only to approve products that are not the result of exploitative child labour. This decision caused problems because social criteria are alien to German and European tendering procedures and their acceptance is therefore heavily restricted. The main criteria are the profitability and competitiveness of a product. Nevertheless, the City of Munich took this decision, which has since been followed in other parts of Germany. Fortunately, some changes have now occurred on the legal front. In early 2004, the European Commission adopted legislation expressly allowing member states to authorise the use of social criteria in tendering procedures. It is now up to individual states to incorporate such criteria into domestic law. It will therefore be easier in future for municipalities to take such measures in order to fight for a socially just world.

North-South co-operation: a partnership between the cities of Munich and Harare (southern Africa) has been set up. A climate alliance between Munich and Ashaninkas (in the Peruvian rainforest) has also been created.

All the activities linked to the "One World" Forum, including follow-up activities, were held under the motto "Munich will not damage the



world" and aimed at supporting international social justice. The motto convinced many people of the need to act and is also the reason why the City of Munich remains committed to "One World" projects that have since been implemented in many other European cities.

## **Heinz Schulze**

I shall present some of the activities envisaged in the "One World" project.

Every municipality can do something for the "One World" initiative. There are "One World groups" and/or "One World shops" in virtually every town, enabling people to become actively involved in the promotion of fair trade. This is a truly positive and practical way of bringing about change. It is important to recognise that municipalities can promote not only a "One World shop", but also the "fair trade" seal.

Another example concerns the sale of second-hand clothes. It is well known that many shady businesses operate in this area. People who donate their old clothes are often deceived because many of the companies that collect them are very profit-oriented and commercial concerns. Here also, the process itself was very important. After a period of research into this problem, a round table involving all the interested parties was organised. This had a positive result in that all clothing collection containers at the city's recycling centres must now be managed by charitable, ethical companies that belong to the umbrella organisation "Fair-Wertung". Consequently, clothing collection containers may not be installed illegally elsewhere in the city and second-hand clothes are now collected at recycling centres in the appropriate way. The interests of Third World textile workers are also taken into account.

The theme of ethical investments is important in relation to sustainable development. Unfortunately, efforts in this area have proved less successful. The idea was that the City of Munich would set up a "Munich fund", which would also benefit the city. The preparations went well. Working groups were set up, bankers were involved and a round table including major financial institutions was organised under the chairmanship of the Mayor of Munich. The two banks which were needed to operate such a fund were, in principle, prepared to participate. However, the head of finance of the Munich administrative authority opposed the creation of the fund. Another problem was that quite a few banks were merging at the time and a fund of around €20 million was simply no

longer lucrative for the new, larger banks. In addition, the staff who had been working with “One World” until that point had been given new responsibilities. It also later became clear that the banks were not all that interested in this new fund for its ethical character, but actually wanted to sell their own funds. There were also misunderstandings among the representatives of certain social projects, who were wondering when they would be able to access money from the fund rather than where they could pay money into it. Even though the fund was never actually set up, there remain some positive spin-offs, such as the discussion process itself and the publication of an information leaflet on the theme of ethical and ecological investments. Another positive outcome was the creation by Munich-based banks and financial institutions of a “Munich financial institutions and Agenda 21” working group. This working group initially only discussed environmental issues. However, it now also co-operates with the “One World group” in an effort to promote other ethical initiatives within its member institutions. For example, the group discussed what incentive gifts the banks should be giving out and under what conditions they should be produced. The banks are hoping to ensure that products made as a result of exploitative child labour are no longer purchased. They are also promoting the idea of fair trade by ensuring that fairly traded tea and coffee are sold in their canteens. They also attach great importance to ethical investments.

The “One World group” has learned, in accordance with the saying “a cockerel cannot lay eggs”, how to make a realistic assessment of what a municipality can actually achieve. For example, it has realised that a municipality or city is not just responsible, but socially responsible for its procurement practices. However, it took a long time for Munich’s city council to decide that, at municipal level, no products of exploitative child labour should be purchased. It was important that demands were not made immediately for the total abolition of child labour, but only for the rejection of products made as a result of exploitative child labour (ILO Convention concerning the Elimination of the Worst Forms of Child Labour). This was a very interesting and important process. The municipality of Munich has set a good example and the position is now that other important players at municipal level can be approached, such as churches, businesses, community and youth organisations. People can now be urged to ensure that the products they buy are not the result of exploitative child labour. The City of Munich led the way by setting a good example.

Clearly, cities cannot totally eliminate injustices in the distribution of wealth through the way they award contracts. However, they can certainly set a good example and thereby encourage industry and consumers to take further action.

At present, however, the economic situation does not appear to favour ethically responsible projects. Those responsible for projects that receive subsidies from the city or kindergarten managers, for example, often protest that buying fairly traded orange juice is all very well, but the city should give them more money for it. Sports club managers say, "We realise that the balls are from Pakistan and stitched by exploitative child labour, but if the city wants us to buy those righteous products instead, it will have to give us more money". Visibly a great deal more effort is required, but it is also a tremendously exciting process. The plain fact is that this sound law at municipal level has generated a great deal of discussion, particularly within civil society, which is all to the good.



## V. SOLIDARITY IN THE MARKET: AN AID TO TRANSITION?

### 1. Disseminating the concepts and practices of an ethically and socially responsible economy: what is at stake?

*by Elena Sosnova, lecturer at the State University of Management, Russian Federation*

#### Introduction

As I see it, the aim of this debate hosted by the Council of Europe is to give an overall picture of the disparate components of the socially responsible economy, to provide existing networks with organisational and political support and to encourage the proliferation of other new ideas in this field.

That aim requires that the concepts to be disseminated should be intelligible, that their social and economic significance should be clear, so that people from different countries are able to identify with them. This is an essential requirement in the case of countries where solidarity-based initiatives in the spheres of finance and consumption are not yet widespread.

For that reason an important step would be to bring to the fore the common foundations of the decentralised initiatives which the Council of Europe has selected as typical of the socially responsible economy.

The concept of the ethically and socially responsible economy – as discussed at the Forum on Socially Responsible Consumption and Finance systems – Public Authorities' and Citizens' Commitment for Social Cohesion – conveys some very strong ideas, which can command recognition and support.

#### a. What language should be used to disseminate the concepts?

To begin with, these forceful ideas make it possible to set aside the differences between countries. Although they exist, the differing attitudes resulting from countries' historical backgrounds can thus be disregarded.

Different kinds of language – legal, economic or ethical – can be used to express the basic concepts. I shall assume in my presentation that speaking in economic terms carries greater weight, at least with the so-called emerging economies.

This is perhaps also due to the fact that the concepts referred to in describing the socially responsible economy – ethics, solidarity, social cohesion, committed citizenship – are part and parcel of one side of the efficiency-equity dichotomy, which is still on the decision makers' agenda.

In my opinion, these strong ideas entail acceptance of the following three assumptions:

- it is possible to contribute to solidarity and social cohesion through routine market transactions;
- the market must offer individuals opportunities to make responsible choices in terms of the public good;
- and, lastly, the excess cost to the private sector of deliberately generating positive externalities may be shared with the state.

## **b. Relevance of the concepts of the solidarity-based economy for countries where they are not widespread**

If we accept these assumptions and can identify real cases in which they hold good, the objective of achieving both economic and social efficiency appears attainable.

Here, the above assumptions concern two spheres: finance and consumption. Moreover, we already have evidence of the existence of socially responsible, ethical economic practices in both spheres, which have been identified and studied by the Directorate General of Social Cohesion of the Council of Europe.

Looking at things from this angle, it is pointless to ask whether ethical finance and socially responsible consumption are useful concepts for the countries where they have not yet made headway – the Russian Federation, for example.

Anything which could help to harmonise economic and social development is of interest. The forms of solidarity peculiar to the social system that prevailed prior to economic transition, which survived the first years

of “shock therapy”, are gradually being abandoned. Replacement mechanisms, consistent with market constraints and economic growth, are being sought. The three previously cited ideas – albeit somewhat theoretical – may doubtless be perceived as fresh and enticing.

In this respect, the Council of Europe’s efforts consist in gathering the results produced by the market’s self-monitoring instruments and by departmentalised public agencies, interpreting them in the light of the system of values, translating them into benchmarks for a globalised society and, lastly, promoting the sustainability of this type of economic behaviour. In view of its magnitude, this is truly a task for an international organisation.

### **c. A few words on the prospects for disseminating the concepts**

The greatest challenge lies in disseminating the concepts and practices. This is a huge and lengthy job. If they are to spread, socially responsible economic initiatives, which were borne of individuals’ moral principles and of activist tendencies, need state support and the commitment of a critical mass of citizens. The fact that the Council of Europe has placed dissemination of the concept on its agenda brings us closer to this goal.

Identifying appropriate forms of dissemination, fertile ground and auspicious occasions for sowing these ideas entails getting back to basics – the initial premises on which such initiatives are built.

I accordingly set out below a few very general considerations regarding the prospects for developing the concepts and practices of socially responsible finance and consumption in the Russian Federation.

At present, Russian society’s social and environmental expectations are targeted at the authorities and the market. Two major questions are posed: what are the obligations and the limits of the social state and of socially responsible companies? Ethical approaches compatible with the market, competition and economic growth are being sought and introduced. Addressing the individual’s role in terms of the social implications of economic decisions will constitute an innovation.

Proposing a complete innovation is not a handicap. Transplanting the concepts to a terrain rife with stereotypical ideas, a legacy of the former, entirely different social system, is a much greater challenge. Many examples of the resulting difficulties can be found in the conceptual clashes

that accompany the introduction of the ideas of the social state and corporate social responsibility in the Russian Federation.

Historical reasons also explain the novelty of the concept of individual responsibility in this context. Under the previous system, the sense of solidarity was dissolved in egalitarianism and extreme state socialism, there were very narrow limits on freedom of choice, and individual economic decisions had no particular impact on the market.

#### **d. Is demand ready?**

As a result, most people in the Russian Federation are incapable of reasoning in terms of the causal links specific to the market. Awareness of the factors that make purchasing goods or investing one's savings an act of solidarity comes from comprehensive knowledge of these causal links and access to certain information regarding the conditions of production of a product or service.

That means that the consumer or investor must be skilled, experienced and well informed. He or she must be used to performing operations – on the financial market for example – and must have a degree of trust in the institutions and the information received.

In the field of finance, Russian investors, at least, need more time to acquire all these qualities. To cite an example, as a result of last year's reform of the pensions system 41 million people were given the possibility of choosing how they wanted to invest the part of their pension contributions to be placed in a funded scheme. Less than 2% of those concerned took advantage of the opportunity (generally employees of large firms who chose to invest their contributions with the company managing their corporate scheme).

Income levels are also a key factor for the dissemination of socially responsible economic practices. The bulk of the population has just emerged from a state of living on the breadline. The critical mass must begin to assert themselves as consumers with sufficient income to be able to take purchase decisions according to well-reasoned criteria and to access the necessary information. Following all the crises caused by collapses of confidence, people must begin to see themselves as savers/investors whose rights are guaranteed not just by law but also by the logic of the market's functioning.



### **e. The structure of supply**

Development is also needed on the supply side, above all in the financial market. The number and variety of institutional investors is insufficient, and banks are only just beginning to develop a range of services.

At the same time, the pace of change is fast. The volume of personal loans extended by Russian banks has doubled each year in the past two years, and savings are growing by about two thirds per year.

### **f. The state framework**

The ultimate aim of the bulk of the reforms taking place in the fields of social protection, health, education and housing, above all the amendments to the welfare legislation that will enter into force as from 1 January 2005, is to empower individuals and develop their sense of responsibility, giving them more freedom of choice within the market. They will be prompted to take a more active role, including a more effective assertion of their social rights. The private sector is learning to co-operate with the authorities in more diversified ways, managing public funds and supplying public-interest goods.

As from next year a large number of benefits in kind will gradually be converted into cash benefits, the law will introduce some beneficiary co-payments for previously free services and benefits will be individualised. All this entails broader public-private co-operation in the production of what are termed "merit goods".

In addition, in order to implement these reforms it was necessary to take stock of the state's welfare commitments, many of which were merely verbal without any corresponding appropriations of funds. Last year, in his annual message to parliament, President Putin stated that public welfare commitments represented twice the national budget. This situation was a result of the growing unsuitability of the solidarity mechanisms in force, which none the less remained written in the law. The new legislation is based on a far clearer, more transparent system for funding the state's welfare commitments. As is always the case with such reforms, there will be winners and losers in this stock-taking exercise.

However, overall, the context engendered by these reforms paves the way for greater individual and collective inventiveness, since the last psy-

chological barriers have been brought down. It was these barriers – resulting from social taboos – which prevented:

- individual responsibility;
- links between socially committed behaviour and market operations;
- an end to the state monopoly on supply of public-interest goods;
- redefinition of the substantive scope of social rights.

It would seem that these are the very conditions that must be achieved if the key ideas behind the concept of the socially responsible economy, as defined at the beginning of this presentation, are to be implemented.

In this context of declining state presence, where economic growth, not least through increased consumption, is becoming an overriding need, who will take care of the quality of consumption and investment and of their lasting implications?

### **g. How can demand be stimulated ?**

Stimulating demand for goods with social added value would appear to be the chief objective in this context. The best way of encouraging and structuring demand of this type lies in opening up access to information and heightening public awareness.

Publicising sustainable development principles and helping to raise awareness of new social rights is a task for the intelligentsia, civil society, the media and international organisations. Co-operation between all these players can be seen to be vital. State support for the idea of greater individual responsibility is also desirable and could be based on social advertising campaigns. Lastly, the recommendations, commitments and even standards proposed by international organisations can have a highly stimulating impact on demand.

### **h. Which practices should be fostered as a matter of priority ?**

With these aims in mind, the instruments proposed by the Council of Europe (the platform and the observatory)<sup>1</sup> are as essential for countries

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1. Creation of a pan-European platform for political dialogue and the promotion of ethical and socially responsible community-based economic initiatives and of an observatory of legal frameworks and of dialogue between public authorities and such initiatives

inexperienced in such matters as they are for those which are more advanced in this respect. Information, exchanges and commitment by international organisations are prerequisites for more widespread implementation of ethical and socially responsible economic initiatives.

Which of the initiatives devised in the West would seem to have the most to offer a country such as the Russian Federation? And which are less well suited to its needs?

Based on the three assumptions concerning the socially responsible economy advanced at the beginning of this presentation, it is clear to see that efforts must be made on all fronts: demand, supply and state participation.

Access to funds is unquestionably a priority. Bank loans remain difficult to obtain, not because the money is lacking but on account of banks' unwillingness to begin to deal with the risks posed by private individual borrowers. Retail loans are expensive (on average the interest payable is six points higher than for a business loan), the vast majority of credit facilities have short maturities (one year), and banks often require the pledging of property as security for a loan. Volume growth in retail credit transactions over the past two years is linked more to an increase in consumer credits.

Surveys of small business owners (such as that conducted by the SME association "Opora Rossii" in 2004) show that only one fifth of SMEs have been able to obtain a bank loan. Some 40% of these loans can be regarded as short-term microloans (with maturities of six months to one year) and 85% of the borrowers were extended loans at a nominal rate of over 20%.

Nor are the prevailing lending conditions conducive to the provision of capital for development projects in troubled local economies. In the so-called "emerging economies" banks are looking for and can easily find lower-risk investments offering a higher return.

It is for these reasons that the most useful activities to be fostered are those aimed at developing socially responsible initiatives for the supply of loans and of venture capital. Priority should go to initiatives geared towards sharing the risks run by banks, so as to expand their customer base to people currently unable to obtain loans and to fund local economic development projects. Guarantee funds, various forms of risk-sharing partnerships, project support measures, awareness-raising campaigns targeting banks, know-how concerning ethically responsible saving schemes – in sum all the initiatives which form the fabric of the

socially responsible finance networks and will in all likelihood offer individual depositors a choice of socially responsible saving and investment vehicles in future – are also aspects of the solidarity-based economy to be disseminated.

Fostering co-operation in the spheres of microlending, mutual assistance and non-bank microfinance is also of vital importance with a view to improving access to funds.

### **i. Limits and risks**

Such partnerships are a very new concept in the Russian Federation. They involve many players, who must learn how to work together, trust each other and reach compromises. The lessons to be learned from existing western practices in the sphere of socially responsible finance are undoubtedly the most difficult, but also the most important. Patiently developing new relations with a view to forging networks and chains of ethically committed, responsible suppliers of funds involves far more effort than making a personal gesture in the form of a socially responsible purchase or saving operation.

Heightening potential partners' awareness, and even turning them into ethical finance professionals, is a necessary step. It would be preferable if it could be taken concurrently at all levels involving the threesome formed by "regional authorities, credit institutions and ethical finance intermediaries". This would probably be a good challenge for the Council of Europe to take up.

The demand side must be developed in parallel. The ethical and socially responsible economy is founded on public access to information and heightening of public awareness of goals linked to social cohesion and sustainable development. The aim is to show that a lifestyle taking account of the interests of the community and of consumption's lasting consequences is possible. There is no other means of changing people's attitudes and economic behaviour than providing them with information. This may in the end lead individuals and groups to invent new social and economic solutions – or it may not. However, once the information is available, the decision to become a consumer or saver committed to sustainability and social responsibility is a matter of free choice. The intercultural exchanges made possible by the instruments proposed by the

Council of Europe would appear to have a fundamental role to play in this respect.

Research and consolidation of the theories underlying the concept of the ethical and socially responsible economy are also a very important area of work, supported by the Council of Europe. The theoretical foundations prevent the emergence of extremist attitudes, provide due guidance for practical implementation of the concepts and allow historical and national contexts to be taken into consideration.

Conversely, in the Russian Federation it seems far less appropriate, and even premature, to seek state support in the fields of taxation and participation in schemes concerning seals of approval, since that could have a detrimental effect at a time when ideas and information on socially responsible economic practices are just beginning to filter through.

It is a little early to consider how to internalise externalities that have not yet been produced and, above all, to haggle before producing them, especially at a juncture when the state's main role consists in ensuring the most equal treatment possible of market entrants, eliminating the monopolies and ridding the country of all kinds of tax preferences.

## **Conclusion**

By way of a conclusion it must be pointed out that socially responsible finance and consumption, as practised in the West, can be an extremely enriching experience for the Russian Federation as regards shaping of public opinion, social bargaining, the development of civil society, modernisation of policy guidelines and even economic theory. Disregarding this source of new ways of life would be an unpardonable error.



## **VI. POINTS FOR AN OPEN DIALOGUE WITH THE COUNCIL OF EUROPE**

### **1. The real potential for development of the solidarity-based economy : summary of the debates during the 2004 Forum**

*by Federico Oliveri, Ph.D. student of political philosophy,  
Scuola Normale Superiore, Pisa, Italy*

#### **Introduction**

The Forum on Socially Responsible Consumption and Finance Systems – Public Authorities’ and Citizens’ Commitment for Social Cohesion, organised by the Social Cohesion Development Division of the Council of Europe, raised many fundamental questions about the political dimension of the solidarity-based or community-based economy and its real potential for development in Europe.

- How does the solidarity-based economy contribute to the type of public ethic or culture of citizenship upon which social cohesion nowadays depends?
- What are the prerequisites (in practical, political and cultural terms) if the solidarity-based economy is to move beyond the experimental stage to reach more people and encompass more areas of activity?
- What political considerations justify official interest in the solidarity-based approach and what are the potential implications here with regard to public involvement and a new set of citizens’ rights?
- How does the solidarity-based economy affect other aspects of the political agenda (namely welfare reform, the increasingly impossible goal of full employment, the quest for a development model, and growing inequalities throughout the world)?

By outlining the ideas and proposals presented at the forum, this synopsis aims to focus as closely as possible on potential answers to these questions.

The first priority is thus to form an appreciation of community-based initiatives in the economy as a logical and distinct approach. This means exploring mechanisms for market-based solidarity that have been developed through such initiatives and are capable of sustaining cohesion between strangers. Once such mechanisms have been identified, they can be used, on the one hand, to interrelate the different “families” and “sub-families” of initiatives and, on the other, to draw a reasonably clear distinction between these and other forms of civic commitment. The sector thus learns more about itself and can also be better understood by those outside it. One specific observation is that its access to the mainstream depends largely upon its capacity to channel the demands of people disillusioned by the existing economic and political system.

The second aim is to find a match between the needs of the solidarity-based economy, on the one hand, and public authorities and their support measures, on the other. Having listed those factors (to do with communication, structure and legal framework) that impede the sector’s development, we will explore how the public authorities stand to gain by overcoming such impediments. It is clear that the solidarity-based approach is of interest to the authorities on two fronts: both as a tool for managing economic transition and as a means of reaffirming cohesion through democratic citizenship. The forms of public support envisaged (ranging from recognition to direct participation, and including regulatory and financial support) reflect these converging aspects of the modern political agenda in a graduated manner that is sensitive to different contexts.

Having set out what is an increasingly well-articulated definition of the solidarity-based approach and the basic issues it raises (with regard to its nature and potential transferability, as well as its development needs and the capacity of governments to meet them) we will conclude with practical proposals for establishing a stable partnership between public authorities and those involved in the solidarity-based economy. It is in this area that the Council of Europe can have a continuing role as facilitator.

## **a. Appreciating community-based initiatives in the economy as a logical and distinct approach**

### *i. Achieving critical mass at European level*

In order to extend community-based initiatives and get more people involved in them it is essential to develop a cross-sectoral approach to soli-



solidarity-based finance systems and socially responsible consumption (including fair trade). Such an approach will require joined-up thinking and co-ordinated action as sector-based definitions emerge, so that those involved in the initiatives can form a clearer picture of their social usefulness and succeed in reaching greater numbers and a wider range of people – especially people with little or no prior awareness of the initiatives in question. The primary aims of this conceptual effort – which will also be useful to public authorities and traditional economic players – will be to:

- provide a more detailed and relevant definition of the solidarity-based dimension in certain economic activities;
- constitute a united front for all those involved – representing a distinct entity with which they can identify and to which outside agencies can address themselves.

Given the rich pool of experience that exists, appreciating community-based initiatives entails effort in a number of directions:

- seeking to explain the underlying rationale of the initiatives;
- linking different “families” and “sub-families” within the sector around a common approach;
- highlighting the practices of the different “families” and thus distinguishing them from similar initiatives.

In recognising the important role of community-based initiatives in the economy, the Council of Europe has not merely recorded their contribution to the well-being of disadvantaged social groups or particular regions. It has taken the further step of identifying in them a development model in which the social and environmental dimensions – in terms of universal lifestyle and work opportunities, access to and quality of welfare provision, the strength of the social fabric, genuine participation in social choices, and the availability and renewal of natural resources – are integral components.

This approach earns the solidarity-based economy a place in education for democratic citizenship and in education about the “virtues” of citizenship (Lipietz), demonstrating as it does that one can “contribute to solidarity and social cohesion through everyday commercial transactions” (Sosnova). It may thus go some way to meeting the need for social cohesion that has become so apparent in today’s “risk-based society”. Complex and multi-faceted as it is, this society will soon be unable to ensure

solidarity among its members solely via the more traditional bonding factors (family, occupation, ideology or nationality) or a standardised welfare regime: it requires a system of public ethics to inform all aspects of day-to-day life. There is scope, therefore, for rethinking the relationship between the (private) arena of consumerism and the (public) arena of politics, with increased emphasis on the latter. In effect, when members of the public produce or buy goods or services with attention to social responsibility they exercise their “sovereignty” (Bruni), just as they do when they vote. By making a responsible choice they express a political commitment that is independent of any exclusive (social, ideological or religious) identity.

## *ii. Understanding the sector in its socioeconomic context*

The Council of Europe’s interest in community-based initiatives in the economy ties in, first and foremost, with the central aim of its Revised Strategy for Social Cohesion: to respond appropriately to the changes affecting European society. Among the many types of tension generated in these changes, two are particularly relevant here:

- the tension between an increased capacity for individual and collective autonomy and a movement of retreat into the private sphere;
- the tension between socioeconomic governance that is open to community participation and a reconfiguration of state/market relationships to the advantage of one side only (in most cases the market).

The needs that fuel the impulse towards autonomy are virtually overlooked by both the welfare state and the market: they include socialisation rooted increasingly in “mutual care” (Lipietz), the capacity to manage one’s own work, and a wider choice of lifestyles. Thus derived, that impulse tends in turn to promote a new sensitivity to modernisation, its opportunities and its risks. On the one hand, traditional sources of solidarity (within patriarchal families, ethnic groups or workplaces, or indeed at national level) are being questioned and coming under pressure to be more inclusive of “outsiders”. On the other hand, new questions are being asked about fundamental aspects of the industrialised West and its role in the world: questions about quality of life, food security, sustainable development, efforts to combat human insecurity, and unequal access to global resources are all making their way onto the political agenda.

There is no guarantee that the impulse towards autonomy will be successful. Because, however, autonomy has become a fairly widespread ideal, frustrating the impulse may, in many fields, trigger a retreat into the private sphere, and indeed a loss of confidence in our collective ability to manage ongoing change. This could, in turn, find expression in political apathy, feelings of insecurity and powerlessness in the face of the “system”, and the social and cultural exclusion of the most vulnerable. Failure to build an independent identity with a sound social base is, moreover, often associated with regression into violent, authoritarian forms of conflict management.

Faced with such aspirations for autonomy, systems of governance based on the state-market partnership may evolve towards a model of responsibility for well-being shared by all concerned. This means trying out a *ménage à trois* (Lévesque), by doing more to integrate members of the community and their concern for the social effects of economic choices. It can also offer a new way of reconciling the slow pace and localised context of democracy with the rapid and globalised tempo of the modern economy. If, on the other hand, transformation of the system is seen as a matter of restricting the state and prioritising the market (or vice-versa), we shall fall well short of achieving a frank and open approach to complexity (Arena), and society’s ability to ensure its own well-being will thus remain stunted.

### *iii. Linking different families of initiatives in a common approach*

In order to achieve a distinct, shared approach and to move beyond the experimental phase, the “families” and “sub-families” within the solidarity-based economy need to focus more closely on the potential contribution of active members of the community, who are abandoning their passive role as users of goods and services and see themselves as proactive consumers (Bruni) intent upon making their economic choices count in social and environmental terms. Considered from this perspective, the market economy ceases to appear as a system of impartial laws and invisible adjustments in which profitability and bankruptcy are inextricably inter-connected; and, similarly, political life becomes something more than a wasteland created by disaffection from the machinery of representation, and disillusionment with the receptivity of institutions. The solidarity-based economy is, in fact, capable of helping both to re-emerge as spheres of activity in which individuals and collective entities can exercise their ethical aspirations.

As social individuals, the citizens actively engaged in this area are concerned to exercise their freedoms and rights (civil, economic, social and political) in a manner that is generally attentive to others' freedoms. This responsible approach means that they take into account the impact on third parties of their choices both as consumers and with regard to money management – whether in terms of negative effects to be countered (degrading working conditions, the financing of polluting or purely speculative businesses, or those that threaten peace or impoverish certain groups of people or regions) or positive effects to be encouraged (support for job creation or socially useful business start-ups, active development co-operation or the dismantling of barriers to market access). By bridging the gaps between producers and consumers and between savers and project promoters, the solidarity-based economy constitutes a remarkable mechanism for replacing indifference – or indeed exploitation – by active solidarity between strangers. People thus develop an expanded concept of citizenship that is particularly useful in a global society increasingly characterised by interdependence with regard to opportunities and risks but none the less highly fragmented.

Solidarity-based financial institutions and associations for responsible consumerism are the mechanisms that underpin alternative economic circuits, and the intermediaries for individual commitment. They, in turn, are driven by considerations of social utility rather than profit, and they transparently generate a relationship with committed individuals and share with them a solidarity-based *modus operandi*. The very terms “ethical” and “responsible”, applied to such initiatives commonly in the form of labels, are basic indicators of commitment to a “solidarity-based form of economic organisation” (Vigier) capable of giving ordinary, everyday expression to citizenship. Given these characteristics, the terms “solidarity-based economy” or “community-based economy” are probably the most apt to describe the entire circuit of activity.

Working from this perspective, contributors to the forum identified a shared approach to solidarity-based initiatives that includes three key features, each with a bearing on an aspect of social cohesion:

- a response to needs overlooked by the traditional economy, such as the need of socially disadvantaged groups for access to credit or access to employment;
- encouragement of economic, social and cultural activities that are often marginalised but are none the less essential and embody the

practical expression of a cohesive society centred around solidarity, justice and sustainable development;

- the inclusion within the system of democratic participation and self-criticism, in the form of new models for development, money management and governance.

Where these three elements are present together, the community-based economy cannot be relegated to either a state-dominated twilight zone or a market niche: on the contrary, it contributes to the development of a “shared vision” of society (Brichetti) which, far from being merely a passive perception, constitutes a “genuine political project” (Dellai).

#### *iv. The particular contributions of each family within the common approach*

These three dynamics (filling gaps left by the market and the state, encouraging socially useful activity and contributing to a public ethic of citizenship) are at work, albeit in different forms, in all initiatives for solidarity-based financing and socially responsible consumption. They offer enhanced insight into the operational aspects of such initiatives and enable us to distinguish between sub-families of the solidarity-based economic circuit and other forms of involvement in the economy. One important contribution of the forum has been to further understanding of these aspects.

#### *Solidarity-based financing*

Solidarity-based financing<sup>1</sup> is basically “project financing” (Salviato) or, more precisely, the financing of projects for a just society: it entails investment in initiatives that would not normally interest the investment market because they generate low or no profit, or carry an above-average risk. Many such initiatives none the less have tremendous social impact – in areas including social and health services, education, employment opportunities for people

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1. Via deposits, joint investment funds and other specific financial instruments, committed individuals designate an agreed proportion of their savings (between 10% and 25% depending on the chosen investment product) to the activities in question, while the remainder goes into the traditional financial circuit. This type of investment-oriented, solidarity-based financing thus differs from “ethical investment” schemes, which operate on the basis of profit-splitting with a proportion of the interest earned on savings being “gifted” to solidarity-based organisations. There is no reason why financial products should not embrace both aspects.

in difficulty, industrial conversion in recession-hit areas, environmental and cultural heritage management, and international development aid.

Community cohesion is reinforced through a series of technical money-management mechanisms based on the principle of solidarity, whereby:

- savers accept a reduced return on their investment or a share in the risk associated with the project they decide to support (which itself is solidarity-based);
- lenders renounce a proportion of the cost of managing loans and putting them to social use;
- the financial institution takes care to inform its clients about the choice of solidarity-based arrangements available, or the actual uses to which their money is put.

The effect of solidarity-based financing is to introduce into the traditional economy various concepts that merit deeper reflection, its core role being to bridge the divide (Vigier) between exclusion from markets and access to them, as it gradually extends “entitlement to credit” (Salviato) while at the same time encouraging a fresh, non-speculative financial culture.

Although there may be strong similarities between the recipients of the financing, and certain mechanisms involved may be the same, solidarity-based financing differs from traditional microlending in specific respects. On the one hand, micro-enterprises are not necessarily solidarity-based enterprises: their problems of financing may reflect the low revenue of those promoting them rather than the nature of the projects and the risks entailed. On the other hand, microfinancing makes no particular provision for solidarity-based processes: it does not normally lead to the creation of a “direct link between saver and project promoter” (Sachs), nor does it have implications for the profitability of lending or the redistribution of interest earned. Carrying, as a rule, fewer risks, offering the same level of profitability as traditional savings and lending instruments, and posing little challenge to the mainstream financial system, microlending has attracted interest in financial circles and has been readily accepted by NGOs. There is clearly little or no substitute for solidarity-based financing – in its own field and following its own particular approach.

### *Forms of socially responsible consumption*

Socially responsible (or socially committed) consumption can be classed within several sub-families according to who or what the target is:

- critical consumption (targeting products and producers);
- alternative consumption (targeting the production and trade system);
- sustainable consumption (targeting lifestyles).

The first option open to the committed consumer is to refuse to buy a specific product because of its producer's conduct with regard to workers' and consumers' rights. Such conduct can include, for example, using child labour, exploiting a disadvantaged work-force, wasting resources, causing pollution or making excessive use of transportation. Prepared to change their consumption habits in order to pressurise companies into observing standards (of fairness, human dignity or respect for the environment) to which they attach prime importance, such consumers place a value on their own choices in terms of solidarity. In a more general sense, this type of critical consumption seeks to re-assert the human, social and environmental dimensions that are obscured by the price of the product – price alone being an inadequate basis for responsible economic choice inasmuch as it fails to reflect social and environmental "externalities".

Through this process, moreover, demands are made on the political agenda with regard to other sensitive issues such as the right of consumers to be informed about the regimes governing the production and marketing of the goods and services they buy. Ensuring that consumers are accurately and comprehensively informed is one of the major challenges for socially responsible consumption, particularly in the case of industrially produced products (namely, most products nowadays) which are manufactured in assembly processes and are thus particularly resistant to traceability along multifunctional manufacturing chains. The difficulties encountered by non-governmental auditing systems as they attempt to monitor product brands in this way is a clear enough indication of how public authority support might work if manufacturers were to be required to follow a multilabelling system, or if certain standards were also to be applied to the monitoring bodies.

By consuming fair trade products or those produced by alternative farmers and growers, members of the public step outside the vicious circle of negative effects generated by a system of production and distribution

whose sole aim is to make goods more “competitive” in the marketplace. The initiative for the fair trade movement was taken by people who were, in different ways, excluded, threatened or disappointed by the traditional market. Many were farmers, in both the southern and northern hemispheres, but they also included consumers who wanted security and transparent pricing, uninfluenced by speculation, as well as people concerned about their own health and the future of the environment both at home and abroad.

Through associations and networks specialising in both direct importation and product marketing and distribution, these consumers show their solidarity with the small producers affiliated to such bodies and, in some cases, accept that they will have a higher price to pay.

A combination of factors (such as the drastic elimination of middlemen, the availability of solidarity-based financing, restrictions on the price margin for importation and marketing, and the use of volunteer workers) has made this “just pricing” policy successful, allowing producers the lion’s share of the return on such trade (approximately 25% in the case of coffee). It is a policy that thus attacks the causes of poverty and under-development, rooted as they are in the trade system itself.

It is by demonstrating the feasibility of other forms of commercial relationship, based on fairer rules and longer-term goals, that this type of responsible consumption contributes to a broader debate in society. A similar contribution is made by the various forms of sustainable consumption designed to promote a more intelligent and moderate use of resources in everyday life so that they will remain available to all, including future generations.

### *Synergies between solidarity-based financing and responsible consumption*

Because they have little potential from a banker’s point of view, but also because they are useful to the community, entrepreneurs involved in responsible consumption have always formed a natural clientele for solidarity-based financing. Many grassroots experiments have been carried out, particularly in the area of savings schemes linked to product marketing. The resources thus harnessed have been used to support:

- small producers in the northern hemisphere who create farming jobs for the unemployed and young people, the creation of consumer and producer networks, and the shift to organic farming, for example;



- the different needs of the fair trade circuit, ranging from local development aid to support for organisational consolidation, and from bridge financing to product innovation, etc.

The synergies at work here merit close consideration in the development of a joint approach and strategy for those involved in the solidarity-based economy.

### *Other forms of commitment within the economy*

The forum has thus enabled a clearer distinction to be drawn between solidarity-based initiatives as such and other forms of community involvement in the economy, including social responsibility on the part of companies, socially responsible investment and the social economy sector.

Companies merit the label “responsible” to the extent that they undertake to address the social and or environmental impact of what they do. This means going one step further than observance of specific legal requirements by making a greater investment in human and social capital, ensuring transparency, reducing waste and taking other voluntary measures. Although it can have tremendous impact (culturally and in other ways) a commitment of this kind does not in itself become the company’s central purpose or the basis of its relationship with society. Having more to do with a sophisticated policy for competitiveness, corporate social responsibility is neither inspired by community initiatives, nor does it generate active reciprocity with communities.

Socially responsible investment (or ethical financing) requires that companies, banks and private investors refuse to finance certain sectors of the economy (such as the arms industry) or certain regimes that deny human rights. It is a component of the existing economic system under which companies will be financed if they meet specific criteria (determined by ratings) and it does not constitute an alternative financing circuit, lending to marginalised groups or activities.

The social economy sector – with its principles of social usefulness, reciprocity and member involvement – represents an exemplary response by civil society to needs that the market and the welfare state ignore. Although it has underpinned some experiments in the solidarity-based economy, the activity of co-operatives and mutual societies is different inasmuch as the benefits generated do not extend, at least initially, to external groups. While the social economy sector has helped to develop a proactive concept of solidarity and a plural economic model (embrac-

ing non-commercial and non-monetary exchanges), the solidarity-based economy is currently attempting to expand such practices and take them a step further, particularly in the directions of citizenship and public ethics.

## **b. Matching the needs of the solidarity-based economy to public authority support mechanisms**

### *i. Why it is time for a change of scale*

Much of the forum's attention was devoted to examining the importance and nature of relations between public authorities and citizens in promoting social cohesion on an economic front. These efforts reflected a fairly widespread acknowledgement on the part of players in the solidarity-based economy that it is possible to sustain a coherent, principled approach while at the same time recognising the need for determined development and genuine political legitimacy. The issue then is how to address the challenges, put in place the necessary support and find the resources, internally or externally, that will facilitate a sustainable shift to a new level. It is true, too, that the ambitious goal of disseminating a culture of "economic citizenship" throughout Europe, thus re-imbuing economic choices with political and collective significance, will be unrealistic unless the entire circuit is strengthened, which means:

- a more thorough conceptual basis;
- structural and operational reinforcement;
- connecting with the wider public;
- moving into new territory.

The need for a change of scale becomes apparent when we consider the situation in different countries and the contradictory trends affecting the sector. The example of fair trade is instructive in this respect. It has recently experienced significant rates of growth (around 20% per year on average), and hundreds of thousands of small producers and workers, thousands of importers and distributors, labelling organisations and sales outlets are part of a worldwide network reaching tens of millions of consumers (cf. Pare). None the less, in absolute terms, fair trade is tiny (representing less than 0.01% of international trade) and much of the growth in its turnover in recent years reflects the development of new

product lines rather than an overall increase in demand. Likewise, increased awareness of fair trade in western Europe (11% of consumers in the European Union have already purchased fair trade products) has to be seen alongside very different levels of market penetration (from 3% in Portugal and Greece to 49% in the Netherlands) and a weak correlation between consumer intentions (approximately 37%) and actual purchases (less than 3%).

Since 2003, the Council of Europe has been trying to build bridges between public authorities and solidarity-based economic initiatives. The forum offered the first opportunity for bringing these efforts to public attention and building on them, thus:

- providing a comprehensive picture of what the solidarity-based economy needs in order to develop;
- looking more closely at the benefits or potential benefits for public authorities in supporting such initiatives;
- compiling a systematic list of ways in which public authorities can support the solidarity-based economy.

## *ii. What the solidarity-based economy needs in order to develop*

The forum produced an outline of the main problems faced by those involved in efforts to develop the solidarity-based economy, namely:

- communication needs;
- structural needs;
- changes in the legal framework.

The fact that these areas pose a challenge results, in many cases, from the sector's own approach, and the solutions required are quite specific. Great importance is attached to:

- consistency between basic principles and actions;
- dialogue with key external partners as part of a mutual relationship and within a framework of strictly shared responsibility;
- awareness that actions undertaken are useful and in the public interest.

Alive to these challenges, those involved in the solidarity-based economy have themselves produced many development strategies (see below). Characterised by both successes and limitations, these experiments with labelling, confederations and consumer guides are the subject of ongoing efforts at improvement by the different families within the solidarity-based economy. They also represent a remarkable body of achievement that merits consideration by public authorities and interested sections of society in the process of planning or refining their own future commitments.

### *Communication needs*

In a culture where purchasing decisions are strongly polarised around quality versus price, the major problems involved in marketing goods and services associated with the concept of responsible consumerism are those of public awareness and the need for clear product differentiation. Hence the now generally recognised need for particularly effective communication to highlight the added value of the products in question. Communication has to begin at the point of purchase (or choice of a savings scheme): solidarity-based products must be both recognisable as such and reliable, which necessitates transparency about the step the consumer is taking in buying them.

The proposals tabled at the forum reflected the consolidated experience of the solidarity-based sector in the areas of awareness-raising, product visibility and transparency – achieved, respectively, in the following ways:

- through information campaigns at every level, either about particularly innovative and attractive aspects of the products or about problematic issues;
- via labels (indicating fairness, solidarity or environmental responsibility) that are recognisable even at supranational level and are awarded by independent organisations according to clear criteria;
- through the meticulous management of lending, and comprehensive information for savers about how their money is used;
- via detailed product information labelling, taking account of the fragmented nature of the production and distribution chain.

The sector probably lacks sufficient resources for the advice and consultancy effort required to bring about the necessary change of scale. At this critical moment in its development, input from the public authorities

could thus make an extremely positive contribution, particularly in terms of reliability and financial underpinning.

#### *Examples of labels developed by the sector itself*

- Launched in 1997 by a French association of the same name, FINANSOL was the first European label that enabled people to distinguish solidarity-based savings schemes from traditional savings options. Controlled by an ad hoc committee of independent high-profile individuals, the label is attributed according to two sets of criteria under the headings of solidarity and transparency. In order to earn it, a savings scheme must make a funding contribution of at least 10% to the activity of solidarity-based companies or “gift” at least 25% of its revenue to solidarity-oriented bodies. Fund management organisations must, in turn, make savers clearly aware of the mechanisms for achieving solidarity and keep them regularly informed on the use of their money.
- The TransFair label, introduced in 1992 by an eponymous German association, was one of the first (along with Max Havelaar) to offer the consumer a rigorous definition of fair trade products. Realising that it needed a higher profile, it became involved in 2002 in a process of co-ordination with other labels, the outcome of which was Fairtrade. This international label is awarded by a certification committee comprising producers, wholesalers and distributors, national organisations and independent experts, appointed by the FLO (see below), and is tightly audited. So far, the Fairtrade label applies to a limited range of products which meet criteria in three areas: production (by small farmers’ co-operatives and organised groups of workers on farms that observe a basic set of standards); commercial relationships (the key factors here being fair pricing, bridge financing and annual agreements); and product quality.

#### *Structural needs*

The needs of solidarity-based initiatives – launched in many cases by volunteers, trading in high-risk sectors of the economy, and concerned to be socially useful rather than profitable – are largely to do with structure. Such initiatives, especially at the outset, face a whole range of mutually self-compounding problems (in the areas of organisation, competitiveness and financial stability, self-financing from surplus revenue, staffing and training).

With regard to organisation, forum participants confirmed the central importance of the local dimension. It is also important, however, to promote wider networking in order to counter the negative effects of proximity (a lack of pooled experience, a small resource base to draw on, limited liquidity, vulnerability and exposure in the event of failings by initiatives themselves or their partners) while retaining the positive aspects. These efforts should go hand in hand with expansion of existing markets and penetration of new ones.

*Examples of confederations set up by the sector itself*

- Created in 2001, the European Federation of Ethical and Alternative Banks (FEBA) promotes the sharing of national experiences, and experimentation with new financial tools. It works through a guarantee fund designed to expand its members' lending capacity, and through the European Ethical and Alternative Financing Company (SEFEA), which supports members' development and funds experimentation. The long-term objective of these efforts is to create a re-financing bank for ethical and alternative financing institutions on a European scale. Such a bank will speak with a single, influential voice in dealings with international institutions while, at the same time, retaining its decentralised structure and promoting inter-bank solidarity – essential if it is to build on its members' strong local ties and help to implement solidarity-based projects.
- Fairtrade Labelling Organizations International (FLO) is a body set up in 1997 which co-ordinates seventeen national fair trade labels. Its functions are to guarantee the standards certified by the Fairtrade label, maintain registers of producers, undertake marketing and awareness-raising campaigns to support market access for Fairtrade products, support producers and keep all those involved in the sector in contact. With the other main fair trade federations (IFAT, NEWS and EFTA), FLO is part of the informal umbrella body FINE (named from their acronym), which in 2001 published a common definition of the fair trade concept.

More generally, the solidarity-based economy is insufficiently attractive (and insufficiently stable) in strictly monetary terms because:

- ad hoc arrangements are often necessary in order to give consumers access to the products;

- purchase prices may be higher than average and the yield on financial products may be too low;
- those involved in solidarity-based initiatives face higher management and monitoring costs and a lower return on investment.

Most speakers at the forum identified this situation as a crucial obstacle to development of the sector, which finds it structurally difficult to generate a significant surplus for reinvestment. Without an injection of resources from outside, it will therefore be hard to put the solidarity-based system on a firmer footing.

In addition to these obstacles, a further need, now felt increasingly in the sector, is for staff training and specifically for the spread of professional and entrepreneurial attitudes (Brichetti). By its very nature, the solidarity-based approach demands greater professionalisation. Internal training can no longer meet the need and current niche-based training must be replaced by specific, officially recognised university-level courses (Christensen).

#### *Changes in the legal framework*

Shaped as they have been by the needs of a market economy or experience with a more traditional social economy, current legal regimes are not immediately receptive to the requirements of the solidarity-based sector. With a few exceptions, national and EU-level rules tend either to minimise the specificity and potential of the solidarity-based economy, or to complicate its efforts to obtain government support and to reach a wider public.

In most countries in Europe the legal status of the non-profit-making company is the reference model in this emerging sector. There is, however, a growing need for tailored legal provisions covering:

- an appropriate legal status for those involved in the sector;
- recognition of the labels and certain criteria already developed by the sector itself;
- incorporation of solidarity-based initiatives into the range of pension fund and similar products, creating a link between the financial system and social responsibility;
- integration of a solidarity-based aspect into public procurement;

- a requirement that traditional suppliers of goods and services inform consumers and savers about their social, ethical and environmental criteria;
- a requirement that traditional suppliers co-operate with the non-governmental agencies that publish (for example) consumer guides and guides to responsible investment.

*An example of an information system created by the sector itself*

Consumer guides and guides to responsible investment are available in most European countries to assist consumers in making everyday choices by giving them the vital prerequisite of information about the goods they purchase, the behaviour of the companies producing the goods, and the activities of the banks to which they entrust their money. The criteria used by the various guides are similar, yet they range widely and include all sorts of relevant information supplied by independent agencies such as the Centro Nuovo Modello di Sviluppo in Italy.

***iii. How do public authorities stand to gain and what are the implications?***

Discussion of examples of dialogue already established between community and public authority players throughout Europe was also useful on the question of how political authorities at every level stand to gain from supporting the solidarity-based sector. The examples indicated a desirable degree of convergence between the solidarity-based approach and the priorities pursued by governments in both western and eastern Europe. Convergence is apparent in two specific areas:

- support for various types of policies (social, economic, industrial, regional and environmental) against a background of transition;
- input to a culture of citizenship, and indeed a model of governance based on responsibility sharing.

In different ways both western and eastern Europe currently have to cope with structural transition – affecting the function of work and ways of working, the management of public services, the stability of financial flows and the dynamics of a global market. Given the resources discussed, the solidarity-based economy can offer a flexible means of access to markets (Farrell) – or re-entry to markets – for groups left vulnerable by the changes that have taken place. In fact, it is an excellent avenue



through which to provide them with fresh resources and to rebuild the connections essential to the functioning of any market, traditional or otherwise. Moreover, it seeks to help steer the ongoing transitions in the direction of a cohesive, more open and solidarity-based society. In eastern European countries, in particular, the solidarity-based economy is capable of reinforcing both the “novel phenomenon of individual responsibility” (Sosnova) and a growing sophistication in public opinion, while at the same time balancing the demands of economic development, political freedom and social cohesion.

Firstly, the organisation of alternative agricultural networks can make a major contribution to securing food supplies and to preventing unjustified price rises, impoverishment among small farmers, loss of skills, abandonment of the countryside, the collapse of local markets and other negative effects of agricultural modernisation that many public authorities have to combat. With all this at stake, rebuilding a link between producers and consumers represents an astute political choice for recession-hit or disadvantaged regions of western Europe as well as areas in eastern Europe.

Secondly, developing a solidarity-based financial and corporate circuit can assist governments in the fight against social exclusion, new forms of poverty, long-term unemployment, and lack of public and private investment in key sectors (such as individual services, innovation, social, environmental and cultural enterprise, and regeneration of recession-hit areas or sectors). All this is equally relevant in developing countries where there are particularly tight restrictions on lending.

Thirdly, initiatives in the area of free trade that seek to promote positive, redistributive forms of exchange and transparent pricing can be useful to many governments in their efforts to restore people’s confidence in the market. In western European countries, in particular, such initiatives could help the public authorities to make a logical connection between their development aid efforts and the rest of their policies (commercial, industrial and foreign), while at the same time underpinning a sense of global interdependence based on active solidarity. In eastern European countries, it would be interesting to try out commercial relationships of this type with western markets. Such initiatives could offer one means of reasserting solidarity between the two parts of a continent so long divided.

Likewise, there is a connection between encouraging responsible production and consumption, and the international commitments made by governments in the areas of labour law, child protection and respect for

the environment. In particular, it ties in with the general requirement that governments should reduce the energy and environmental costs associated with our current lifestyle, which are squeezing our shared resources and those of future generations.

The social value of solidarity-based initiatives – once it has been acknowledged – ought to justify the argument for governments bearing a share of the “additional costs associated with the deliberate production of positive externalities” (Sosnova).

#### *iv. Potential forms of public support*

Before action is taken, information about the existing legal frameworks for the solidarity-based economy in Europe is essential.<sup>2</sup> It will constitute a solid documentary basis for efforts to match the sector’s needs to the most effective political and regulatory instruments available to the public authorities. Analysis of available data has enabled us to appreciate relevant levels of commitment as well as disparities and needs in different countries and regions and, in particular, to identify types of supportive action that can be taken by governments at every level, whether their concern is:

- to recognise the role of citizens and community-based organisations in the economy;
- to provide regulatory and/or financial support for their ethical, solidarity-based initiatives; or
- to become directly involved in such initiatives.

#### *Recognition*

Political recognition of the solidarity-based economy is an essential step towards wider-ranging types of involvement. It can come in two forms (that is, in two different types of document) depending on whether the recognition afforded is purely formal or constitutes a commitment:

- parliamentary motions or resolutions, committee reports and recommendations, etc;

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2. See Petridis Esther, “Overview of European Union and Council of Europe Ethical, Solidarity-Based Citizen Involvement in the Economy: A Prerequisite for Social Cohesion”, Trends in social cohesion, No. 12, Council of Europe Publishing, 2004.

- coalition programmes, national strategies, development plans, mention in international agreements, etc.

The first type of recognition entails a mention of the sector, fully acknowledging its legitimacy and importance and generally affording it attention, encouragement and support. The second type means inclusion of objectives for the sector in programmes for government. Clearly both types of recognition are possible at every level of government.

#### *Examples of political recognition*

- The German Federal Government's Programme of Action 2015, adopted in 2002 as a means of implementing its "millennium objectives", acknowledges the remarkable impact that fair trade has had in efforts to combat poverty and its root causes. In strategic terms this entails a general commitment (to develop fair trade initiatives in Germany) as well as specific support measures (for campaigns, events, fair trade weeks, the launch of new products, etc.).
- The Cotonou Agreement, which came into force in 2003, introduces changes in the relationship between the EU and the ACP states, based on a strategy of poverty reduction via new economic and commercial links. Article 23 (indent g) explicitly mentions "the promotion of fair trade". The background to the agreement is one of political interest in the issue, particularly on the part of the European Parliament which, since the early 1990s, has adopted various relevant resolutions (dealing with the use of fair-trade products in European institutions, the effectiveness of fair trade and the need to support it).

#### *A supportive regulatory framework*

Public backing for the solidarity-based economy can readily take the form of regulatory and financial support. It was pointed out in discussions that regulatory support measures differ inasmuch as they may be binding or optional. Such measures may target either the sector itself (in the form of direct regulatory support), or other sectors which, in different ways, affect solidarity-based initiatives (indirect regulatory support).

The main types of direct regulatory support (see below) involve all of the following:

- establishment of an appropriate statutory framework – a precondition for further support of any type;

- introduction of an official labelling scheme;
- extending conditions of access to public procurement contracts to products from solidarity-based, fair trade or responsible sources.

Establishing standard criteria for defining the solidarity-based nature of an establishment or initiative is not always straightforward. As pointed out above, there are different aspects to solidarity: it may be evident in the social groups involved, the types of project supported or commitment to a particular concept of society or the economy. For that reason, obtaining official recognition tends increasingly to depend upon multiple criteria which, as they are met, define a “graduated” adherence to a core set of principles.

#### *Examples of direct regulatory support*

- Since the French Labour Code (Article L. 443-3-1) was amended by the so-called “Fabius Act” (Act No. 2001-152 on employee savings funds), ministers responsible for the economy and the solidarity-based economy have classed companies as solidarity-based on condition that: 1. they are not listed on the stock exchange; 2. at least a third of their employees are persons who faced difficulty obtaining work (because of long-term unemployment, severe disability, etc.), or 3. the management is elected (as in associations, co-operatives, etc.) and salaries fall within limits prescribed by statute. Equivalent status is also accorded to bodies at least 80% of whose assets comprise securities issued by solidarity-based companies, or lending institutions 80% of whose total lendings and investment go to solidarity-based companies.
- On 24 September 2000 Regulation (EC) No. 1980/2000 on a revised Community eco-label award scheme (the original scheme having been introduced under Regulation (EEC) No. 880/92) entered into force. This is an interesting public labelling scheme in terms of both the labelling criteria and the monitoring arrangements – and the “flower” logo currently applies in twenty-one categories of goods (including cleaning products, computers and household appliances) or services (for example, tourist accommodation). It allows consumers to exercise a preference for products which, throughout their life cycle, minimise their impact on the environment (through the reduction of emissions and waste, energy-saving measures, etc.).

Following two rulings by the Court of Justice of the European Communities (in cases C-225/98 and C-513/99), Directive No. 2004/18/EC

on the co-ordination of procedures for the award of public contracts provides, without prejudice to the requirements of fairness and transparency, that social and environmental criteria may be included in public procurement procedures. Parallel measures at national level already exist in Austria (Federal Act No. 99/2002, sections 21 and 80) and in Belgium (Outline Act of 8 April 2003, section 16). Many local authorities, meanwhile, have also included criteria relevant to the solidarity-based sector in their own procurement procedures.

The main types of measure directed at other sectors:

- require companies and institutions to include solidarity-based funds in their collective savings schemes or instruments for pension provision (see below);
- require that accurate information be issued (in the form of regular reports, labelling or social balance sheets, for example) on matters liable to be the subject of responsible choice.

#### *An example of indirect regulatory support*

Under amendments introduced by Act No. 2001-152 (the “Fabius Act”) to the Labour Code (Article L. 443-1-2) and Monetary and Financial Code (Article L. 214-39) in France, companies offering their employees a pension plan must give them the option of investment in solidarity-based funds, or funds with a 5-10% component of securities issued by solidarity-based companies. Similarly, pension plan regulations require fund management companies to provide details of the social, environmental and ethical conditions associated with the purchase or sale of all securities.

The immediate result of these measures was a 76% rise in solidarity-based savings in France over a year, with the total averaging €10 million a year (3% of employee savings).

#### *Financial support*

There are two main types of financial support, based respectively on ongoing and one-off contributions to the sector: ongoing contributions are provided, as a rule, through the tax system while one-off contributions take the form of grants.

Tax incentives have proved a particularly promising avenue of support for the development of the solidarity-based economy because they offer it

the type of opportunities for integration that it needs in order to become more competitive and financially stable. Firmly anchored in the tax system, such measures provide a guarantee of continuity that boosts confidence and facilitates long-term commitment. Tax measures may be applied simultaneously to categories of persons or organisations, to products or to initiatives duly labelled as solidarity based. They thus take the form of:

- tax relief for purchasers of solidarity-based products (whether consumer goods or ethical investments), investors in solidarity-based establishments or financial supporters of the sector (that is, voluntary contributors to it);
- reduced rates of tax for solidarity-based organisations;
- income tax exemption for certain funds (for green or social projects) or certain types of investment (for example, employee savings plans);
- modest tax advantages for companies that top up employee savings schemes built around solidarity-based funds.

#### *Examples of financial support via the tax system*

- In France, under Act No. 2003-709 on the tax deductibility of non-listed investments, shareholders in solidarity-based companies are eligible for tax relief of 25% over five years up to a statutory annual ceiling.
- In the Netherlands, the Green Funds Act of 1995 enabled the government to offer tax incentives to encourage investment in new sources of energy, environmental protection, etc. Under an amendment adopted in 2004 the mechanism was extended to social and cultural projects located either in developing countries or in the Netherlands. To invest in such projects, individual investors lend their money to banks at a reduced rate of interest (-2.5%, for example) and benefit in return from full income tax exemption on the investment earnings (+2.5%). The banks are thus in a position to offer “softer” loans for projects identified by the government according to agreed criteria (concerning social impact, absence of negative secondary effects, dependable economic return and financial independence).

Although initiatives of this type are by no means new in other fields, in the case of the solidarity-based economy it is important to highlight the novelty of measures (notably the green and social funds in the Netherlands) for distributing benefits fairly and transparently among the differ-

ent parties involved (savers and project promoters, for example) while at the same time offering incentives to individual choice and to private investment in innovation.

Public grant aid – a less reliable tool than tax measures unless it is provided in the context of a development plan – may be awarded to support numerous activities ranging from staff training to awareness-raising campaigns, from network building to cut-price advertising on public-service television, from project launches to the dissemination of good practice, and from the use of public premises to event organisation.

### *Direct involvement*

Given the extent of the budgets, funds and public properties that they manage, public authorities are the weightiest economic players who need to be steered towards the solidarity-based approach. They can become directly involved by:

- purchasing solidarity-based and responsibly produced products via public procurement;
- managing pension and savings funds according to solidarity-based and responsible criteria;
- introducing solidarity-based financing and responsible consumption as subjects on school curricula and university courses.

### *Examples of direct involvement by public authorities*

- Belgium's National Plan for Sustainable Development (2000-2004) places direct, practical obligations on the government. It also sets a precise target to be achieved by a definite date: in 2003 the public administration was required to purchase 4% of the goods and services it needed according to socially responsible criteria.
- Under a new procurement regime applicable since 18 April 2003, the municipal authority in Munich (Germany) has had a duty not to purchase products liable to have been manufactured in conditions involving the exploitation of children. The administration thus requires companies to indicate the provenance of products, and specifically to demonstrate that children have not been exploited at work (in the meaning of ILO Convention No. 182) in the course of their manufacture. The necessary monitoring involves an independent certification procedure and the submission of legal proofs by the company,

describing the entire chain of production or demonstrating that active measures to combat child exploitation have been introduced.

To date, such initiatives have tended to be promoted chiefly at local government level, particularly by means of concerted campaigns, agreements with national authorities and practical steps to encourage public procurement that is responsible, fair and respectful of the environment.

Apart from the positive impact of such measures, direct public authority involvement in the solidarity-based economy has a significantly “contagious effect” (Peeters). In the case of expanded public procurement criteria and the creation of solidarity-based funds, the advantages are multiplied if:

- the commitment is binding rather than merely optional;
- the measures are subject to quantitative targets for set time periods;
- decision makers are provided with clear criteria and, indeed, accessible, relevant information.

### **c. Establishing a stable partnership between public authorities and those involved in the solidarity-based economy**

#### *i. Creating a platform for dialogue and the promotion of socially responsible economic initiatives*

Numerous speakers at the forum urged the establishment of a stable partnership between public authorities and those involved in the solidarity-based economy. Such a partnership was generally seen as the logical culmination of support for solidarity-based financing and responsible consumption. Its role should be to provide operational follow-up in the areas of needs identified at the forum, while at the same time building on existing achievements in terms of:

- relevance of the community-based approach to the economy;
- converging interests, shared values and good practices for dialogue in the relationship between institutions and citizens in pursuit of social cohesion;
- public support for the solidarity-based approach.



The proceedings closed with a proposal for the creation of a “Platform for dialogue and the promotion of ethical and socially responsible community economic initiatives” – constituted as a permanent, visible and structured entity capable of responding to medium- and long-term needs. With a membership comprising chiefly of representatives of solidarity-based economic networks and of public authorities interested in the approach and responsible for relevant fields of activity, the platform would be capable of extension, depending on its various agendas, to include other players (researchers and representatives of users’ groups, the media and producers, for example). As a vehicle for actively promoting the solidarity-based approach in the economy, the platform should:

- equip itself with tools and means of action tailored to its objectives;
- draw up a list of shared priorities and initiatives to be pursued.

## *ii. Getting the right tools and means of action*

With regard to the tools and means of action that the platform will need in order to identify priorities and implement its decisions, the forum simply made a number of proposals. Basic requirements in terms of implementation, the documentation and dissemination of know-how, and the acquisition and management of funding might be met via three concurrent developments: (a) an inter-network of players in the solidarity-based sector; (b) an observatory function to monitor standards and good practices for dialogue between public authorities and citizens; and (c) an experimentation and innovation fund.

### *An inter-network*

Building a European network to represent the solidarity-based economy and its sub-families at macro-regional level is a longstanding priority for the sector. It would help to achieve in Europe the degree of co-ordination already established in other continents. Specifically as a component of the platform, the inter-network could play a key role at the stages of preparation, identification and implementation.

### *Observatory function for monitoring standards and good practices*

The recent, and in some cases impermanent and experimental, nature of measures adopted to support ethical and solidarity-based community initiatives, coupled with the remarkable diversity of such initiatives and their unequal spread across the countries of Europe, points to a specific need for an observatory function.

The function of observing standards and good practices would entail:

- extending data collection and analysis to areas as yet unexplored;
- compiling a documentary base, which would be regularly updated and universally accessible, and from which common standards drawn from experiments in different contexts could be determined;
- disseminating the results of the research as widely as possible through guides for practitioners and for public authorities interested in supporting the solidarity-based economy.

This function could also be a useful reference base for training, particularly in countries where there is low or no awareness of the solidarity-based sector, and for organising projects based on public-private partnerships.

#### *Experimentation and innovation fund*

The innovative nature of the initiatives accentuates the need for a specific pool of resources on which the platform and its projects could draw. Financing arrangements might take various forms:

- providing grants for specific, fixed-term activities (such as transfers of know-how or responsibility), particularly in countries where the concepts and practices involved are underdeveloped;
- providing loans to fund more complex activities (such as awareness-raising campaigns);
- covering the cost of more structural aspects (such as networking, training of specialised staff, and building new institutions or tools to implement the solidarity-based approach);
- supporting research into alternative responses to current social challenges, including, for example, family indebtedness and the health risks arising from poor eating habits.