



# PATHFINDER+

## PAVING THE WAY FOR DIGITAL LEARNING IN HIGHER EDUCATION WITH ENTERPRISE COMMUNITY DEVELOPMENT

### MANUAL ON LEGAL FRAMEWORKS FOR COMMUNITY AND SOCIAL ECONOMY ORGANIZATIONS

Project Number: 2023-1-ES01-KA220-HED-000161343



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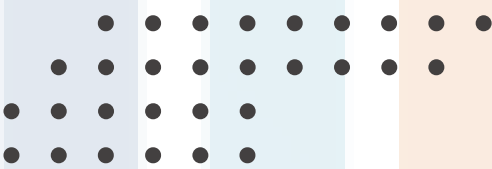
# INTRODUCTION

Legal frameworks are the foundation upon which community based and social economy organizations are built. They define the legal existence of an organization and shape how it functions in practice, including how decisions are made, how resources are managed, how responsibility is distributed, and how social purpose is protected over time. In the social economy, legal frameworks are not neutral technical choices. They reflect ethical principles, social values, and long term commitments to public benefit.

Organizations operating in the social economy pursue objectives that go beyond financial performance. Their primary mission is to address social, environmental, cultural, or community needs. While economic activity may be necessary to ensure sustainability, it is not an end in itself. The legal framework chosen determines whether economic activity remains aligned with social goals or gradually shifts toward profit driven priorities.

European legal systems provide a wide range of organizational forms that support social economy activity. These frameworks have developed through different historical traditions, including cooperative movements, civic engagement, philanthropy, civil society action, and social entrepreneurship. Each legal form embodies a particular logic regarding ownership, governance, accountability, and use of surplus. Understanding these frameworks is essential for designing organizations that are coherent, legitimate, and sustainable.

This manual explains the main legal frameworks used by community and social economy organizations. It focuses on what each framework is, why it may be chosen, what advantages and limitations it presents, and what considerations are relevant when selecting it.



# COOPERATIVES

## What cooperatives are

A cooperative is a legally recognized organization created by individuals or legal entities who voluntarily come together to meet shared economic, social, or cultural needs through a jointly owned and democratically governed enterprise. The cooperative model is based on the idea that people are central to the organization, not capital. Members are both owners and users of the cooperative, and their relationship to the organization is defined by participation rather than by financial investment.

Legally, a cooperative is an autonomous entity with collective ownership of assets. Members contribute capital to support the organization, but this capital does not grant proportional control. Decision making authority is distributed equally among members, most commonly following the principle of one member one vote. This legal structure ensures that power cannot be concentrated and that strategic decisions reflect collective interests.

Cooperatives may operate in the market, generate income, and employ workers, but their economic activity is oriented toward serving members and communities. Any surplus generated is treated as a collective resource and is reinvested in the organization, allocated to reserves, or distributed according to member participation rather than capital ownership. This embeds solidarity, mutual responsibility, and long term orientation into the legal structure itself.

## Why to choose a cooperative

A cooperative is chosen when democratic participation, shared ownership, and collective responsibility are central to the mission. It is especially suitable when the people who benefit from the activity are also intended to be the owners and decision makers, such as workers, users, producers, or community members.

## Advantages of cooperatives

- Democratic governance and equal decision making power
- Strong alignment with social economy values
- High levels of trust and member commitment
- Protection against speculative control
- Long term stability and resilience

## Disadvantages of cooperatives

- Slower decision making due to participatory governance
- Limited access to external investment
- Need for continuous member involvement
- Governance complexity as size increases

# ASSOCIATIONS

## What associations are

An association is a nonprofit legal entity formed when individuals or organizations voluntarily unite to pursue a shared purpose that is not commercial in nature. Associations are grounded in the freedom of association and collective civic action. Their primary aim is to serve social, cultural, educational, humanitarian, or community interests rather than to generate profit.

Legally, associations are membership based, but members do not own the organization in an economic sense. The association itself holds all assets, which are permanently dedicated to its mission. Any income received through donations, grants, membership fees, or limited economic activity must be fully reinvested in mission related activities and cannot be distributed to members. Governance in associations is typically democratic, with members exercising authority through a general assembly and elected governing bodies. This ensures accountability to the collective purpose and reinforces the association's role as a vehicle for participation and solidarity.

## Why to choose an association

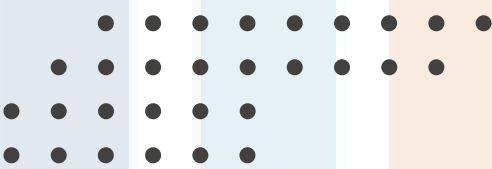
An association is chosen when the primary goal is social action rather than economic activity. It is particularly appropriate for initiatives driven by civic engagement, volunteer participation, and advocacy.

## Advantages of associations

- Low barriers to entry
- Strong civic legitimacy
- Eligibility for public and philanthropic funding
- Democratic and participatory governance
- Flexibility for grassroots initiatives

## Disadvantages of associations

- Financial dependence on grants and donations
- Limited capacity for scaling
- No access to equity investment
- Risk of volunteer burnout
- Challenges in professionalization



# FOUNDATIONS

## What foundations are

A foundation is a nonprofit legal entity created by dedicating assets to a specific public benefit purpose. Unlike cooperatives or associations, foundations do not have members. Their identity is defined by mission permanence and asset stewardship rather than participation.

Legally, a foundation is established through a founding act that allocates assets irrevocably to a defined mission. Once created, the foundation becomes an independent legal person separate from its founder. Assets cannot be reclaimed or used for private gain. Governance is exercised by a board with fiduciary responsibility to manage resources in line with the mission.

Foundations are designed for long term continuity. They often operate through grant making or program implementation funded by investment income or donations. Their legal structure prioritizes stability, independence, and long term impact.

## Why to choose a foundation

A foundation is chosen when long term financial stability and mission protection are priorities and when participatory governance is not essential.

Advantages of foundations

- Strong mission protection
- Financial stability through endowment
- High institutional credibility
- Long term strategic capacity
- Access to philanthropic funding

## Disadvantages of foundations

- High initial capital requirements
- Limited community participation
- Complex regulatory oversight
- Dependence on financial performance of assets

# SOCIAL ENTERPRISES

## What social enterprises are

A social enterprise is an organization that carries out economic activity with the primary goal of achieving social or environmental impact. It is defined less by a single legal form and more by its mission and operational logic. Social enterprises use market mechanisms to sustain their activity while prioritizing public benefit over profit maximization.

Legally, social enterprises may take different forms depending on national law, including cooperatives, associations, or companies. What unites them is the priority given to mission, often formalized through reinvestment obligations, limits on profit distribution, and transparency requirements.

Social enterprises occupy a hybrid space between nonprofit organizations and traditional businesses. They combine entrepreneurial practices with social responsibility and accountability.

## Why to choose a social enterprise

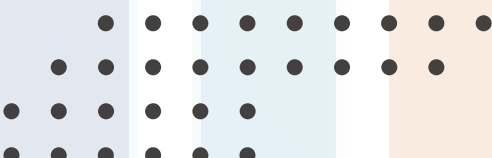
A social enterprise is chosen when financial sustainability through trading is important and when independence from grants is desired while maintaining a strong social mission.

## Advantages of social enterprises

- Financial sustainability through market activity
- Flexibility and innovation capacity
- Reduced dependence on grants
- Attraction for impact oriented funding
- Scalability of social solutions

## Disadvantages of social enterprises

- Balancing mission and market pressures
- Uneven legal recognition across countries
- Risk of mission drift
- Administrative complexity



# NON GOVERNMENTAL ORGANIZATIONS

## What non governmental organizations are

A non governmental organization is a nonprofit entity that operates independently from government while pursuing objectives of public interest. These organizations are legally recognized and often function within national and international regulatory frameworks governing civil society.

Non governmental organizations are usually governed by boards rather than membership assemblies. Their legitimacy derives from their mission, accountability, and transparency rather than from ownership or participation. They often work in advocacy, service delivery, humanitarian assistance, and policy engagement.

Legally, these organizations are subject to strict reporting and compliance requirements reflecting their role as stewards of public and philanthropic resources.

## Why to choose a non governmental organization

This framework is chosen when credibility, access to public funding, and engagement with institutions are central.

## Advantages of non governmental organizations

- High public trust
- Access to national and international funding
- Strong advocacy capacity
- Professional governance

## Disadvantages of non governmental organizations

- Heavy administrative burden
- Dependence on donors
- Reduced operational flexibility
- Risk of bureaucratization

# COMPANIES LIMITED BY SHARES USED FOR SOCIAL PURPOSES

## What companies limited by shares are

A company limited by shares is a commercial legal entity whose ownership is divided into shares and whose liability is limited to invested capital. When used for social purposes, this framework is adapted by embedding a social mission into the company's statutes and governance.

Legally, control is linked to share ownership, but mission protection mechanisms such as reinvestment commitments and limits on profit distribution can be introduced. This allows the company to operate in the market while pursuing social impact.

## Why to choose this framework

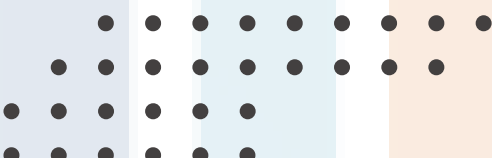
This framework is chosen when scalability, investment access, and market flexibility are priorities.

Advantages of companies limited by shares

- High operational flexibility
- Access to investment and finance
- Familiar structure for partners and funders
- Strong growth potential

## Disadvantages of companies limited by shares

- Risk of mission drift
- Concentration of power
- Lower automatic social credibility
- Need for strong governance safeguards



## CONCLUSION

Legal frameworks should not be understood as neutral or interchangeable containers into which social initiatives are placed. They are active institutional instruments that shape how social value is conceived, produced, governed, and preserved over time. Through rules on ownership, governance, accountability, and the use of resources, legal structures influence everyday organizational practices as well as long term strategic orientation. In the social economy, these legal choices carry particular weight because they determine whether social purpose remains central or becomes subordinated to financial or administrative pressures.

Each legal framework examined in this manual embodies a distinct balance between participation and efficiency, collective control and managerial autonomy, flexibility and stability. Cooperatives prioritize democratic ownership and shared responsibility, associations institutionalize civic participation around non profit objectives, foundations secure long term mission continuity through asset dedication, social enterprises integrate market activity with impact commitments, non governmental organizations operate as formal civil society actors with public accountability, and companies limited by shares adapted for social purposes combine commercial flexibility with voluntary social safeguards. None of these frameworks is inherently superior. Their relevance depends on how well they align with the mission, values, scale, and operating context of a given initiative.

Choosing an appropriate legal form is therefore both a strategic and an ethical decision. Strategically, it affects an organization's capacity to access resources, engage stakeholders, comply with regulatory environments, and adapt to change. Ethically, it reflects a commitment to certain principles regarding participation, transparency, redistribution of value, and responsibility toward communities and beneficiaries. A mismatch between mission and legal structure can undermine legitimacy, weaken governance, and threaten long term sustainability.

This manual provides a conceptual foundation for understanding how legal frameworks support the social economy and how they condition the ability of organizations to serve the public good in a durable and credible manner. Clarifying what different legal forms are and what they imply, the manual aims to support informed reflection and responsible decision making. A thoughtful approach to legal structure selection strengthens not only individual organizations but also the broader social economy ecosystem, contributing to more inclusive, accountable, and resilient forms of social and community based development.



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