



SOCIAL ENTERPRISE INVENTORY

Exploiting Potentials of

Social Enterprises through Standardized

European Evaluation

and Development System

SOCIAL SEEDS

Interreg Europe



SME competitiveness



European Union
European Regional
Development Fund

I. INTRODUCTION

1. SOCIAL SEEDS project

Recent years have seen a burgeoning interest in social enterprises (SEs) across Europe, strongly driven by a growing recognition of the role social enterprises can play in tackling emerging challenges. Particularly in the current period of economic and social recovery, social enterprises are able to bring innovative solutions for social cohesion and inclusion, job creation, growth and the promotion of active citizenship. Yet, despite interest in and the emergence of examples of inspirational and 'disruptive' social enterprises, relatively little is known about the scale as well as the ecosystems of the emerging social enterprise 'sector' of Europe as a whole. Best practices across Europe show that social enterprises are effective & efficient policy tools at policymakers' hands to reduce territorial disparities, bridge the public private sphere and to boost economic growth, employability of vulnerable social groups by improving the performance of regional development policies and programmes.

Today only eight countries out of the EU-28 countries, namely Bulgaria, Greece, France, Italy, Luxembourg, Slovenia, Sweden, and United Kingdom have a policy framework in place to encourage the development of such enterprises via legal, administrative and financial instruments. Motivated by the above fact, SOCIAL SEEDS tackles this policy challenge with innovative policy diagnostic tool, the European Standardized Evaluation and Supportive System. The consortium consisting of 7 partners representing 6 partner regions and an associated strategic partner with complementary experiences and policies, aims to seeks policy alternatives to improve social entrepreneurship and social innovation landscape in Europe.

2. Regional / National Social Enterprise policies

SOCIAL SEEDS regions need to identify their policies in the very beginning in order to prepare for the final phase of the project when regions will decide how to integrate lessons learned into regional / national policy instruments through respective implementation (Action) plans. This exercise is the preparatory phase for the policy improvements taking place in the second phase of the implementation of SOCIAL SEEDS. The identification of the policies addressed gives a general picture of each region's specific context and insight into the social entrepreneurship developments proposed as well as main stakeholders and relationships among them.

Aiming at a status quo description, all regions were asked to summarize their respective data concerning existing policies and strategies on social entrepreneurship, social innovation and social economy including future plans structured in three passages. The first passage is addressed to clarify the challenges facing the social enterprise ecosystem and it also indicates existing or potential policy intervention areas. These policy areas include: Access to Finance; Access to Talent; Scaling Up; Regional Inclusiveness; Sourcing and Pipeline; Capacity Building and Training; Impact Measurement, Transparency and Reporting; Ecosystem Coordination, Policy and Regulation; and Investment Exits. The second passage is dedicated to provide a comprehensive overview on existing policies and strategies on social entrepreneurship. The descripton also refers to the available ESIF European Structural and Investment Funds Operational Programmes and their intervention logic as well. Policies and social enterprise supporting services are also reviewed in light to access to market, skills enhancement, internationalization of social enterprises, incubation services, trainings and coaching services and access to finance. Last but not least, the last passage shows the policy niches and our partners' solutions on overcoming the barriers identified.

II. POLICY MAPPING

Region – Czech Republic

The developments of the social enterprise ecosystem should be considered in the context of policy discussions at both a national and international level where inclusive innovation and social enterprises are priorities. This passage seeks to shed some light on the policy context, and clarifies some of the key terminologies and concepts for the landscaping results. It also endeavors to place the discussion about the promotion of social enterprises in the framework of wider policy context addressed to access to finance for Micro, Small and Medium Sized Enterprises, and innovation policies and taxation legislations.

a) STATE-OF-THE-ART (2000 characters max.)

1. Legal definitions and background: is there any legal definition for social enterprises and social economy

Social enterprises is a very recent form of business in the Czech republic. There is currently no law in effect concerning social enterprises. In April 2014 the ministry of human rights claimed they prepare a special social enterprise legislature. Several sources claim it should be finished in 2017. It means that social enterprises operate under normal trade/corporate legislature. From 2014, there is a new form of business shaped for SE – **social co-operative** but with limited legal background.

Social enterprises in the Czech Republic are identified by their membership in the database run by TESSEA. Membership is not conditional on any specific legal form - the major forms deemed compatible are:

- The **limited liability company**, defined in the Commercial Code, can be founded with a different aim than conduct of business, if a special directive does not prohibit it (Dohnalova 2009). If it is founded with a socially beneficial mission, a limited liability company may be considered a social enterprise.
- **Cooperatives**, defined in the Commercial Code, are associations founded with the aim of conduct of business. Where the aim of a cooperative is consistent with the TESSEA definition, they may be considered a social enterprise – this is mainly the case of workers cooperatives employing disadvantaged individuals.
- **Civic association**, defined in Act nr. 83/1990, is a non-profit legal form that allows people to associate to pursue various social missions. If it allows for supplementary commercial activities a publicly beneficial social mission, civic association may be considered a social enterprise.
- **Public benefit organisation**, defined in Act nr. 248/1995, is a legal form whose main aim is to provide publicly beneficial services. Its profits need to be reinvested into the provision of those services. It can earn its income by charging acceptable prices for the provided services and by accepting subsidies and donations from the state and private sources. From this definition, it is apparent that public benefit organisation combines the profit seeking and socially beneficial motives, and as such may qualify as a social enterprise.

There is one institutionalised form of social enterprise in Czech Republic: Social cooperative under Commercial Corporations Act no 90/2012. The leading opinion platform about social enterprises is TESSEA.

Besides, there are several types of organisations registered on the TESSEA database that are the following:

- Associations with commercial activities;
- a small share of workers' cooperatives pursuing general or collective interests;
- Public benefit organisations (to be replaced by institutes);
- mainstream enterprises pursuing an explicit and primary social aim.

Currently the TESSEA indicators and definitions serve as a guidance when identifying social enterprises. They are not included in any legal framework, nor is there a specific body responsible for monitoring of compliance.

Besides TESSEA, a new legal form of social cooperative was added to the **Commercial Corporations Act** n. 90/2012 Coll in January 2014. Social cooperatives are limited to the purpose of enabling social and employment integration of deprived persons into the society. Social cooperatives must also prioritise fulfilling local needs and use of local resources according to the seat or location of operation of the co-operative. This form matches the European Operational Definition in important ways.

2. Social enterprise landscape in numbers – Czech Republic

It is estimated that there are currently 250-300 of organisations fulfilling the criteria of EU operational definition of social enterprises. Own activities are the main source of income of social entrepreneurs, but there is also a high reliance on public funding from OPHRE an IOP. Most of the Czech social enterprises are WISEs. These estimates are based on the 2013 P3 & Provida survey, which reports that an average social enterprise:

- has a turnover of 130 000 €;
- employs 7.6 full-time employees;
- employs 7.2 part-time employees; and
- employs 1.4 volunteers.

3. Sectoral characteristics:

According to latest studies there are 223 social enterprises in the Czech republic, 11 of them in the South Bohemia region. They took part in several sector but gardening services, estate upkeep, sale of good and services, catering and food processing industry are prevailing. Social enterprises employ mostly people with some kind of handicap. In most cases, they are physically disabled, mentally disabled or both combined, followed by visually and hearing impaired. As far as we know there is no systematic governmental SE support policy in effect. SE support is fragmented, taking advantages of casual funding possibilities. There is also a private SE support scheme.

The emergence of social entrepreneurship is a recent development in the Czech Republic. It is **not a widely known concept** neither among lay public nor among policy-makers.

It is important that this group of social entrepreneurs usually has knowledge of business environment and business plans. They know how to negotiate with banks and sometimes have capital from previous efforts. They also tend to have developed networks of contacts in the business sphere, which makes the profit-making part of social entrepreneurship easier for them. On the other hand, they may lack experience with their target groups and with how to set and achieve their social mission.

The rest of the social enterprises have their origins in the non-profit sector. Various NGOs carry out entrepreneurial activities to generate some additional income for their social mission.

Contrary to the social enterprises from the business sphere, NGOs usually have extensive experience with their target groups and know how to provide socially beneficial services (Bednarikova & Francova 2011). However, NGOs may lack certain essential business skills. Their business plans can be vague and lack realistic assessment of relevant risks. As a result, the enterprises established by NGOs tend to be hard to sustain without grants and appropriations.

The fields that the enterprises are mostly involved in are:

Equal opportunities (mainly employment of disadvantaged individuals), Social services (social consultancy and help, for example to own employees), Local community development, Cultural activities, Environmental issues and ecology. Their income is derived mostly from provision of goods and services. About a fourth of social enterprises provide gardening services, maintenance and cleaning. Another fifth operates in the hospitality industry. Food production and sales is the third dominant activity, with 16% of organisations doing business in this area (People, Planet, Profit 2014).

Employment:

Social enterprises employ an average of 14.7 employees, out of which 10.3 are from disadvantaged groups. The largest social enterprise had had 150 employees, the smallest had only one worker. About two-third of the disadvantaged employees are employed on a part-time basis, the rest on a full-time basis. In contrast, healthy employees usually work on a full-time basis. The majority of social enterprises rely on paid labour force - only 12.9% report employing volunteers (P3 & Provida survey 2013).

4. The Stages of Business Development for a Social Enterprise: specify available financial and non-financial support

Financial support:

Own activities are the main source of income of social entrepreneurs – they constituted 51.2% of total income of an average social enterprise in 2013 (P3 & Provida survey 2013).

Currently the financial support targeted specifically at social enterprises is very limited (Jetmar 2010 & 2012). In the past, the largest sources of finance were the **OPHRE and IOP grant** programmes through which MoLSA provided the main source of financial support. Thus, the public financial support is limited to contributions for employment of people with health disabilities. Currently there is no public start-up support and the only active public bodies supporting the concept are **MoLSA** and the **Agency for Social Inclusion**. This can be illustrated by the fact that out of the average of 25% of enterprises that suffer yearly financial losses, 71.4% cover them from own resources, 11.4% use loans from nonbank sources and only 5.6% rely on bank loans (P3 & Provida, 2013). Some of the social enterprises from the non-profit sector also rely on the support of the founding organisations when they are in need of funding.

The **private social investment markets** do not offer many alternatives (Jetmar 2010 & 2012). They are rudimentary in their development and consist only out of a few big commercial companies that support social enterprises as a part of their corporate responsibility strategies (for example Ceska Sportelna, CSOB). While these schemes offer both start-up and operational support, they are very

limited in their scope and usually lead only to minor contributions, they are small-scale compared to the past MoLSA support.

Besides support co-financed by ESF or ERDF, WISE employing people with health disadvantages often rely on **financial contributions from the Labour Office**. According to the Employment Act 435/2004 Coll:

- § 75 the Labour Office provides financial contribution to creation of employment position for people with health disabilities. Depending on the severity of the disability, this contribution can be as high as twelve times the national average wage.
- § 78 the Labour Office provides financial contributions to employers who employ at least one employee with a health disability per each healthy employee. These contributions cover 75% of the wage expenditures on those with health disabilities, but cannot be higher than 290 EUR a month per person

Other public institutions do not have any support schemes aimed at social enterprises (Bednarikova & Francova 2011, Jetmar 2012).

Non-financial support:

There have been a few **smaller projects** supporting social entrepreneurship. A project called "Support of social entrepreneurship in Czech Republic" is currently being financed from OPHRE5 . Its primary objective is to test the support of social enterprises by creating a national network of ten local consultants and five experts/coaches.

Another OPHRE project "Innovative establishment of social entrepreneurship" aims to raise awareness about social entrepreneurship. It has established a national network of eight ambassadors that actively promote social entrepreneurship in their regions through seminars, panel discussions, etc

There are some non-publicly funded support services for social enterprises, but their structure is fractured and non-standardised. The quality and type of support depends on individual organisations and it is not coordinated at the national level.

5. Key stakeholders

The social enterprise landscape has a great number of stakeholders:

- Policy makers – Ministry of Industry and Trade, Ministry of Human Rights, Ministry of Labour and Social Affairs, South Bohemia Regional Authority
- Institutions, civil society initiatives or other social enterprises promoting social entrepreneurship education and training, and presenting role models – South Bohemia Chamber of Commerce, Pražírna Drahonice (Coffee Roasting House Drahonice), Ethnocatering Ltd., BabyOffice Ltd.
- Monitoring organisations – P3-People-Planet-Profit, Tessea CZ, RERA
- Business support providers - Česká spořitelna (Czech Saving Bank), Integrated Regional Operational Programme
- Social enterprise (support) networks, associations – P3-People-Planet-Profit, Tessea CZ
- Key providers of finance – Česká spořitelna (Czech Saving Bank), Integrated Regional Operational Programme (IROP – ERDF), Operational Programme Employment (OPZ – ESF)
- Research institutions – University of South Bohemia, Institute of Technology and Business in České Budějovice

6. Opportunities and barriers

The most notable barriers to SE development were identified to be: managerial, policy and financial barriers. However, there are still opportunities that could start SE sector up. These are, above all: legislature changes to reflect SE, spread of knowledge and experience sharing, introducing financial instruments. Overall, SE's are in their beginnings in the Czech republic, many of them operating in the trial-and-error method and would take advantage of any systematic and long-term plan for SE support or a tool to help such a plan.

Opportunities:

- In a recent member survey of the TESSEA social enterprise database (P3 & Provida, 2013), a half of the respondents claimed that they would appreciate **new grant opportunities**.
- A **more systematic policy approach** would help to overcome issues. For example, institutionalised financial support for employment of socially disadvantaged persons and other social missions (through contributions, tax incentives or other means) would be a great step. Similarly, creation of an inter-ministerial body dedicated to social entrepreneurship could help clearly delineate policy responsibilities at national level, improve awareness among policy makers and extend public support to other social missions than work integration. However, more systematic government support would require changes in Czech legislative framework (Bednarikova & Francova 2011, Dohnalova 2009).
- The **current framework** provides no definition of a social enterprise, which makes it difficult to define support for this particular type of organisation. It seems promising that social enterprise has been added to the legislative plan for the first quarter of year 2015. Approval of a law defining social enterprise or at least of stable ways to support social entrepreneurs could open up new possibilities for social entrepreneurs and raise awareness of the concept.

Barriers:

The main constraining factors seem to be:

- a) the lack of public support and initiatives,
- b) limitations in terms of access to finance and
- c) accessing public procurement opportunities.

Consulting Capacities Currently, the national network of consultants that provide free business advice for social enterprises is weak, by managing the cooperation it could be strengthened. The government support in this area consists of a small group of consultants and coaches, which is not sufficient to cover the need for advice and information.

The government support is of a relatively limited, one-off project nature. The lack of systematic government support has two negative consequences:

- The support is not stable over time, depends on the current political representation and covers only certain activities. Social enterprises may be excluded due to their social mission (activities that are not work integration) and lack of support at a given point of time (there is no government financial support at the present).
- Social entrepreneurship is not viewed as a widely accepted activity with publicly beneficial goals the disadvantage of the situation is securing support from municipalities.

More consulting capacities are required due to the lack of business skills and knowledge among some of the social entrepreneurs. This is particularly relevant for those coming from the non-profit

environment - they may have problems to design a viable business plan, assess economic risks and manage the enterprise efficiently. This issue was highlighted on the example of enterprises that received grants from the OPHRE and IOP schemes.

b) POLICY LANDSCAPE

Publicly funded schemes specifically designed for or targeting social enterprises (2014-2020)

Support type	Are there any schemes specifically targeting social enterprises?	Are any of these schemes funded by ERDF/ESF?	Are any of these schemes funded by the policy instrument you address?
Pre-start support (e.g. incubators)	Yes	ASPČS (No)	
Awareness raising (e.g. awards)	Yes	SIA (No)	
Social entrepreneurship education (e.g. school for social entrepreneurs)	Yes	ASPČS (No)	
Business support (e.g. business planning, management skills, marketing etc.)	Yes	ASPČS (No)	
Training and coaching schemes	Unknown		
Investment readiness support	Yes	ASPČS (No)	
Dedicated financial instruments	Unknown		
Physical infrastructure (e.g. shared working space)	Yes	IROP (ERDF), OPZ (ESF)	
Collaborations and access to markets	Unknown		
Networking, knowledge sharing, mutual learning initiatives	Yes	ASPČS (No)	
Internationalization	Unknown		

OP (ERDF) Integrated regional operation programme (IROP)

OP (ESF) Employment (OPZ)

Social Impact Award (SIA – Česká spořitelna – Czech Saving Bank)

Akademie sociálního podnikání České spořitelny (ASPČS – Česká spořitelna SE Academy)

ERDF (IROP) and ESF (OPZ) funding aim on setting up or extending existing social enterprises. They do not support incubators, SE awareness, education or experience sharing as far as I discovered. They target disadvantaged group employment and physical infrastructure measures.

Private initiatives (SIA, ASPČS) are more focused on the soft skills including experience sharing, financing possibilities, education, planning, management, marketing etc.

c) POLICY NICHES (2000 characters max.)

Social enterprises are a new phenomenon in the Czech republic and as every new venture it suffers from many shortcomings. The survey made in 2015 revealed the most severe points SE's commonly deal with. They are:

- Lack of a legislature aiming on SE as a separate mean of entrepreneurship
- Lack of marketing schemes
- Lack of external funding and systematic support
- Lack of knowledge of SE advantages/challenges among government and regional authorities

The lack of legislature is almost impossible to change withing the project itself but a new legislature concerning social enterprises is underway and should come into effect in 2017. Still, the diagnostic tool can enable the governmental bodies to take its outputs into account when preparing the next iteration. Ministry of Human Rights, which submits the legislature, will be also invited to take part in the Social Seeds project stakeholder group.

If there will be created a well-defined system of social enterprises it will be easier to build an economic structure upon the legislative frame. The procedure of founding and naming main goals become more obvious. Operative work will have a structure that is built on rules, that make the enterprise more transparent. Different types of SE can help social development in diverse arias. Given a legal definition, operative actions are defined, enterprises start working, setting goals and realising them, with adequate involvement awareness rises and that results to social development.

Lack of external funding is a widespread occurence among SE's and it is touched by several public and private funding schemes. The monitoring diagnostic tool will provide fund administrators with an overview of social enterprise environment and help them to aim their support more precisely, systematically and focused on domains that cause problems. Currently, it seems that launching a social enterprise is, financially-wise, somehow easier than keeping one running in the long term. The monitoring diagnostic tool could also contribute to alleviate this problem by revealing the reasons for finance shortages and thus help to tackle the issue.

There are more methods to finance a social enterprise, if it would be possible to receive at least from one source abundant support, or to have more alternatives of financial support to choose from, it would start the process towards development. Having more supporters cooperation is made possible, as a result a net of partnership can be made, where partners help each other and share knowledge.

Lack of marketing schemes is a truly weak side of most SE's in the Czech republic. It is closely related to above-mentioned lack of funding which could be partly avoided by successful marketing. However, social enterprises usually lack funds to hire a skilled marketer and thus the SE's men-in-charge usually performs the marketing jobs. The monitoring diagnostic tool could help them in several ways. First, they could self-asses and find their weaknesses in the field of marketing and, second, take advantage from other successful enterprises via good practise examples or knowledge sharing.

Lack of knowledge among government and regional authorities is another discovered hindrance for social enterprises. This area is tough to change rapidly but has a huge potential. Because the phenomena of social enterprise is pretty new to the Czech republic (social enterprise as a sustainable economic concept, sheltered workshops etc. have long tradition but they were more rehabilitation and/or re-socialization project) the attitude of government and regional authorities is

indecisive, probably rooted in the fact that they lack reliable information and tools to gather systematic and long-term support schemes for this branch of economy. The diagnostic tool, development of which they would be involved by presence in the stakeholder group, could provide them with needed information to shape regional or even national policy towards social enterprises.

Social enterprises are a relatively new, they help widen the world view of stakeholders. They make the society more extrovert to social issues. Cooperation between SE-s, boost economical improvement along with social development. This offers new possibilities, realises involvement and generates in this specific area a new know how, that can be used by partners regionally and locally at the same time.

III. COMPARATIVE ANALYSIS