

## Social economy in the Czech Republic

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### Social economy

#### Introduction

Global economy based on the neo-liberalism contributes to the exclusion of certain groups of people who simply are not able to cope with the pace of the development, the requirements of the labour (and other) market(s) or the prevailing expectations and values in the society and its mainstream culture. These people are left behind the majority and become gradually socially excluded - marginalized.

Social economy (SE) is a highly innovative approach in the way it is able to respond to the current social and economic challenges. It has many different faces in each country where it exists depending on the social and economic priorities and the disadvantaged groups in the area. The negative externalities caused by globalisation, the downfall of traditional welfare state, decreasing importance and traditional functions of families, ageing of most European societies, unemployment in the former industrial zones, increasing gap between the rich and poor, and the diminishing number of the 'middle class' – all of these problems are to a bigger or lesser extent present in all current European states.

The SE is expected to react to these challenges by helping to enhance the job creation and social cohesion.<sup>1</sup> These are therefore expected to be the most visible outcomes of the social economy in its narrowest sense, apart from many positive externalities, such as the democratic participation, user involvement, social capital development, and citizenship enhancement. As mentioned in all major studies of SE (esp. by EMES), the borders of the social enterprise phenomenon are not clear-cut ones. Therefore, it is difficult to measure its social but also economic impacts.<sup>2</sup>

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<sup>1</sup> The following groups are considered disadvantaged in the Czech Republic: parents with small children, ex-convicts, long-term unemployed, disabled persons and former alcohol or drug addicts.

<sup>2</sup> There are no satellite accounts in the CzR for monitoring SE activities like in Belgium. Mainly because the sector has not been specified yet, which is the current task of the expert platform on SE – NESEA. It is possible to map the current SE sector in the Czech Republic just approximately, mainly because of the CIP EQUAL initiative and the organisations involved. Each of them represents a specific segment of organisations – e.g. UCPC co-operative sector (social co-operatives), FOKUS Praha which had done research on the social firms standards is mapping activities of NGOs fulfilling the criteria of a 'social firm', and some other organisations are mapping the sector in general – e.g. Nový Prostor, which also investigates the possibility to enhance the position of social enterprises in the public procurement bidding within the existing legislative norms). The report on the SE sector in the CzR is being prepared by the GLE. However, there are probably organisations behaving in accordance with the SE values without officially accepting to be social entrepreneurs (or without being aware of it).

## The Czech Republic

It is a difficult task to describe the whole complexity of the current development in the emerging Czech SE sector within the scope of this paper, especially because the changes are very rapid and the scope of activities and number of organisations involved is increasing steadily.

In 2001- 2002 the public administration reform and decentralisation took place in the Czech Republic. It was an important step, which enhances local authorities and communities to actively participate on solving the local problems by using local resources and increasing local employment. It is a good starting point for local initiatives supporting social economy. The municipalities are still dependent on the state allocation of the financial resources – the small municipalities protest against the way the finance is allocated. If the system is not changed in the near future the new ways of financing the local needs will have to be implemented (another opportunity for social economy – especially for the municipal social co-operatives – as mentioned later).

The first conference on SE organised in Central and Eastern Europe was held in Prague in 2002 hosted by the Cooperative Association of the Czech Republic and the Union of the Czech Producer Cooperatives (UCPC)<sup>3</sup>. However, there is still no coherent support of SE on the political level, which is also apparent from the absence of adequate legislative framework within which SE would be recognised and able to develop. The legislation at the moment does not sufficiently cover and support all aspects of SE as such: organisations within the SE sector; and their funding. It is rather fragmented and dealt with separately in accordance with the laws regarding employment, social security, non-profit organisations, income tax, and commerce; e.g. there is no cooperative law – cooperatives are included in the commercial code – as one type of the legal person. The social cooperatives do not exist legally; however, the UCPC has been participating in defining social cooperatives in the legislature of the Czech Republic.

## National Action Plan on Social Inclusion

An unemployment rate in the Czech Republic as at 31st Dec. 2007 was 6.0 %. An average unemployment rate in 2007 was 6.6 % compared to the average of 2006 (8.1 %). An interesting number is a ratio number of job-seekers per one job available – in 2007 it was only 3.2 (in 2006 5.8) (MoLSA).

That means that in the evidence of the District Labour Offices remain groups who are difficult to employ or are practically unemployable.

The politicians at the moment begin to realise there are limits to the traditional active labour market policies. Some principles and objectives of SE have already been included in some documents of a national importance; especially:

- NAP on Social Inclusion (NAPs/Inclusion) 2006 – 2008 (MoLSA);
- Human Resources and Employment Operational Programme (HREOP);
- Integrated Operational Programme (IOP).

<sup>3</sup> the abbreviation in Czech is SČMVD

## NAPS/Inclusion 2006 – 2008

The social economy has been mentioned in the government document for the first time as a procedure and mechanism to combat social exclusion - in the Priority Objective 1 (PO) Social inclusion.

Important for the SE development, even though indirectly, was also PO 3 supporting the decision-making processes regarding the provision of social services to be made at the regional and local level (MoLSA, 2006).<sup>4</sup>

In April 2008, however, the Committee on the social inclusion (MoLSA) admitted that there exists confusion in connection with the term social economy and its role as a social inclusion tool is not yet completely understood as well as its wider connotations.

At the same time, new POs within a NAPS/Inclusion 2008-2010 are being defined with social economy and its local development support included in the PO3.

## The lessons learned from the Belgian experience

The geographical and political structure as well as the historical experience is diverse between Belgium and the Czech Republic, however, the comparison is extremely interesting.

Since 1990, social economy gained more and more importance at the policy making level in Belgium. At the same time, the former communist state of Czechoslovakia makes its first 'steps' into the new era of democracy and new economic order. It is difficult to compare these two situations. However, the fact that there is a bottom-up support for SE (or activities belonging to the SE but not yet being recognised as such) is a proof of an improving health of a civil society in the Czech Republic.

### Finance

The ESF funding is used for supporting initiatives incorporating the principles of SE at the moment. The transformation process of the social services system, focussing on the effective application of Act No. 108/2006 Coll. on Social Services is based on the preference of the community rather than institutional care (MoLSA, 2006). This Act came into force in January 2007 and up to now its application is very problematic. There was no transitional period between the previous and current systems, which is causing serious obstacles for the social and health services providers and the service users, and the further development of SE providers in this sector. The **voucher system** as it was introduced in Belgium might be transferable into the Czech Republic, even though all details would have to be assessed. The scope to which it enhances the development of local economy and social enterprises, as well as improvement and range of services offered should encourage further discussion and support for introduction of a

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<sup>4</sup> the situation potentially favourable for setting-up municipal social cooperatives (a new concept introduced by the UCPC within the CIP Equal project)

similar system in the CzR. It is also an efficient tool enabling people in the shadow economics to start working legally as, e. g. employees of the social enterprise – often a co-operative.

There are no initiatives on the political level to develop a fund to support the social economy – the support of the market-oriented social enterprises like in Belgium. However, there is one significant initiative the aim of which is to support the social enterprise start-ups by using a financial mix of the **ESF and ERDF funds and the Czech budget**. The government has begun to be aware of the need for the support of social economic initiatives.

This is called a **global grant** and the joint finance is supposed to cover necessary expenses entrepreneurs will accrue on labour (ESF) and other production costs (ERDF). This initiative is anchored in the above mentioned documents IOP and HREOP, the maximum amount provided will be limited by EUR 200,000 (de minimis).

There are great expectations connected with this financial tool, especially because it is a first initiative of its kind. However, many other financial tools should be supported (like e.g. community development finance initiatives and a social investment funds in Belgium) to enhance a wide range of actions and activities belonging to this sector.

Public procurement can be an effective tool to enhance sustainable development of communities by supporting local social economy initiatives (organisations with social mission, employing local people, using local resources) in the public bidding procedure. The concept has been developed by the Nový Prostor in the Czech Republic. One of the outcomes of their research and mapping of the current situation is that the public procurement with the social clause is possible in the Czech Republic under the present conditions. Supporting the social mission in this way also means significant savings of the resources, which can be thus used to cover other local needs.

In order to win the big contracts, the local social enterprises will probably have to set up consortia or clusters to succeed in the bidding – to be able to handle the task, meet the deadline and the quality of the work as well as the price conditions. However, the small contracts can be handled by individual social entrepreneurs without difficulties. The main obstacle at the moment is a political will on a local level to promote this concept.<sup>5</sup>

### **Creation of intrasectoral supporting structures**

The most striking on the Belgian experience is the amount of cooperation existing on all political levels (the Cellule Economie sociale, FEBECOOP). In the Czech Republic (CzR), there is no comparable situation (there is no federal level), however, the cooperation on the state and regional levels as well as among the regions and among the Ministries needs to be improved as a prerequisite of a SE's successful implementation. The SE has only marginally been dealt with at the Ministry of Labour and the Social Affairs (MoLSA) – mainly within the CIP Equal administration, but its further development and support will need an increased inter-resort cooperation of several Ministries (Labour, Commerce and Industry, Regional Development, Education, Health).

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<sup>5</sup> There is an example of good practice in Semily, town in the north Bohemia.

The planned development of the inter-resort committee for the considered global grant with experts from the MoLSA, Ministry of Regional Development and the Ministry of Industry and Commerce might be a basis for such cooperation in the future.

### **Creation of a social economy advisory platform**

The EQUAL initiative in the Czech Republic helped to develop network of enthusiasts, social entrepreneurs, supporting organisations and other stakeholders who share common aim to support SE in the Czech Republic. Many of these representatives set up an informal expert network or platform called NESEA. Apart from the good practices and experience sharing, one of the tangible outcomes of NESEA is the common definition of terms in SE suitable for the Czech social, economic, legal and political reality. The activities of the platform are now focused on common dissemination and mainstreaming strategy.

The informal network may eventually develop into an official platform of advisors to the government and regional and local authorities, organisations or social entrepreneurs.

### **The network supports the entrepreneurial approach towards the SE.**

### **Proximity services provision - one of the opportunities for (municipal) social cooperatives**

Cooperatives in Czechoslovakia and the Czech Republic have a tradition of more than 150 years, but not until the year 2000 did this combination of mutual entrepreneurship and empowerment of the disadvantaged take on a specific shape. This form is inspired by the systems and experiences of other European countries, but the foundations and framework necessarily reflect the Czech legislative and economic reality. It is important to mention that cooperatives are still not perceived by the majority as voluntary, self-help organisations based on democratic principles to fulfil the mutual social and economic needs of their members, mainly due to the political past of the Czech Republic.<sup>6</sup>

The Union of Czech Producer Cooperatives (UCPC) runs two CIP Equal projects and is actively involved in the negotiations of an informal platform NESEA. The UCPC promotes the philosophy based on a simple idea: the highest degree of self-realisation for disadvantaged people is to start and run their own enterprise. However, their disability<sup>7</sup> can lead to too high a risk of failure or a

<sup>6</sup> It has also been mentioned in Noya, A. and Clarence, E. (eds.) 2007. The Social Economy, Building inclusive economies. OECD.

<sup>7</sup> Some of the legislative norms regarding the employment of people with physical and intellectual disabilities in the Czech Republic: The Decree of the Government No. 115/1992 Coll. on the work rehabilitation of disabled people, regards the support of establishing and developing so-called sheltered job placements and sheltered workshops. One of the possibilities is employing the people from this group on the open labour market, in business companies, which is sometimes difficult to fulfil. Another possibility is their employment in the sheltered workshops or other organisations, which employ more than 50 per cent of handicapped people. They are financed through the state subsidies from the state budget and income tax alleviations (according to the Act No. 586/1995 Coll.). Similarly to most European countries, the obligation of entrepreneurs (with more than 20 employees) to employ the 5 per cent of disabled people is reflected in the Czech legislation, too. The Amendment to the Act No. 167/99 Coll. on employment and the Decree of the Government No. 228/2000 allows those, who do not fulfil this share to use a substitute way in the form of purchase of products and/or services from organisations employing predominantly disabled people (60+ %), the so-called facultative compensation. Otherwise they are

loss of competitiveness. A solution, instead, is the collective, mutual entrepreneurship of a group of equal partners, each of whom respects common priorities and sets of values. About 15 social cooperatives have been set up within these projects and there are many more already working on their statutes. Each cooperative is individual – some are more work inclusion cooperatives, some are family cooperatives (mainly in the families with one or more disabled members), some are businesses respecting the SE values which are anchored into their statutes.

The UCPC and partners have developed a methodology to set up a **municipal social cooperative**. It was developed together with representatives of some municipalities in the Eastern part of the Czech Republic – Moravia. The municipalities, local job-seekers, service users and other local stakeholders might create networks and thus more efficiently provide services that e.g. local businesses are not interested in offering. There is a possibility to learn something from the Belgian experience here as the role of these municipal cooperatives would be very similar to the proximity service provision combined with the work integration of hard-to-place job-seekers close to the way it had been adopted by the three Belgian Regions.

## Conclusions

### Measuring success – social economy in the Czech Republic

The success of SE at the stage of dissemination and mainstreaming, at the moment, can be measured for instance by the number of meetings attended by politicians but also by local authorities, District Labour Office representatives, local stakeholders, etc. – the number is gradually increasing as well as a number of social economy conferences attended by the political representation and the media.

Another possible way to measure success is by the number of the diploma or bachelor theses devoted to this topic. Their number is increasing as well as the number of institutions directly or indirectly involved in the research and the promotion of SE in the Czech Republic. Education is extremely important – from the development of personal values and culture at an early age towards the complex managerial skills training – psychological and social aspects, ethics, etc.

However, the most important success is when an idea, a business plan, develops into a small business and changes the lives of individuals, families and eventually the whole communities.

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required to pay an obligatory fee. These initiatives have been in existence without any connection with the emerging SE. The sheltered workshops have not been recognized as social enterprises, however, under some conditions, they might belong to social economy. The above mentioned financial support does not regard other disadvantaged groups on the labour market.

## SE in the Czech Republic and its challenges

- Definition of social economy and social enterprise and its position within the national economy, social economy environment – the NESEA platform definitions
- Low market orientation and negotiating power of some SE initiatives. The cooperatives, however, promote the self-sufficiency of the business model as a prerequisite of a successful fulfillment of social goals.
- No sufficient control mechanisms to ensure that the social dimension of the enterprise would be maintained when it comes to a more serious competition among SEs on the (quasi) market. They should be gradually developed – also one of the tasks for NESEA.
- Reliance of some social economy organisations on financial support (from the government, EU funds, charities); the question of compensating mechanisms and fair competition.
- Lack of micro-credit and other community development finance institutions needed for emergence of new social enterprises
- Inadequate legal framework
- The fear the decision-making processes will be slow – not flexible enough – due to the SE requirement on the active membership and direct participation of the members in decision-making processes (confusion between the member/statutory rights and obligations and the management)
- Some people with regular access to benefits, allowances and other sources of state support are less willing to give up their certain income.
- People with a long-term disability or in long-term unemployment for various reasons, both with usually bad experience of dealing with employers, District Labour Offices and other state organisations are less active and willing to start new projects
- Necessity to learn from the experience abroad – good but also bad practices.
- The need for further education and training of disadvantaged people, but also of the managers and top management of the business organisations in general and social enterprises – the development of skills to be able to balance both the social aim and the entrepreneurial spirit; as well as other staff – supervisors, advisors, co-workers of these disadvantaged people.
- Social economy should not be perceived only as a tool for social inclusion, its wider connotations and economic effects must be recognised (e.g. social capital development).
- The benefits of the SE are all rather long-term which needs a coherent political support.