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# Study of the Infrastructure of the Social Economy in the Czech Republic

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## 1. Introduction

This publication was written at a time of stormy debates about the need for savings in public budgets, a time of cuts in government spending, a time when economists warned of further economic crises. In this paper we would like both to present the concept of the social economy with all the positives we think this kind of activity entails and to set out our recommendations for supporting and developing these activities. For it is our belief that social entrepreneurship can be one of the solutions to the existing situation.

For the last two years we have spent many hours discussing the topic of the social economy and commissioned a number of analyses and studies as part of a project entitled *Thematic Network for the Development of the Social Economy*. In this paper we would like to explain why we think the social economy merits further attention and where its huge potential lies, not just for public budgets but for tackling problems at local and regional level and addressing the problems of disadvantaged groups of the population. This study expresses the opinions of a wide range of experts and members of the TESSEA project team, opinions that were presented to all members of the network for discussion.

To start with, it is necessary to explain what the difference is between the social economy and social entrepreneurship. The social economy is a broader term that incorporates both social enterprises and supporting and financing institutions and non-governmental non-profit organisations that carry on certain economic activities<sup>1</sup> without being a social enterprise.

From our point of view social entrepreneurship fosters people's own activity (increased self-confidence, meaningful work, social services users become

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<sup>1</sup> See the definition on page 10.

working people), brings an ethical dimension to business, saves state finances (subsidies are replaced by profit generation, the range of goods and services on offer is widened, and there is less dependency on the state), reduces unemployment and dependency on public support, promotes the local/community dimension of human life, makes use of local potential, promotes solidarity in society (both intergenerational and social solidarity) and, last but not least, interlinks the private, public and non-profit sectors.

But let's start at the beginning...

### ***1.1 Introduction to TESSEA***

TESSEA is the acronym for the *Thematic Network for the Development of Social Economy*, which was created as part of a project of the same name no. CZ.1.04./5.1.01/12.00021, supported out of the Human Resources and Employment operational programme. The project was implemented by the publicly beneficial company Nová ekonomika from June 2009 to November 2011. The project team was headed by PhDr. Ing. Petra Francová, a long-standing expert on this issue.<sup>2</sup>

At the time when this study was being prepared TESSEA had more than 230 members, both legal persons (organisations) and natural persons (individuals). TESSEA's member base is truly broad and comprises both social entrepreneurs and those still planning an entrepreneurial career, students, experts from academia, and also those who have an affinity for the topic and want to support it and learn more about it. At the head of the thematic network is a five-member expert committee<sup>3</sup>, the network's supreme body. The project followed

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<sup>2</sup> Up to January 2011 the project was coordinated by Mgr. Petra Seidlová; Mgr. Gabriela Kurková was the project's mainstreaming expert; Ing. Daniela Bednářiková held the position of financial manager and, from February 2011, project coordinator.

<sup>3</sup> As of 31 August 2011 it was composed of: Ing. Marek Šedivý, Mgr. Renata Čekalová, Vojtěch Sedláček, Ing. Magdalena Hunčová, PhD. and Petr Baše.

up the work and outputs of *National Thematic Network C – Strengthening Social Economy*, which was set up under the EQUAL Community initiative.

The project's principal goal was to support the development of social entrepreneurship in the Czech Republic, not just by writing this study, i.e. a model of the social economy infrastructure in the Czech Republic, but by raising awareness about this issue. By infrastructure we mean above all a support system for the development and expansion of the social economy in the Czech Republic. Basically, TESSEA performed two types of activity in order to achieve the project's goal: affiliation and expert work.

Its affiliation work enlarged the membership of TESSEA and supported networking that focused mainly on raising awareness and disseminating information. There was communication with policymakers at both national level (in particular before the elections to the Chamber of Deputies in spring 2010) and regional level (as part of panel discussions staged in the regions of the Czech Republic). The panel discussions model was particularly effective and generated greater interest than expected. There was also an endeavour to communicate the topic to the general public – on our website, on social networks and in a quarterly bulletin we published articles, interviews and later also videos dealing with topical issues, people of interest and examples of good practice.

The project's expert work centred on five working groups (“WGs”), each headed by a suitable specialist and composed of other experts. The working groups conducted analyses, studies, surveys etc. As we have found these outputs to be extremely interesting and useful, we would like to present them in comprehensible form in this publication. The full wording of the studies and analyses form appendices to this paper and anyone interested in a more detailed insight into the issue can study the primary sources these studies drew on as well.

TESSEA had the following WGs (in brackets we give the name of the person who headed each WG):

- Definitions WG (Doc. Ing. Marie Dohnalová, CSc.)
- Finance WG (Ing. Marek Jetmar, PhD.)
- Measurement WG (PhDr. Jaroslava Šťastná)
- Education WG (Ing. Karel Rychtář)
- Communication WG (Mgr. Peter Sokol up to 08/2010, from 09/2010 Martina Macurová, Dis.)

To achieve the project goals we also drew on experiences abroad, specifically from Great Britain and Slovakia, and the project had partners in these countries. The British partner was the School for Social Entrepreneurs, which acted as an experienced consultant and was a source of valuable information. The other partner was Matej Bel University in Slovakia; through this partner we could obtain experiences with eight pilot social enterprises and with the incorporation of social entrepreneurship into the act on employment, among other things. Both countries' experiences were worked into studies and the full wordings form an appendix to this publication. International exchange of experiences also took place at conferences held every autumn in Prague.

The study you are now reading is the project's final output and so contains a description of all the findings we have made, a declaration of our opinions and recommendations for the further development of the social economy in the Czech Republic.

## ***1.2 Roots and history of the social economy (in the Czech Republic and elsewhere)***

We can say that social entrepreneurship has existed for a long time, but this kind of activity only began to be more actively associated with the terms

“social entrepreneurship” and “the social economy” after the year 2000. The development of the social economy in various countries is closely linked to their historical contexts; that is also a reason for the slight differences in understanding and interpretation of the various concepts and practices.

In general, however, it is fair to say that the earliest days of the social economy tend to be linked mainly to the development of cooperatives (these emerged approximately in the mid 19<sup>th</sup> century and include agricultural cooperatives, for example, consumer, credit, insurance, retail, production and housing cooperatives), mutual-type organisations<sup>4</sup> and associations on the one hand, and the non-profit sector on the other hand.

In the Czech Republic the social economy has a long tradition mainly in the countryside. The Czech cultural and economic identity in the territory of the Hapsburg empire was founded on voluntary activities by civil society and was formed by the activity of small and medium-sized enterprises, production and consumer cooperatives, clubs, mutual or municipal savings banks and cooperative agricultural banks. It is fair to say that the role of these cooperatives and companies intensified during the 1920s and 30s, when the Great Depression spread across the world. The totalitarian regimes during the war and after 1948 interrupted the tradition of the social economy for 50 years. Although associations (cooperatives) of independent farmers and small traders existed during the totalitarian era, they lacked certain important features of social-economy entities, such as independent economic decision-making and autonomy from the state.

After 1989 there were efforts to revive the autonomous cooperative sector in the Czech Republic and cooperatives underwent the imposed transformation.

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<sup>4</sup> An organisation that instead of having shareholders/investors is owned collectively by its members, who are simultaneously its customers (they can be insurance or housing companies). When electing representatives the members' votes have the same weight, regardless of their contribution to the company.

After 1995 credit cooperatives (a potential alternative to the big banks for financing the social economy sector, i.e. small-scale entrepreneurship) tried to revive their former glory. After such a long pause, however, they were unable to follow up the earlier tradition and fulfil their role; their collapse at the end of the 1990s led to a loss of public confidence in this kind of institution. Since the year 2000 we have been able to observe the development of the issue of the social economy to the state we are in today. In the Czech Republic these activities are associated mainly with the establishment of small firms, work groups, networks, pilot projects and such like, supported out of EU funds or certain foreign foundations. The issue of the social economy is also beginning to be discussed in expert circles and non-governmental non-profit organisations, which see it as a potential new source of financing for their work.

There are currently around 50 social enterprises in the Czech Republic<sup>5</sup> doing business in just about every area of the economy (production and services of all kinds). These include cleaning services, cafés, confectionary shops, restaurants, production and processing firms, graphic studios, digitisation studios, call centres, park and garden maintenance firms etc. The range is truly broad and we are glad that examples of good practice can also be found in the Czech Republic.

Based on a telephone survey we conducted in spring 2011 we have compiled an up-to-date catalogue of all the social enterprises in the Czech Republic, including their fields of activity, which is available at [www.socialni-ekonomika.cz](http://www.socialni-ekonomika.cz). In general terms, the space for social entrepreneurship in the Czech Republic (and elsewhere) lies in small-scale supplementary services and production that do not compete with the global market; quite the contrary in fact, they tend to have a very local/regional dimension and satisfy local needs using local resources. A perfect knowledge of the environment is one of the

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<sup>5</sup> A full list is found in appendix 3.

advantages and characteristics of the successful social entrepreneur. One reason may be that customers in the entrepreneur's immediate vicinity are better able to understand the social mission the entrepreneur set himself when starting out.

One positive fact is that the Ministry of Labour and Social Affairs (MoLSA) of the Czech Republic is also aware of the importance of supporting social enterprise start-ups and has announced two calls for proposals (OP Human Resources and Employment call for proposals no. 30 and Integrated OP call for proposals no. 1 and, since 29 July 2011, no. 8) directly targeting the creation of new entrepreneurial activities. During the implementation of the project TESSEA regularly cooperated with MoLSA in adjusting and changing these calls for proposals (inter alia based on a survey of the potential candidates, candidates and beneficiaries of both grant calls for proposals conducted in 2010) and for the purposes of defining a social enterprise MoLSA adopted the principles that were drawn up by the Definitions WG and approved by TESSEA in 2011.

What is more, there are organisations that offer various types of support (training, consultation etc.) to social entrepreneurs, help raise awareness of this topic or try to garner support for this idea from major firms on the market (e.g. from banks). The most important support organisations in the social economy undoubtedly include the Union of Czech Production Cooperatives (cooperatives were historically the predecessors of social enterprises), the VIA Foundation (which operates the Accelerator Academy of Social Entrepreneurship), NESsT (which provides consulting and training combined with financial contributions) and Fokus Praha (which supports the social firms model).

## 2. Descriptive section

### 2.1 Definitions are key

Although some might find the question of definitions dull or unnecessary, we are firmly convinced of its importance. Unifying views on the matter, unequivocally describing phenomena and processes in the social economy and social entrepreneurship, uniform use of terminology for the purposes of the social-economy actors (financial institutions, public administration, businesses, NGOs etc.) are essential for mutual understanding.

The definitions used in this study are mainly the work of the Definitions WG in collaboration with other working groups and interested parties. The definitions are derived from the European understanding of these terms but we have also adapted them to the Czech reality and enhanced them so that they fit into the existing context and state of the social economy in the Czech Republic.

The principles and definitions were presented by representatives of the Definitions WG and then approved by the TESSEA annual members' meeting at a conference in September 2010 and revised in 2011.

*We understand the term **the social economy** to mean the sum of activities undertaken by social-economy entities, the purpose of which is to increase employment in the local conditions or to fulfil other requirements and objectives of the community in the field of economic, social, cultural and environmental development.*

***Social-economy entities** are social enterprises, financial, consulting and training institutions that support social entrepreneurship and non-governmental non-profit organisations that carry on economic activities in order to secure work for their clients or gain additional financing for their mission. Social-economy entities share common values, which are the*

*fulfilment of a publicly beneficial objective, democratic decision-making, supporting citizens' initiatives, independence from public or private institutions, a different way of using profits, taking into account for environmental considerations, and prioritising local needs and local resources.*

**Social entrepreneurship** means enterprise activities benefiting society and the environment. Social entrepreneurship plays an important role in local development and often creates jobs for the disabled or the socially or culturally disadvantaged. The majority of profits is used for the further development of the social enterprise. Achieving profit is equally important for social enterprises as increasing public benefit.

A **social enterprise** is then understood to mean a “social-entrepreneurship entity”, i.e. a legal person established under private law or a part of such legal person or a natural person respecting the principles of a social enterprise. Social enterprises pursue a publicly beneficial objective that is formulated in their founding documents. They are formed and developed on the basis of the triple bottom line concept – economic, social and environmental (see the diagram below).



economic prosperity

prosperity of society

social capital

environment

The table below sets out the principles of social enterprises. The table was approved by the annual conference in 2010 and then revised in 2011 by the heads of WGs and the project implementation team in line with the findings made when compiling the set of indicators. Each characteristic is divided into columns showing social, economic and environmental benefit.

<b>PRINCIPLES OF SOCIAL ENTERPRISES</b>	<b>1. Social benefit</b>	<b>2. Economic benefit</b>	<b>3. Environmental and local benefit</b>
<b>CHARACTERISTICS</b>  (are in line with the European concept of the social enterprise. A social enterprise should fulfil them or move towards them.)  <i><b>Underlined = not required.</b></i>	a) Performance of an activity benefiting society or a specific group of (disadvantaged) people.  b) Employees and members participate in the enterprise's strategic decision-making.  c) Any profits used preferentially to develop the social enterprise and/or to achieve publicly beneficial goals.	a) Performance of systematic economic activity.  b) Independence (autonomy) from external founders in decision-making and management.  c) At least a minimum proportion of total revenues and growth thereof accounted for by revenues from sales of goods and services.  d) Ability to manage economic risks.  e) Trend towards paid work.	a) Preferential satisfaction of the local community's needs.  b) Preferential use of local resources.  <u>c) Preferential satisfaction of local demand.</u>  d) Consideration for environmental aspects of both production and consumption.  e) Social enterprise cooperates with important local actors.  <u>f) Innovative approaches and solutions.</u>

A large number of social enterprises are work integration social enterprises (abbreviated to WISE), which help tackle unemployment and integrate people who are disadvantaged on the labour market.

*According to the TESSEA definition a **work integration social enterprise** means a “social-entrepreneurship entity”, i.e. a legal person established under private law or a natural person respecting the principles of a work integration social enterprise. A work integration social enterprise fulfils a publicly beneficial objective, which is the employment and social integration of the disadvantaged on the labour market, and this objective is formulated in its founding documents. It is formed and developed on the concept of the triple bottom line.*

<b>PRINCIPLES OF WISE</b>	<b>1. Social benefit</b>	<b>2. Economic benefit</b>	<b>3. Environmental and local benefit</b>
<p><b>CHARACTERISTICS</b></p> <p>(are in line with the European concept of the social enterprise. A social enterprise should fulfil them or move towards them.)</p> <p><i><b>Underlined = not</b></i></p>	<p>a) Employment and social integration of people disadvantaged on the labour market.</p> <p>b) Employees and members participate in the enterprise’s strategic decision-making.</p> <p>c) Emphasis on development of work skills of disadvantaged employees.</p>	<p>a) Any profits preferentially used to develop the social enterprise and/or fulfil publicly beneficial goals.</p> <p>b) Employees are encouraged to increase their work productivity in line with their capabilities.</p> <p>c) Independence (autonomy) from external founders in decision-making and management.</p> <p>d) At least a</p>	<p>a) Preferential satisfaction of the local community’s needs.</p> <p>b) Preferential use of local resources.</p> <p><u>c) Preferential satisfaction of local demand.</u></p> <p>d) Consideration for environmental aspects of both production and consumption.</p> <p>e) Social enterprise cooperates with important local</p>

<i>required.</i>		minimum share of total revenues and growth thereof from sales of products and services.  e) Ability to manage economic risks.	<u>actors.</u>
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Based on the principles of social enterprises approved in 2010, Mgr. Eva Fraňková, a member of the Measurement WG, drew up a set of identifying indicators for social enterprises and work integration social enterprises, which she divided into mandatory and secondary features. She created a consistent, measurable system making it possible to determine whether an enterprise is a social enterprise or rather a work integration social enterprise. Her proposal, which initiated an adjustment of the principles, was further revised by WG heads and members of the TESSEA implementation team into the form found in appendices 4 and 5 to this study (points scores for individual principles). In the future we would like to perform a pilot test of these indicators in practice and to modify the set of indicators on the basis of the results.

It is important to mention that the principles of social enterprises serve as a guideline as to how a social enterprise should function. There is currently no organisation in the Czech Republic assessing the fulfilment of these principles.

The social enterprise principles created and approved by TESSEA in 2010 were adopted by MoLSA and used in its calls for proposals for the social economy. They were also used by Česká spořitelna to define social enterprises for a pilot project of micro-loans for social enterprises.

## ***2.2 Situation in the Czech Republic***

The situation in the Czech Republic can be summed up as follows:

- the Czech concept of the social enterprise is broad, with great emphasis placed on equilibrium between the economic and social goal (business and social mission); good intentions are not enough: social entrepreneurship is still business as such and this is perceived as a precondition for a successful enterprise;
- most of the existing social enterprises in the Czech Republic focus on employing disadvantaged people (these are work integration social enterprises – WISE);
- a number of them have the status of a sheltered workshop, i.e. employ disabled people;
- in addition to the work integration social enterprises mentioned above, there are also social enterprises in the Czech Republic that provide publicly beneficial services related to social integration and local development, including ecologically oriented activities and selling fair trade products;
- non-governmental non-profit organisations (NGOs) carry on social entrepreneurship (or would like to start) as a secondary activity with a view to using the profits to finance their principal publicly beneficial activity/their mission.

The regional distribution of social enterprises is interesting. Besides Prague, the largest number of active social enterprises is found in the Ústí, Moravian-Silesian and Zlín regions. Conversely, the South Moravian, South Bohemian and Vysočina regions currently lag behind in terms of activity.

The majority of existing social enterprises in the Czech Republic employ disabled people; this is influenced by tradition and the relatively clearly defined instruments and status of this kind of disadvantage compared to other types. However, enterprises employing Roma, young people who have left children's homes, homeless people, people with a history of drug addiction etc. can be found increasingly commonly. We believe that this trend (employing

socially disadvantaged people and “not just” disabled people) is on the rise in the Czech Republic.

Social enterprises in the Czech Republic take various legal forms. There is no categorical answer as to which of these forms is the most advantageous. It always depends on the specific conditions, the type of services/products and the founders’ approach.

Specifically, in the Czech Republic we can encounter social entrepreneurs carrying on a business as natural persons based on a trading licence (self-employed people). However, social enterprises can take the legal form of standard commercial companies, most commonly limited liability companies or cooperatives. Social enterprise is also possible in the legal form usually used in the Czech Republic by non-profit organisations, i.e. publicly beneficial companies or citizens’ associations.

In the last case, though, it should be kept in mind that citizens’ associations cannot be founded for enterprise purposes. Entrepreneurial activity may be a “secondary” activity of citizens’ associations, however. The profit from this secondary activity is then used to finance the association’s primary activities (those it performs in order to fulfil its mission). On this topic we commissioned an expert analysis by JUDr. Lenka Deverová; its full wording forms appendix 6 to this study.

In general we can say that social entrepreneurs in the Czech Republic (or the majority of them) come from either the business environment (i.e. they previously did business and decided to start doing business “differently”, in a socially beneficial way) or the non-profit environment (i.e. they formerly worked in some NGO). Depending on the environment they come from, they can encounter specific problems when implementing their business plan.

Social entrepreneurs who came from the ranks of “normal” entrepreneurs are usually well acquainted with the business environment and with business and financial plans and may possess capital from their previous business activities which they now use as, for example, as a start-up investment in their new enterprise activity or as a “cushion” in leaner times (economic crisis etc.). Another advantage we could mention is that these entrepreneurs usually know how to negotiate with banks and have an established network of contacts and acquaintances in their area. Problems mainly arise with this type of entrepreneur in their work with the target group (if they employ disadvantaged people) or generally in fulfilling and preserving their enterprise’s social mission.

The problem is the reverse with social entrepreneurs who come from the non-profit sector. These people are usually highly professional in their work with the target group, have contacts with other helping organisations, know how to create a project for their work, and know how to justify their target groups’ needs. They are not particularly familiar with the business environment, however, they do not have the necessary contacts and they do not possess financial capital for use as either a start-up investment or a fall-back. It also happens sometimes that they underestimate the importance of a business plan, i.e. they either fail entirely to draw up a market analysis, a marketing plan, turning point analysis, analysis of the competition, investment plan, financial plan, cash flow plan etc., or these various analyses and plans are of low quality.

The following statements apply for both types of entrepreneur and their success:

- the economic objective and social objective should be in equilibrium, as both objectives are equally important;
- they need to have a good idea that fills a market niche, generates interest among customers, and is in line with the organisation’s mission and based on its strengths.

## ***2.3 Comparison of the Czech Republic and other European countries***

At present only a few European countries have social entrepreneurship enshrined in legislation. Two examples we can mention are Great Britain and Italy. Both countries have a big head start in this area and are regarded by other countries as a model and a trove of examples of good practice.

### **2.3.1 Great Britain**

On the issue of institutional support for and legislation on social entrepreneurship in Great Britain we commissioned a detailed infrastructure study from Mr Ben Metz<sup>6</sup> mapping the main spheres of activity in the social enterprise sector over the past twelve years. The full wording of this study forms appendix 7 to this paper.

Great Britain is undoubtedly the country with the largest number of government-supported interventions in favour of the social economy and is unequalled by any other country in this regard. The development and implementation of government interventions in the social economy were greatly influenced by systematic pressure from lobbying organisations. A strong working relationship has thus been created between the government and the social-economy sector. There is considerable fluctuation, however, in both the quality of the government interventions and the support from ancillary organisations.

The Office of the Third Sector, which is part of the Cabinet Office, has been responsible for ensuring that social entrepreneurship is taken so seriously that it features in the agendas of eight different ministries. The social enterprise section and investment fund of the Department of Health, which has earmarked £100 million for the development of social enterprises in the public health

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<sup>6</sup> Ben Metz is a long-standing British expert in the social economy and social entrepreneurship; he is now engaged in many international projects around the world. For more information visit [www.benmetz.org](http://www.benmetz.org).

system, is worthy of note. The government is interested in having social enterprises deliver services for the public sector.

The ancillary services of the social economy are well developed in Great Britain but not yet entirely mature. The sector reliably provides many support activities for emerging and newly established social enterprises and social entrepreneurs. At a later stage of development social enterprises usually possess sufficient funds to buy all the necessary services and are therefore not so dependent on support organisations<sup>7</sup>.

The future is uncertain – like other countries in Europe, the current government in Great Britain is very keen to cut public spending and it is not yet clear what impact these cuts will have on the further development of social enterprises.

### **2.3.2 Slovakia**

During a presentation at the annual conference in Prague in September 2010 Prof. PaedDr. Gabriela Korimová gave this definition of the social economy:

*“The social economy is a set of socio-economic goals, instruments and organisational and legal measures intended to result in the objective reduction of social differences between individuals, groups of people and regions. The social economy consists of social enterprises and institutions organisationally independent from public administration which do the following when producing goods and services: 1) prioritise social objectives (labour over capital, public interest over profit, democratic participation regardless of ownership stake; 2) reinvest part of any profits for social and development purposes; and 3) develop human and social capital – social welfare.”*

In Slovakia social enterprises are defined in legislation by the amendment of Act No. 5/2004, on employment services, which entered into force on 1

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<sup>7</sup> Information taken and quoted from the study entitled *Infrastructure of the Social Economy in Great Britain* written by Ben Metz for the purposes of the project in 2010.

September 2008. A social enterprise is understood to be an instrument of support for employment and is defined by law as a legal or natural person at least 30% of whose workforce were disadvantaged job seekers before being employed. There is then a legal entitlement to a contribution towards the creation and preservation of jobs for these disadvantaged job seekers in the social enterprise. This contribution can be collected for 12 or 24 months<sup>8</sup>.

Eight pilot social enterprises were created in Slovakia with government support, but these later became the centre of a media scandal and were accused of inefficient use of the entrusted finances. Regrettably, the scandal helped discredit the idea of social enterprise in the eyes of the general public.

Furthermore, the perception of social enterprises in Slovakia is somewhat different from that in the Czech Republic. Social enterprises are a kind of “interim labour market” that helps the long-term unemployed from disadvantaged groups of the population acquire work habits and experience for a particular period (up to two years), i.e. a transitional work integration enterprise, similarly as in Austria, for example. After that period has elapsed, the disadvantaged employee leaves the social enterprise to re-join the ordinary labour market, where he puts his acquired work habits to use. The social enterprise therefore “only” prepares the disadvantaged job seeker for joining the free labour market.

### **2.3.3 Italy**

Italy is typified by the existence of social cooperatives, by an emphasis on the provision of social services and employment of disadvantaged people and the prioritising of social aspects over commercial aspects. A new age in the development of the social economy was ushered in by **Act No. 381/1991, on**

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<sup>8</sup> Cited from *Analysis of Experiences with the Introduction of the Social Economy in Slovakia*, drawn up by Peter Sokol in 2010, which forms appendix 8 to this study.

**social cooperatives** (amended in 2001), which are the most common legal form of social enterprises.

The said act defines two possible types of cooperative:

- Type A: regularly produces and sells social, medical and education services (e.g. kindergarten);
- Type B: integrates people with a health or social disability into production, which must be adapted to the employees' requirements (at least 30% of the workforce is disadvantaged). Typically a small production unit, production cooperative or cooperative providing other services. Like other cooperatives, social cooperatives respect the "one member, one vote" rule, regardless of the member's contribution. Any cooperative has to be founded by at least seven people.

The key legislation for the social economy – **Act No. 118, on social enterprises** – was passed by the Italian parliament in 2005. The act permits various legal forms of social enterprises, i.e. not just cooperatives – social cooperatives, social enterprises and associations may also be legal persons. Among other things, it lays down the criteria for defining social enterprises. A social enterprise must possess five features for non-governmental non-profit organisations: these are formal establishment, private legal form, ban on profit distribution, democratic management, and some volunteer work. Besides these features, social enterprises must carry on systematic economic activity that must be socially beneficial. A specific list of twelve areas of social benefit is given, the most important of which are social services, socio-medical services, children's education services, adult education services and social tourism.

During the project, the experts involved in TESSEA gradually formed their opinion on this issue, and their proposals and recommendations for the Czech Republic, based partly on these foreign examples.

## ***2.4 The social economy in strategic documents***

The social economy and social entrepreneurship are currently mentioned in several strategic documents. In most cases they are one of the tools for socially integrating disadvantaged groups of the population.

The social economy is incorporated into the *Concept of Roma Integration for the Period 2010-2013* and is part of the *Strategy of the Fight against Social Exclusion* being prepared by the Agency for Social Inclusion. It also became part of the *Recommendation for Municipalities and Towns for Preventing the Formation and Expansion of Socially Excluded Localities with the Emphasis on Satisfying Housing Requirements*, which the Ministry of the Interior of the Czech Republic published in conjunction with the Office of the Public Defender of Rights. Social entrepreneurship is part of the *National Action Plan of Social Integration for the Years 2008-2010* and the *National Plan of Support for and Integration of Citizens with a Disability for the Period 2010-2014*.

The Centre for Social and Economic Strategy of the Faculty of Social Sciences of Charles University in Prague included the social economy among social innovations as part of the research plan entitled *Vision and Strategy for the Development of Czech Society in the EU*. The social economy is part of the *Sustainable Development Strategy*.

## ***2.5 Key actors in social entrepreneurship in the Czech Republic***

### **2.5.1 Public administration**

Social entrepreneurship's triple bottom line makes it an interdepartmental issue.

Actual support for the social economy from the state is hindered by uncertainties as to whose authority this cross-cutting issue falls under. Each department is in charge of many agendas and is reluctant to take on new duties.

At many meetings we encountered the attitude that although it was a good cause that could generally be helpful we were recommended to approach a different department. This is a new, socially innovative issue that “isn’t assigned to anyone” and nobody is volunteering to add it to their powers and responsibilities. This situation has impaired social entrepreneurship’s chance of developing with the support of the state for many years now.

It is worth considering whether an interdepartmental body should be created to take charge of the social-economy agenda. The social economy concerns the Ministry of Labour and Social Affairs (MoLSA – social benefit); the Ministry of Industry and Trade (MoIT – economic benefit); and the Ministry for Regional Development (MfRD – local benefit). The Office of the Government of the Czech Republic, or more precisely and Government Council for Non-governmental Non-profit Organisations, and the Agency for Social Inclusion also deal with the issue of social entrepreneurship.

The information in the following part of the paper is partially taken from a study by the Finance WG entitled *Financing Social Enterprises – External Sources of Financing Available in the Czech Republic*, drawn up in 2010 by Marek Jetmar. The full wording forms appendix 9 to this paper.

#### **2.5.1.1 Ministry of Labour and Social Affairs (MoLSA)**

The Ministry of Labour and Social Affairs is one of three ministries concerned with the social entrepreneurship agenda. It is at present the only ministry that deals with this issue (it is actively engaged in supporting the development of the social economy and the formation of social enterprises). As in the entire state administration, there is no designation within MoLSA who bears overall responsibility for the social economy.

The situation is the same in the case of socially responsible public procurement, where the Ministry of the Environment, which deals with “green

procurement”, has no partner in MoLSA with which to negotiate on the possible social benefit of public procurement. In 2009 MoLSA announced two calls for proposals targeting support for the social economy. These are the only calls for proposals in the Czech Republic focusing exclusively on social entrepreneurship and, despite certain shortcomings that receive criticism from the expert or general public, their existence is without doubt a major fillip for social entrepreneurship in the Czech Republic.

The calls for proposals were:

- call for proposals no. 8 of the *Integrated Operational Programme* (IOP)<sup>9</sup>, under which applicants can apply for investment support;
- call for proposals no. 30 of the *Human Resources and Employment Operational Programme* (OP LZZ), under which applicants can apply for non-investment support.

These two calls for proposals are linked so that applicants can gain support for both the investment and the non-investment part of their business plans. The calls for proposals target the creation and development of new business activities focusing on social entrepreneurship and simultaneously enable socially excluded people or people at risk of social exclusion to enter the labour market. Under both calls for proposals it is possible to submit project applications on a continuous basis. The projects cannot be implemented in Prague and the maximum an applicant can apply for in both calls for proposals combined is €200,000.

The applicants’ success rate is not particularly high, however. What is more, many of the successful applicants only received support after making one or more corrections and repeatedly submitting their applications. Specifically, 210 project applications had been submitted and assessed under OP LZZ as of 31 August 2011; 34 applications had been supported (a success rate of approx.

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<sup>9</sup> Up to 29 July 2011 this was call for proposals no. 1 of the *Integrated Operational Programme*.

16%); but only 31 projects were being implemented. Under IOP 139 project applications were received; 32 were approved (a success rate of approx. 23%); but only 25 were being implemented (5 projects were withdrawn, 1 was discarded, 1 was submitted for reassessment).

MoLSA had originally reckoned with supporting applicants by means of training seminars and consultation on project applications and business plans. Coaching and advice were then meant to help the successful applicants. All this was meant to be paid for under technical assistance and it is our opinion that this kind of support would without doubt help raise the number of successful applicants in both calls for proposals and thus lead to an increase in the number of new social enterprises in the Czech Republic. Given the exacting nature and scope of the requirements the resulting number is really not particularly large. It is a shame that this intention was ultimately abandoned.

The European Commission, specifically, DG Employment, has prepared a facility to support the start-up of entrepreneurship for disadvantaged people. Called the *Progress Microfinance Facility*, it will also cover social entrepreneurship. The *Progress Microfinance Facility* could be an interesting alternative for starting-up social entrepreneurs in the Czech Republic. It is intended both for people who have lost their job or are at risk of doing so and for people who are at risk of social exclusion and want to set up their own micro-enterprise or to pursue self-employment. The money for this programme will come from the European Social Fund in the form of guarantees and micro-loans. MoLSA is currently looking for a suitable administrator for this programme and sounding out the demand for this kind of support.

#### **2.5.1.2 Ministry of Industry and Trade (MoIT)**

MoIT and its grant programmes do not directly target social-economy entities, but social enterprises may apply under the ministry's existing calls for proposals intended for small and medium-sized enterprises. The calls for

proposals target enterprises in all stages of their lifecycle, i.e. both starting up and already functioning.

Calls for proposals under the *Enterprise and Innovation Operational Programme* (OPPI) administrated by CzechInvest are largely aimed at supporting investments, with a smaller part intended to finance consulting and training. One considerable obstacle under this operational programme, especially for social enterprises getting started, is the condition that at least 40% (the level may change depending on the size of the enterprise and the region) of eligible project expenditure must be covered out of own finances.

OPPI funds can be drawn through 15 support programmes. Under these programmes applicants can apply for co-financing for their business projects in the processing industry and related services, either as non-returnable grants or cheap loans and guarantees. In reality, though, this option is more theoretical than practical and social enterprises do not make use of these programmes because they do not match their needs and possibilities. The study by the Finance WG mentioned in the introduction gives a detailed list, including characteristics and options.

### **2.5.1.3 Ministry for Regional Development (MfRD)**

MfRD is the managing authority for the *Integrated Operational Programme* (finances from the European Regional Development Fund), under which investment support is provided for the development of social enterprises. The details of this programme are mentioned in the section on MoLSA.

During this project we presented the concept of the social economy and social entrepreneurship to MfRD representatives; we drew their attention to the direct links to and impacts on local development and rural development. We are of the opinion that MfRD should not forget to include social entrepreneurs alongside the target groups of small and medium-sized enterprises in the next

programming period, whose grant mechanisms will focus on financial engineering.

#### **2.5.1.4 Regions and municipalities**

During this project we also sought to present the concept of social entrepreneurship to representatives of regions and municipalities. The local and regional dimension is one of the key characteristics, and use of local resources, prioritising of local demand and the needs of the local community should be a sufficient enticement for local government representatives. Gaining support for the social economy at both local and regional levels should continue to be one of the priorities in future.

The problem here is the same as at central level – the regions’/municipalities’ hierarchy and structure of competences make it impossible to find relevant partners/departments to discuss and negotiate with.

At present there is no financial support facility at these levels. However, most social entrepreneurs agree that they see great potential in the possibility of socially responsible public procurement. Considerable sums are released every year from public budgets to buy products and services. If public procurement took place transparently and the criteria included a social benefit requirement, regions and municipalities would not just save money: they would also contribute to sustainable development, they would support the integration of disadvantaged population groups and they would generally support economic development in their region.

Prague is the exception, where finances from *Operational Programme Prague – Adaptability* supported the creation of several social enterprises. At present these resources are being used in Prague to prepare an individual project to establish a Social Entrepreneurship Centre.

Social entrepreneurship should be explained to the representatives of regions and municipalities as, among other things, a potentially useful and indeed optimal tool for resolving social, local and regional problems, as social entrepreneurs usually possess a profound knowledge of their environment and make use of local and regional ties and their social capital. Social entrepreneurship also tends to be linked very often to innovative and creative approaches to tackling problems – that is best demonstrated by examples of good practice.

### **2.5.1.5 Unemployment, public budgets and the social economy**

As part of the project Ing. Jan Čadil PhD. drew up an *Analysis of the Cost to Public Budgets of a Median Unemployed Person*. The full wording forms appendix 10 to this publication. The analysis calculated that the average, or rather median unemployed person (the median value was chosen as more appropriate for this study, as 65% of the population of the Czech Republic is on a below-average wage) cost public budgets CZK 108,130 over a five-month period in 2009. Five months is the length of time the median unemployed person was without work. The monthly cost for public budgets therefore works out as CZK 21,626. The analysis shows that in total unemployed people cost public budgets roughly CZK 76.3 billion, mostly in lost taxes and insurance. That figure accounts for 6.5% of state budget expenditure.

The sum of CZK 108,130 includes direct costs such as unemployment benefit and the lost tax and social and health insurance revenues the individual and his employer stop paying when the individual loses his job. What makes this analysis special is that it also put a figure on the indirect costs that result from reduced spending among the unemployed. This reduced consumption leads to lower revenues from both direct and indirect taxes. The analysis reckoned with a statistically typical unemployed person, who is below the age of 40, has primary education or incomplete secondary education and spends around five months without work.

The results of the analysis show that it is in the interests of the public budgets for the state to support job creation for the long-term unemployed, the disabled and the socially disadvantaged, and to do so by promoting the development of work integration social enterprises. When these people are not in the labour market not only is value not created, these people also cause unemployment costs that are a burden on public budgets. And these costs significantly exceed the expenditure associated with supporting job creation.

Besides the impacts on public budgets that were precisely enumerated by the commissioned analysis, the employment of socially disadvantaged people also brings other positive effects that are hard to put a financial value on, but whose benefits are indisputable. Here we have in mind above all increased self-confidence and better mental and physical health in the socially disadvantaged, which results in savings in the consumption of medicines and medical care. The established social ties with colleagues or majority society may be another benefit. These are all positive effects stemming from the integration of the socially disadvantaged through participation in the work process.

#### **2.5.1.6 Evaluation**

Our findings lead us to believe that the current form of support given to social enterprises by the relevant ministries does not match their real needs. Considering that social enterprises carry on business activities and their impact on local development is substantial, in the next programming period support for social entrepreneurship should be included under the MfRD and MoIT operational programmes. The issue of social entrepreneurship should be incorporated into more strategic and programme documents of the Czech Republic.

There should continue to be mechanisms enabling the creation of social enterprises, but these should also be expanded to cover social enterprises in all

stages of the lifecycle, i.e. the focus should not be entirely on start-ups and existing social enterprises should also be supported. The spectrum of provided support should also be broader, meaning that support should be provided in more ways, not just through grants but by means of micro-loans, loan guarantees etc.

Given the vulnerability of the existing examples of good practice, grants should also be provided for enterprises' capacity building in general. By defining a set of indicators for social enterprises and work integration social enterprises (appendices 4 and 5 of this paper) we have found an ideal model that social enterprises should move towards. Most of them, however, do not have the capacity (whether financial or staffing capacity or expertise) to verify their compliance with the model or to set up mechanisms, processes or long-term strategic plans to steer them in this direction. Small grants for capacity building would have a positive influence on their professionalization and would undoubtedly help them stabilise their position on the market/in the region and would thus, from the long-term point of view, improve their sustainability. Capacity building can be financed out of the structural funds in the form of small-scale projects, as has been the case in Italy and Great Britain, for example.

The concept of social entrepreneurship should be presented to representatives of state administration and local government at regional and local level as well as to politicians in a way making clear all its benefits, impacts and values. The conclusions reached by the analysis of the cost of the median unemployed person will serve as a cogent argument.

We recommend that social and environmental aspects should be factored into public procurement at the level of state administration. Awarding points to social entrepreneurs in terms of their social and economic benefit when judging public procurement candidates would directly contribute to the development of

this segment of enterprise. Going about public procurement in this way, especially at local and regional level, would help reduce unemployment among disadvantaged population groups in the region (the necessary goods or services would be purchased while supporting the integration of disadvantaged groups on the labour market).

### **2.5.2 EU**

The social economy is supported by the European Union and its institutions, but it is left to the member states to decide whether and how to support social entrepreneurship. Within the European Commission, DG Employment and DG Enterprise have for long dealt with the issue of social entrepreneurship; DG Internal Market has recently begun to as well. DG Employment is giving more and more support to social entrepreneurship, as it is aware of its importance for social inclusion and the sustainability of the model of the social state. Social entrepreneurship is still a marginal issue for DG Enterprise.

The European Economic and Social Committee has devoted long-term and systematic attention to the social economy; it has drawn up a whole series of documents on this issue and recommends that the European Commission create a separate policy for social enterprises. At the Commission's request the Committee is currently preparing recommendations and draft measures that should be adopted in the sphere of social entrepreneurship.

Another issue that is dealt with at EU level is public procurement as a possible source of funding for social enterprises; there are also negotiations about supporting social entrepreneurship by making accessible or modifying the financial instruments intended for small and medium-sized enterprises.

DG Employment designed an interesting instrument to support entrepreneurial start-ups for disadvantaged people, the *Progress Microfinance Facility* (for more information see the section on MoLSA).

### **2.5.3 Non-profit sector**

The non-profit sector in the Czech Republic regards social entrepreneurship as a very attractive area. That is because many organisations view it as a potential source of additional funding for their primary mission.

Most NGOs are capable of writing good project applications and many of them have also improved their financial management. Given the quantity of controls and audits associated with EU funding for projects or providing social services, their functioning has also improved. Many NGOs in the Czech Republic have been active since the 1990s, so they have a long history and lots of experience. Last but not least, it should be mentioned that many Czech NGOs cannot imagine life without project funding from the EU and, seeing as this source of funding will come to an end in time, they are trying to find a new, alternative source.

The combination of all these factors convinces NGOs that social entrepreneurship is something they can handle; they have a tendency to take it lightly and begin without a sound business plan and without realistic prospects for the sustainability of their activities.

One weakness in social enterprises that have evolved from NGOs may be their degree of entrepreneurial drive and professionalism (especially as regards the thoroughness of their business plans) – their enterprises tend to be hard to sustain without grants and appropriations. This is not always the case, though, and there are some enterprises that emerged from the non-profit sector and do not take things too lightly in this regard.

We believe that NGOs should be supported in their efforts, so that they can found social enterprises as a complement to and a source of financing for their primary mission. There is one more reason for the non-profit sector's interest in

social entrepreneurship: for NGOs offering social services, employing their clients in a work integration social enterprise is a logical continuation of their social integration work. NGOs' social entrepreneurship thus makes them financially more self-sufficient and helps tackle social or environmental problems in innovative ways.

There should therefore be ancillary measures to counterbalance NGOs' weaknesses (usually entrepreneurial), either through training or consultation on their business plans. The transfer of good experiences from abroad, e.g. by means of social franchising, which is on the rise in countries with developed social economies, should also be encouraged. It should be possible to support the search for suitable, tried-and-tested inspiration from abroad and the subsequent purchase of a franchise for implementing this objective in the Czech Republic under grants for new social enterprise start-ups.

Fostering NGO's social entrepreneurship will lead to the non-profit sector's stabilisation and development and to a rise in the number of new social enterprises in the Czech Republic. To this end we recommend widening the main areas of the state appropriations policy of all departments in respect of NGOs to include social entrepreneurship, and in particular:

- 1) the start of economic activities that will be a long-term source of own revenues;
- 2) job creation for people from disadvantaged social groups;
- 3) the start of economic activities using local materials and local human resources;
- 4) training focusing on NGOs' economic activities.<sup>10</sup>

#### **2.5.4 Private sector**

The mainstreaming strategy was also aimed at the private sector. Many existing social enterprises have their roots in this sector – entrepreneurs who have

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<sup>10</sup> This recommendation was formulated by the head of the Definitions WG Marie Dohnalová for the Government Council for NGOs but was not accepted.

decided to do business “differently”. Some social entrepreneurs do not openly sign up to this idea – they merely do what they feel is necessary; their priority is not personal gain but feeling good about themselves. On the other hand, there are firms in the enterprise sector that claim to be social enterprises but their overriding priority is profit and they merely have a CSR strategy for behaving in a socially responsible manner.

There is no doubt that further attention should be paid to this area by informing and contacting business umbrella organisations and associations, the Chamber of Commerce and institutions (MoIT, labour offices, regions, municipalities) under which the agenda of small and medium-sized enterprises generally falls. Businesses can support social enterprises by becoming their customers, either by buying their products and services or by using them as sub-contractors. This cooperation can be incorporated into the company’s corporate social responsibility (CSR) strategy and used for promotional purposes.

The state can then offer social entrepreneurs a helping hand by making existing programmes to support small and medium-sized enterprise in the Czech Republic accessible to social entrepreneurs as well.

### **2.5.5 Universities and the education system**

At present the subject of social entrepreneurship and the social economy is taught at several universities and interest in this topic in academic circles is growing in proportion to the number of positive examples of social enterprises at home and abroad.

In collaboration with members of the Education WG Karel Rychtář drew up a study called *Analysis of Possible Forms of Education and Support for the Creation and Development of Social Enterprises in the Czech Republic*. The full wording of this analysis forms appendix 12 to this paper. Below we will mention at least some of the key information points contained in the analysis.

It follows from what has already been said that social entrepreneurship is in many regards more demanding than “standard” entrepreneurship. That is because the social entrepreneur has to have the ability to work with disadvantaged groups of employees as well as all the entrepreneurial and managerial skills that are taught on many courses at many secondary schools and universities – at least part of the social enterprise’s management must therefore have dual qualifications. As mentioned earlier, the social entrepreneur’s social and economic goals are equally important and both must be achieved if the enterprise is to prosper.

In the light of this fact, the education of social entrepreneurs must be adapted to this demanding reality and there should be an endeavour to equip them as best as possible with the knowledge necessary for this difficult work. The aforementioned analysis by the Education WG contains an overview of all the educational programmes in the Czech Republic (11 courses/activities in total) that are directly or partially applicable to training existing or future social entrepreneurs and managers.

Experience shows that it is not the “technical and administrative” fields (social work, management, economics, finance, law, marketing and trade, human resources et al.) that are the core of the education, but rather an add-on course focusing on explaining the approach and value system that differentiates social enterprises from standard firms. The study field of “social entrepreneurship” cannot be conceived as a full bachelor’s or master’s study course. The add-on course should mainly explain the understanding and value system that differentiates social entrepreneurship from standard businesses, i.e. its objectives, its primary values, the specific tools and skills it makes use of.

According to expert papers and studies, educational systems abroad also focus more on the organisational, legal and value-related aspects than on the

“technology” of social entrepreneurship. Trying to find talents, natural leaders and pioneers of social entrepreneurship projects and subsequently supporting them primarily in the field of education appears to be a more effective way than developing comprehensive study fields at the majority of university of higher vocational schools of the relevant focus.

The current range of education on offer for social entrepreneurs mainly targets novice social entrepreneurs. We believe that, like the financing system, the education and consultation system should copy the enterprise’s lifecycle, i.e. support should be provided not just at the outset but in the phase of further development as well, taking into account the real problems active social entrepreneurs encounter.

The offered individual consultation and educational courses should certainly cover such topics as: project management, sources of support and funding, work with target groups (work integration forms of social enterprises), crisis management, the use of social value added and PR etc. The subject of multisource financing (the environment of developed NGOs is more closely linked to this issue) and the psychology and sociology of the market, which would help social entrepreneurs concentrate on the use of social capital, are the gaps in the listed supplementary study programmes in the Czech Republic.

We moreover believe that a basic introduction to the concepts and values underpinning social enterprises should be taught at elementary school level. We are of the opinion that the teaching of responsible consumption needs to start in the pre-productive age. An understanding of the essence and values of social entrepreneurship and its contexts and principles should then be taught at universities, higher vocational schools and possibly secondary schools.

### 2.5.6 Financial institutions

As part of the project the Finance WG conducted research into the funding of social enterprises<sup>11</sup> that took place in the form of managed interviews with representatives of 16 social enterprises in the Czech Republic. The research revealed that the low availability of investment and, above all, operational loans from financial institutions/banks is a major obstacle to the stabilisation and further development of social enterprises. It was revealed that the majority of enterprises finance their operations from their own revenues. Breakdowns in payments from customers or delayed contributions from labour offices or MoLSA then cause liquidity problems. The low availability of bank loans is often associated with the problem of security on the provided loan (banks demand lien on real estate or that loans are secured by guarantors) or with the problem that the condition of the minimum turnover is not met (that can mainly be a problem for social enterprises that are getting started).

Based on these findings, the Finance WG conducted a field survey with representatives of financial institutions concerning the funding of social enterprises. The full study forms appendix 14 to this paper. The main aim was to identify the depth of understanding of the issue of social entrepreneurship among financial mediators, their attitudes to the needs of social enterprises and their financing and to check whether there are financial instruments or products that are suited to financing social enterprises. 5 institutions (4 private banks<sup>12</sup> and ČMZR<sup>13</sup>) were surveyed.

The survey shows that the financial institutions' awareness of social entrepreneurship is very low. A number of them had not come across this term and had no idea about its meaning. After the term had been explained to the financial institutions' representatives, they realised they had some working

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<sup>11</sup> For more information see appendix 13 *Financing of Social Enterprises: Assessment of Managed Interviews*. This survey took place with the methodological support of PhDr. Jaroslava Kaděřábková, a member of the Finance WG.

<sup>12</sup> The field survey took place at Raiffeisen Bank, Banco Popolare, Česká spořitelna and ČSOB.

<sup>13</sup> Českomoravská záruční a rozvojová banka, Czech-Moravian Guarantee and Development Bank.

experience with this kind of entrepreneurship (above all they had practical experience with production cooperatives and sheltered workshops).

In addition, the needs of this sector and its attractiveness in the eyes of the financial institutions' representatives were examined. Most of the surveyed institutions have no interest in creating special products for this segment (they do not perceive it as a separate segment); on the contrary, they have the feeling that the existing portfolio of products for the small and medium-sized enterprises segment is sufficient and do not see any need to adapt it, despite the fact that most of the banks declared a general interest in funding entrepreneurial entities in the social economy. The financial institutions' representatives stressed that what is important is the project (the quality of the business plan, the quality of management, the aspect of guarantees and risk management) the client approaches them with and not the segment the client operates in.

ČMZRB adopted a fairly reserved attitude towards financing social enterprises, because it does not define its priorities itself – these are determined by the government, or specifically MoIT. If the government decided to support social entrepreneurship, ČMZRB would certainly adjust its attitude to this segment and the creation of special financial products for social entrepreneurs would be open to discussion.

The fact that social enterprises also draw on finances from the labour offices or MoLSA for funding their operations (e.g. a contribution towards part of wages and contributions in the case of disabled people) was received positively by certain bank representatives (they saw it as a guaranteed stream of revenues covering the enterprise's costs) and negatively by others (if the enterprise's existence is dependent on state appropriations and the conditions are not guaranteed by the state and are liable to frequent change, then a loss of state funding could have a very negative impact on that enterprise's sustainability).

Only two of the surveyed banks (Česká spořitelna and ČSOB) responded to the social dimension of social entrepreneurship and were able to discuss possible links to their CSR strategy. The most progressive institution in this regard is currently Česká spořitelna, or rather the transnational group Erste bank: from 1 August 2011 to 30 September 2011 it is conducting a pilot project under which social entrepreneurs and enterprises in the Czech Republic can obtain a cheap bank loan (investment or operational loan).<sup>14</sup>

It is very difficult, practically impossible almost, for social entrepreneurs starting out to obtain a loan (without a history, without guarantees etc.): banks regard this kind of entity as insufficient established and therefore a risk.

Possible solutions would be supporting the activation of private non-bank sources (non-debt type funding – equity<sup>15</sup>, seed capital<sup>16</sup>, venture funds<sup>17</sup>), support for social enterprises by banks, cooperative banks and other financial institutions as part of their CSR strategy, or an information campaign to galvanise the public to finance social enterprises' investment requirements.

We also propose making use of alternative instruments for financing and supporting social enterprises, such as:

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<sup>14</sup> The product is not offered in Česká spořitelna branches. Applications and any enquiries are administrated via the e-mail address [socialnipodnikani@csas.cz](mailto:socialnipodnikani@csas.cz).

<sup>15</sup> Private equity means medium-term to long-term financing provided in return for a stake in the registered capital of enterprises whose shares are not traded on the stock exchange. Investments are channelled into companies which have the potential to create value and increase their market share and a business plan seeking to produce and offer a highly innovative product, process or technology. Source: <http://www.cvca.cz/cs/>

<sup>16</sup> The term “seed capital” is often used in conjunction with “venture capital” and “private equity”. It is the capital required to found an enterprise, invested in an enterprise at its outset.

<sup>17</sup> Venture capital is understood to mean medium-term to long-term capital invested in an enterprise. In return for the investment the venture capital fund obtains a stake in the enterprise's registered capital. Besides financial investment the fund also provides expert assistance (“smart money” principle), most commonly financial and strategic assistance when developing the firm. The form of expert assistance differs from investment to investment and depends on agreement between the investor and the enterprise. It can mean active participation in senior management or a passive role as a financial adviser. The investor usually brings the benefit of his contacts, which can help the firm in various areas of business and in gaining new customers. Source: <http://www.cvca.cz/cs/>

- a combination of grant policy and soft forms of support (such as cheap loans, guarantees, seed capital funds, venture funds);
- creating joint products with the private financial sector enabling the accumulation of capital for the investment needs of social enterprises (cheap loans, guarantees);
- creating joint products with the private enterprise sector enabling the accumulation of capital for the investment needs of social enterprises (equity funds, seed capital funds);
- creating joint products with the non-profit sector enabling the accumulation of capital for the investment needs of social enterprises (equity funds);
- creating mechanisms enabling the public to participate in financing the investment needs of social enterprises (bonds);
- setting up a system of investment incentives (tax assignments, write-offs) strengthening social enterprises' financial stability.<sup>18</sup>

### **2.5.7 General public**

One current trend among consumers is a clear preference for responsible and high-quality consumption consumers (although they are still a minority; the majority of consumers still considers price to be the most important criterion when buying goods and services). This trend needs to be encouraged so that people are interested in where products come from, what conditions they were made in, what distance they have had to travel and how many middle-men they have passed through.

It should be explained to consumers that by buying a product/service from a social enterprise they gain a high-quality product with a small ecological footprint, while supporting a “good cause”. Consumers should be encouraged to be curious.

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<sup>18</sup> Drawn and cited from the recommendations of the Finance WG with regard to the closing study on the social economy in the Czech Republic; drawn up by M. Jetmar.

### **2.5.8 Disadvantaged groups of the population**

Social entrepreneurship is clearly beneficial for this group. Getting a job through a social enterprise does not just mean they earn income in the form of a wage; it also means they integrate into the “normal” life of majority society. That often leads to improvements in their health (mental and physical), increased self-confidence, activation of their potential, further development, greater self-sufficiency etc. This group can also be viewed as potential “self-employers”, i.e. provided they receive adequate support (training, mentoring, advice when preparing and implementing their business plan) they can start small-scale entrepreneurial activities and employ first themselves and later, perhaps, someone from their environment. This trend is evident abroad as well and is generally supported.

### ***2.6 System of support for social entrepreneurship***

Bar a few exceptions, at present there are not many opportunities and programmes specialising in support for the social entrepreneurship segment. What is more, the existing support system focuses more on support during the first steps and overlooks support during subsequent stages of the enterprise’s lifecycle, support in crisis situations etc.

The basic types of support have already been mentioned in the text. A full list, including regional support and support for work integration social enterprises, is clearly set out in tables in the *Analysis of Education and Support for the Social Economy and Entrepreneurship* drawn up by Karel Rychtář in collaboration with the Education WG. The full version forms appendix 12 to this paper.

We recommend that grant programmes should also support ancillary organisations that will provide professional advice and consulting services to

social enterprises and also training services, both for starting-up entrepreneurs at the time when they are founding an enterprise (compiling a business plan) and during the enterprise's subsequent operation to ensure its activities are sustainable or during later stages in the development of social enterprises (period of expansion, branching out into new fields etc.). The professionalisation of social enterprises (setting up internal processes, rules, plans, indicators etc.) will help improve their stability and sustainability.

Support for social enterprises should also be provided in the form of a presentation of social enterprises' services and products, e.g. on the website of the proposed social entrepreneurs' platform.

### ***2.7 System for measuring the effectiveness of social entrepreneurship***

This issue was dealt with by the Measurement WG, which performed a pilot measurement using the SROI method in the social firm Modrý domeček in Řevnice. The following information is taken from this working group's final report, which was written by PhDr. Jaroslava Šťastná, Mgr. Eva Fraňková and Ing. Jakub Stránský, PhD. (the full report, including the results of the pilot measurement, forms appendix 16 to this paper).

Of the many evaluation methods, the Social Return on Investment (SROI) and Social Accounting and Auditing (SAA) methods are most widely discussed at present. The two methods partially overlap and complement each other. In view of the foreign references the working group chose the SROI method for the pilot measurement.

The SROI method looks at the return on the investment (donation, grant, investment), its effect on the organisation and the impact on the target group. It identifies the changes that have occurred – social, environmental and economic – and attributes a financial value to them. Where exact financial values cannot be determined, the method attributes an approximate financial value to outputs

by proxy based on similar, already defined money values. The result is the SROI index. That is a number expressing the ratio between the costs incurred and the calculated financial value of outputs. Besides the calculation, the SROI method also comprises a qualitative component describing the changes caused by the investment in question that cannot be measured by quantitative methods or monetised.

The best way to summarise and evaluate experiences with this method is with the SWOT analysis the WG compiled after completing the pilot measurement (more detailed information can be found in the Measurement WG's aforementioned final report in appendix 16).

<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>- Clarity, clearly defined work template</li> <li>- Quantification of some impacts</li> <li>- Qualitative dimension also preserved (individuals' stories, case studies)</li> <li>- Easily communicated (e.g. short, 3-6 page case studies often used)</li> <li>- Covers impacts in line with all three pillars of social entrepreneurship (economic, social, environmental)</li> <li>- Clear result of the analysis (SROI index)</li> <li>- Strong involvement of stakeholders – improves and affected groups' understanding involvement in activity</li> <li>- Allows a comprehensive approach to the evaluation of impacts at various levels (activity, project, organisation, strategy etc.)</li> <li>- Monetisation makes it possible to communicate outcomes, including to representatives of the enterprise sector and public</li> </ul>	<ul style="list-style-type: none"> <li>- Most social, psychosocial, environmental and ethical outputs and outcomes are hard to measure</li> <li>- Not possible to objectively compare the outcomes of different projects from different regions. Also problematic at intraregional level</li> <li>- Time consuming and organisationally demanding</li> <li>- Risk of demotivation of certain stakeholders – in such an event the method is unfeasible</li> <li>- Obtaining some data (especially statistics) can be impossible or expensive</li> <li>- Requires expert knowledge of the methodology</li> <li>- Expensive, especially if the organisation has no suitable expert</li> <li>- Result is largely dependent on the selected proxies; these may be subjective and/or contentious</li> <li>- Many (sometimes the large majority) data are mere estimates</li> </ul>

administration	<ul style="list-style-type: none"> <li>- There is no database of proxies for the Czech Republic</li> <li>- In the Czech Republic there is a minimum of trained experts, almost no examples of good practice, no elaborated proxies</li> </ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>- Development of regional databases of indicators of the impacts of social entrepreneurship</li> <li>- Pressure for more methodical reporting of outcomes in enterprises</li> <li>- Non-functioning projects can be exposed quickly</li> <li>- Possibility of creating a clear database of final reports to serve as information for investors</li> <li>- SROI index can have real informational value if based on a justifiable selection of proxies</li> <li>- SROI can also be used as part of the management of a project or organisation</li> <li>- Makes it possible to set quality standards and develop examples of good practice</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>- SROI used without a proper feedback as the only or main evaluation method</li> <li>- Analysis will be reduced solely to SROI index</li> <li>- It may prove impossible to achieve broad understanding and recognition of SROI method</li> <li>- Pressure put on manipulating analysis results</li> <li>- Imprecise comparison between various projects</li> <li>- Effort to achieve precision and validity may be abandoned (e.g. selection of population sample, standardisation of interviews, questionnaire structuring)</li> <li>- Mechanisms are not put in place for ensuring the quality of evaluation done using SROI</li> </ul>

Besides the aforementioned analysis by the Measurement WG, the WG translated into Czech a table entitled *Overview of the Approaches to Measuring Impact and Quality*. This is a very clear table recapitulating all the available and applied methods of measuring and reporting benefits. With the help of simple graphic symbols it shows the given method's time, personnel and expertise requirements, its complexity and the kinds of available support, so potential users can easily choose a suitable method. The table forms appendix 17 to this paper.

In addition, two case studies of the use of the SROI method and one case study of the use of the LM3 local multiplier method were carried out. All these case studies form appendices 18 and 19 to this publication.

It is generally fair to say that the SROI cannot be used widely in the Czech Republic at this point in time. The Czech Republic lacks the standardised procedures, tools and trained experts for this demanding kind of measurement, so the method is too expensive and time consuming for social enterprises. Its application without sufficient expert preparation would create many risks and inaccuracies and could result in the method becoming widely discredited. From the long-term perspective we regard SROI as an applicable method provided the necessary expert foundations are laid for its use, but that is not possible without the support of the state.

The capacity of the Measurement WG did not allow a sufficiently representative assessment of other methods used to evaluate the impacts of social entrepreneurship. It is therefore not possible to categorically identify one of these methods as suitable for application in the Czech Republic or to recommend it for application at the level of processes in public administration or among social enterprises themselves.

Clearly formulated goals for the development of social entrepreneurship need to be defined before methods can be chosen for evaluating the impacts of social enterprises that will respect these goals and help achieve them. We also recommend further research into and testing of possible evaluation methods, experience sharing with other countries and the gradual roll-out of methods grounded in the actual conditions of the Czech Republic. Introducing one specific method across-the-board and using it as a condition for obtaining public financing can only follow later.

## ***2.8 Awareness-raising, promotion***

The issue of awareness-raising and promotion is crucial and we are confident, given the shift in the population's habits towards sustainable and ethical consumption, that the issue of the social economy has a chance of succeeding among consumers and elsewhere.

Awareness-raising, promotion and mainstreaming<sup>19</sup> were conducted in line with the project's mainstreaming strategy; the Communication WG also worked on this issue. We mapped target groups and suitable tools for communicating with them and looked for examples of good practice abroad. We staged panel discussions in the regions, attended by leading experts on the given topic; successful social entrepreneurs from the region in question also featured among the panellists. At the end of each panel discussion a suggestion was made to establish of a local task force on this issue that would seek to make it part of local strategies, community plans, the priorities of regions and municipalities etc. In each region (with the exception of the Zlín region) where a panel discussion was held, a local advocacy group was formed; in some regions talks are being held with the regional authority on possible ways to support social entrepreneurship. The degree of activity displayed by these groups differs considerably and unfortunately we do not have adequate information about their activities.

We also operated the project website [www.socialni-ekonomika.cz](http://www.socialni-ekonomika.cz), which became the richest source of information about this issue in the Czech Republic. We regularly posted articles, interviews and other up-to-date information on the website. In addition we issued a quarterly bulletin, also full of interesting articles, interviews and news.

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<sup>19</sup> The purpose of mainstreaming is to promote innovative and successfully tested issues in order to widen their use.

When devising the promotion and awareness-raising strategy for social entrepreneurship and the social economy we decided to go with the times and make use of social networks to spread information and publish invitations to events. We also took inspiration from the trend of sharing videos online, so two short documentaries were filmed under the guidance of the head of the Communication WG: one about social cafés and restaurants in Prague and the other about the successful social entrepreneur Vojtěch Sedláček and his Agentura ProVás agency (these documentaries form appendices 1 and 2 to this paper).

As part of the promotion of social entrepreneurship we recommend creating a social entrepreneurs' platform to actively defend their interests in dealings with politicians and representatives of public administration at both national and regional level and in communication with representatives of financial institutions and other interest groups (the Chamber of Commerce, the Confederation of Industry, the Agrarian Chamber, the Agricultural Association, trade unions, the Association of Non-profit Organisations, the Czech National Disability Council and other equivalent organisations, political parties and platforms).

### ***2.9 Links to European thematic networks***

Many networking activities take place in Europe at both national and international level. One of the best-known is Social Economy Europe (SEE)<sup>20</sup>, a pan-European platform interacting with the European Union. It was founded by five European organisations in the year 2000 and is based in Brussels. It only affiliates umbrella organisations with a member base and it lobbies on behalf of their interests at EU level.

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<sup>20</sup> Formerly CEP-CMAF.

Also worth mentioning is the European Research Network (EMES), a network of 10 European research institutions and 10 individuals. The network studies the development of social entrepreneurship. In 1996 EMES was an abbreviation for an extensive French survey that developed into the founding of the network in 2002. The network's secretariat is based at the University of Liège. Our definitions and principles were based on those established by EMES.

Another interesting network is CIRIEC, an international research and information centre for the public, social and cooperative economy. REVES is a unique European organisation, founded on partnership between local and regional authorities supporting the social economy – it is currently trying to find a partner in the Czech Republic, so far without success.

At European level there is also an interesting international project called Community of Practice on Inclusive Entrepreneurship (CoPIE II), comprising workshops and conferences on various topics in order to support entrepreneurship in disadvantaged groups. The project has generated a number of interesting tools and also features experience sharing between staff in the management bodies of the ESF and invited experts. The European Commission is considering making use of CoPIE outputs in the new programming period.

Another international ESF project concentrating solely on the social economy is the Network for Better Future of Social Economy (BFSE). Besides experience sharing, its aim is to create tools that can be shared by the involved member states. MoLSA is involved in both these projects and also invites TESSEA experts to participate where necessary.

TESSEA's outputs have been regularly communicated to the OECD, whose Local Economic and Employment Development programme has dealt with the social economy and employment for more than 20 years.

Appendix 11 to this paper contains a directory of organisations dealing with the social economy in Europe drawn up by Peter Sokol in collaboration with the Communication WG.

### ***2.10 SWOT analysis of the social economy***

The SWOT<sup>21</sup> analysis of the social economy and social entrepreneurship in the Czech Republic was put together by the project implementation team and heads of WGs. The table shows clearly the successes and achievements made to date, the opportunities that remain to be exploited and also the problems we encounter and the threats we must bear in mind. The table is also a kind of recapitulation at the end of the descriptive part of the paper.

<b>Strengths:</b>	<b>Weaknesses:</b>
<ul style="list-style-type: none"> <li>• Attractive concept and guiding idea</li> <li>• Existing theoretical and communication basis (principles, studies – project outputs, TESSEA website etc.)</li> <li>• Development of the social economy in the Czech Republic can be based on foreign experiences and avoid certain contentious or risky steps taken abroad (e.g. Slovakia, Poland)</li> <li>• Growing number of existing examples of good practice in the Czech Republic and elsewhere</li> <li>• Existence of specialist platforms dealing with the social economy</li> <li>• Society increasingly perceptive to this topic</li> <li>• Growing interest in society in the social economy as a complement</li> </ul>	<ul style="list-style-type: none"> <li>• Difficult to define and institutionalise social entrepreneurship for the purposes of creating instruments of support (legislation)</li> <li>• Topic is hard to promote and communicate because of its broad definition</li> <li>• Distorted view of the phenomenon, narrowed down to mere inclusive employment of disadvantaged groups (most commonly the disabled)</li> <li>• Lack of professionalism and vulnerability of certain existing examples</li> <li>• Little interest and unclear support from the state</li> <li>• Low public awareness</li> <li>• Not part of the education system</li> <li>• Hard to achieve a balance</li> </ul>

<sup>21</sup> Strengths, Weaknesses, Opportunities, Threats.

<p>to the global economy</p> <ul style="list-style-type: none"> <li>• Acceptance of the ideas and potential of the social economy by institutions and stakeholders (at various levels)</li> <li>• Objective need to address local development and look for new solutions (the crisis has helped)</li> <li>• Existence of specific tools to support entrepreneurship – OP LZZ and IOP</li> <li>• There are a number of organisations that have for long dealt with this issue</li> <li>• The issue has become the subject of academic study</li> <li>• Increasingly common theme in education and the work of universities</li> </ul>	<p>between social and economic goals</p> <ul style="list-style-type: none"> <li>• Increased risk for entrepreneurs and also banks</li> <li>• Absence of support structures</li> <li>• Fragmentation or absence of the topic in the education system</li> </ul>
<p><b>Opportunities:</b></p> <ul style="list-style-type: none"> <li>• Effective exploitation of gaps in the local and regional market in goods and services</li> <li>• Trend in society towards responsible consumption</li> <li>• Social entrepreneurship products and services can be linked to a badge of quality</li> <li>• Media and their coverage of the topic</li> <li>• Possibility of referencing the EU – part of European policies</li> <li>• Potential for tackling problems at local and regional level</li> <li>• Potential for tackling problems of disadvantaged groups (job creation and socialisation)</li> <li>• Greater use can be made of foreign experiences</li> <li>• More effective use of further EU financing in the next programming period (not just social integration)</li> <li>• Generate public interest in the</li> </ul>	<p><b>Threats:</b></p> <ul style="list-style-type: none"> <li>• Tendency in state administration to shift its responsibility for resolving social services and regional and local deficits onto social entrepreneurship</li> <li>• Misuse of the instruments, name and phenomenon of social entrepreneurship for inappropriate interests (groups, individuals, personal gain)</li> <li>• Having only WISE enshrined in legislation will slow down the development of other types of social enterprises</li> <li>• Social entrepreneurship confused with charity and social services</li> <li>• Poor use of social enterprises discredits the issue</li> <li>• State fails to understand and appreciate the potential of social entrepreneurship</li> <li>• Business risks underestimated by the non-profit sector</li> <li>• Complicated rules for existing</li> </ul>

<p>issue</p> <ul style="list-style-type: none"><li>• Generate interest in the topic among politicians</li><li>• Make use of CSR for the needs of the social economy</li></ul>	<p>support will lead to grant support being stopped</p>
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### 3. Proposals section

The proposals are the result of long-term work by experts involved in the work of TESSEA and constitute the most important part of the study. Most of them are based on experiences in EU countries while reflecting the cultural and geopolitical context of the Czech Republic. Some of the recommendations have long-term validity; others are of immediate significance, however. The proposals are grouped by areas, but some overlapping is unavoidable. Although most attention has been devoted to legislation, the executive and structural funds, other areas are also important. To be put into practice, each recommendation must be elaborated in detail, and to this end the experts from TESSEA offer their experience and know-how.

#### Legislation:

**Incorporate into the act on employment the work integration social enterprise as one of the forms of active labour market policy with a view to creating jobs for the long-term unemployed and disabled or socially disadvantaged persons.** The work integration of these disadvantaged groups will also lead to their social integration and to savings in public budgets. Work rehabilitation should be supported in work integration social enterprises. The concept of this act should derive from a definition of work integration social policies based on the principles, characteristics and indicators drawn up for it by TESSEA. A pilot test is required first, however.

Support the gradual transformation of enterprises more than half of whose workforce is disabled into work integration social enterprises with a view to making these enterprises more effective and improving the quality of the employment of the disabled persons.

Apply the principles, characteristics and indicators of social enterprises drawn up by TESSEA to the practical definition of organisations with the status of “publicly beneficial” according to the draft new Civil Code. The question of

public benefit should be addressed in a way that supports the development of local and environmental social enterprise in places where there is no employment of disabled or social disadvantaged persons.

**The executive:**

**Support the formation of an interdepartmental body that will deal with the social economy and will integrate the departments affected by the social economy (above all the Ministry of Labour and Social Affairs, the Ministry of Industry and Trade and the Ministry for Regional Development). Until such a body is established, introduce regular coordinating meetings between representatives of the various departments.**

**Inform public administration about the ways and advantages of socially responsible public procurement.** Create a methodology for assigning public contracts incorporating social and ecological perspectives, thus enabling social enterprises to participate in public procurement. Perform a trial run of socially responsible public procurement. Introduce training for state administration so that it is familiar with this method. Introduce training for social entrepreneurs so they learn how to submit bids.

A department should be designated at the Ministry of Labour and Social Affairs to be responsible for coordinating the social economy agenda.

Support inclusive entrepreneurship for persons from disadvantaged groups in the form of self-employment within the framework of social enterprise.

**Structural funds:**

**Set up the operational programmes of the next structural funds programming period in a way supporting a systemic method of developing the social economy.** To this end a study should be commissioned out of

technical assistance finances to propose, based on experiences abroad, a comprehensive and interlinked system of support (e.g. the Polish and Finnish labour ministries cooperate with leading European experts for this purpose). The evaluations of the existing *The Social Economy Calls for Proposals* and *Analysis of Financial Instruments for Social Entrepreneurship* drawn up by the Ministry of Labour and Social Affairs for the international BFSE network should also be used when setting up operational programmes in the next programming period.

**Finance the establishment and start-up of social enterprises in the form of non-returnable financial support, always accompanied by consulting. Finance the development of already functioning social enterprises by providing loans**, i.e. by making use of financial engineering instruments, again combined with **the provision of consulting**. Use both the ESF and ERDF to support the social economy in the new programming period.

**Provide support from EU grants to finance organisations that will provide professional consulting, advice and training services to social enterprises in line with their requirements.**

Incorporate a facility for social enterprises' capacity building into the new structural funds programming period in the form of a small projects fund (global grants).

In connection with the use of the *Progress Microfinance Facility* being prepared a support system for applicants and beneficiaries should be created in a way making it applicable to and coordinated with support activities for social entrepreneurs.

Provide potential founders of social enterprises responding to call for proposals no. 8 Integrated OP and call for proposals no. 30 OP Human Resources and

Employment with intensive support for preparing projects and business plans with a view to increasing absorption capacity. Provide advice and support to beneficiaries of appropriations from these calls with a view to ensuring the social enterprises created are sustainable.

Capitalise on the growing interest in social enterprise among regional authorities and announce a call for proposals under OP Human Resources and Employment for individual projects with a view to creating instruments to support social enterprise.

**Appropriations and grants:**

**Support social entrepreneurship of NGOs by including social enterprise among the principal areas of state appropriations policy in all departments in respect of NGOs** with a view to starting economic activities as a source of own income, creating jobs for persons from disadvantaged social groups, starting economic activities using local material and human resources and training focused on NGOs' economic activities.

**Follow up the individual calls for proposals with support, training and advisory activities both for applicants and beneficiaries of the given grant programmes.**

Support the start-up of new social enterprises by enabling purchases of social franchises, which are on the rise in countries with a developed social economy.

**Advice services:**

**Provide support to social enterprises in all phases of their lifecycle, i.e. not just at the time of founding but during the stabilisation and professionalisation of already functioning enterprises** (e.g. in the form of capacity building). Build a training and advice system in a way enabling it to

respond to actual situations social enterprises face (crisis periods, periods of expansion, entry into new fields etc.).

Support NGOs in founding independent social enterprises and in developing social enterprise activities as an auxiliary activity to finance the organisation's main mission.

**Training:**

**Look for talents, natural leaders and pioneers in social enterprise projects and support them, especially through training.**

Teach schoolchildren the principal values social enterprises represent, starting in primary school.

Introduce university education for social entrepreneurs as an additional course complementing standard skills (managerial, entrepreneurial and economic skills), focusing mainly on teaching the concept of the triple bottom line and the use of specific instruments and skills.

**Awareness:**

**Inform representatives of regions, municipalities, state administration and local government and political representatives about why social enterprise is the ideal tool for tackling social, local and regional problems through innovative approaches,** in particular by spotlighting good examples.

Cooperation should be established and deepened between the private sector and social enterprises in the form of subcontracts, purchases of goods and services and implementing the corporate sector's CSR strategies.

An information campaign for the public should be staged to encourage consumers to be more curious about the origin of the product or service they are buying and to motivate them to consume responsibly.

**Building the social economy sector through its actors:**

**Create a platform of social entrepreneurs who will actively defend their interests and jointly present their products and services.**

Support the creation of incubators for social enterprise start-ups and for novice entrepreneurs from disadvantaged groups.

Promote innovative solutions to the financing of new or existing social enterprises (activation of private non-bank sources, combining grant policy with the provision of soft forms of support, creating joint products with the private financial sector, with the private enterprise sector, with the non-profit sector, ethical banking etc.).

Support the measurement of the effectiveness and working of social enterprises through their professionalisation and capacity building and, in time, follow this up by introducing impact measurement methods.

Before introducing across-the-board measurement of effectiveness as a condition for obtaining public funding, further research into and testing of the possible methods for evaluating benefits should be done, combined with studying the experiences of other countries while respecting Czech conditions. The suitability of introducing one measurement method or a combination of methods should also be considered.

## **4. Conclusion**

The formation of the TESSEA network, the achievements of its working groups and the project activities have advanced the social economy in the Czech Republic a few steps forward. As is often the case, the end of one phase opens the door to further activities. Each recommendation we make leads to many further tasks, so instead of being tempted to rest on our laurels we should get back to work.

This paper is, among other things, a good basis for discussion among all the concerned parties and outlines the optimal continuation of the social economy in the Czech Republic. The recommendations should be fleshed out into individual goals and activities or, in some cases, backed up with more detailed studies and analyses.

This paper deserves a less serious, more poetic conclusion. The following image occurred to us: at this point in time social entrepreneurship can be compared to a delicate flower, or more like a shoot, which has a chance to grow, mature and bear fruit. For this to come about, it has to be watered and cared for, and in time it will produce the desired results. Let's create the right conditions for social entrepreneurship so that it can help society, because there is no doubt it has the potential and the ability to do so.

## **List of abbreviations:**

SE – social economy

WISE – work integration social enterprise

OECD – Organisation for Economic Cooperation and Development

EU – European Union

OP LZZ – Human Resources and Employment Operational Programme

IOP – Integrated Operational Programme

MoLSA – Ministry of Labour and Social Affairs

MoIT – Ministry of Industry and Trade

MfRD – Ministry for Regional Development

NGO – Non-profit non-governmental organisation

ESF – European Social Fund

ERDF – European Regional Development Fund

CSR – Corporate Social Responsibility

# **Study of the Infrastructure of the Social Economy in the Czech Republic**

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