

*Routledge Studies in Social Enterprise & Social Innovation*

# **SOCIAL ENTERPRISE IN CENTRAL AND EASTERN EUROPE**

**THEORY, MODELS AND PRACTICE**

Edited by

Jacques Defourny and Marthe Nyssens

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# Social Enterprise in Central and Eastern Europe

In the last two decades, the quest for a widely accepted definition of social enterprise has been a central issue in a great number of publications.

The main objective of the International Comparative Social Enterprise Models (ICSEM) Project (on which this book is based) was to show that the social enterprise field would benefit much more from linking conceptualisation efforts to the huge diversity of social enterprises than from an additional and ambitious attempt at providing an encompassing definition. Starting from a hypothesis that could be termed “the impossibility of a unified definition”, the ICSEM research strategy relied on bottom-up approaches to capture the social enterprise phenomenon in its local and national contexts. This strategy made it possible to take into account and give legitimacy to locally embedded approaches, while simultaneously allowing for the identification of major social enterprise models to delineate the field on common grounds at the international level.

*Social Enterprise in Central and Eastern Europe*—the last volume in a series of four ICSEM-based books on social enterprise worldwide—will serve as a key reference and resource for teachers, researchers, students, experts, policymakers, journalists and others who want to acquire a broad understanding of the social enterprise and social entrepreneurship phenomena as they emerge and develop in this region.

**Jacques Defourny** is Professor Emeritus at the Centre for Social Economy, HEC Management School, University of Liege, Belgium. He was a founder and the first President of the EMES International Research Network.

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# **Routledge Studies in Social Enterprise & Social Innovation**

Series Editors: Jacques Defourny, Lars Hulgård,  
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Social enterprises seek to combine an entrepreneurial spirit and behaviour with a primacy of social or societal aims. To various extents, their production of goods or services generates market income which they usually combine with other types of resources. A social innovation consists of the implementation of a new idea or initiative to change society in a fairer and more sustainable direction.

Routledge Studies in Social Enterprise & Social Innovation seeks to examine and promote these increasingly important research themes. It particularly looks at participatory governance and social innovation dynamics in social enterprises and more widely in partnerships involving third sector and civil society organizations, conventional businesses and public authorities. In such perspective, this series aims at publishing both breakthrough contributions exploring the new frontiers of the field as well as books defining the state of the art and paving the way to advance the field.

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and Marthe Nyssens

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# Preface and Acknowledgements

This book is part of a series of four volumes produced under the “International Comparative Social Enterprise Models (ICSEM) Project” and focusing, respectively, on Asia, Latin America, Western Europe and Central and Eastern Europe. Various countries not belonging to these major regions were also covered by the Project; the contributions linked to these countries have been published in a special issue of the *Social Enterprise Journal* (2017, vol. 13, no. 4).

Launched in July 2013, the ICSEM Project is the result of a partnership between an “Interuniversity Attraction Pole on Social Enterprise” (IAP-SOCENT), funded by the Belgian Science Policy (BELSPO), and the EMES International Research Network. Over eight years, it gathered around 230 researchers from some 55 countries across the world to document and analyse the diversity of social enterprise models and their ecosystems. In the last three years, this research was also based upon work from COST Action 16206 Empower-SE, supported by COST (European Cooperation in Science and Technology; [www.cost.eu](http://www.cost.eu)).

First and foremost, the production of these volumes relied on the efforts and commitment of local ICSEM Research Partners. It was also enriched through discussion in the framework of Local ICSEM Talks in various countries, Regional ICSEM Symposiums and Global ICSEM Meetings held alongside EMES International Conferences on Social Enterprise. We are grateful to all those who contributed, in one way or another, to these various events and achievements of the Project.

All ICSEM-related publications also owe much to the outstanding editorial work of Sophie Adam, Coordination Assistant, to whom we express special thanks. We are also grateful to Elisabetta Severi, who provided a valuable assistance in the cleaning of the data collected through a common questionnaire in most of the countries.

We also want to express warm thanks to BELSPO and to our Supporting Partners, the “Fondation Crédit Coopératif” and the “Groupe Caisse des Dépôts” (France) as well as the “InBev-Baillet Latour Fund” (Belgium) for their crucial financial support.

Jacques Defourny and Marthe Nyssens  
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research deals with socio-economic logics of “not-for-profit organisations”; she analyses the role of these organisations and their relations with public policies, the market and civil society in fields, such as work integration, care or the commons.

### **Contributors**

#### **Tribute to Éva G. Fekete by her co-authors**

Prof. Éva G. Fekete was a respected and recognised researcher and practitioner of Hungarian rural development, a professor at the University of Miskolc and former head of the Northern Hungarian Department of the Centre of Regional Studies at the Hungarian Academy of Sciences. Throughout her work, Éva stood for the advocacy of the socially and spatially marginalised. Her passing in April 2017 is an incredible loss, and she will be greatly missed.

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# Introduction

## Documenting, Theorising, Mapping and Testing the Plurality of SE Models in Central and Eastern Europe

*Jacques Defourny, Melinda Mihály,  
Marthe Nyssens and Sophie Adam*

In comparison with other regions of the world, Central and Eastern European (CEE) countries display various features which make the landscape of social enterprise (SE) in this region quite specific.

First, although various expressions of civil society have existed in CEE countries for a long time, the era of state socialism, which lasted several decades, left no space—or a very limited one—to the forms of organisation that would today probably be considered as social enterprises: social cooperatives, associations, foundations, social-integration centres, mutual-benefit funds and public-benefit companies (Lés and Kolin 2009). The legacy of such centralised socialist regimes is by no way “neutral” and still induces various types of influence on both the organisations themselves and their institutional environment (Ciepielewska-Kowalik *et al.*, Chapter 12 in this volume).

Another key feature of the SE field in CEE countries is the dominance of the “transition myth”, which mostly induces policies that are highly reliant on the creation of a free market and fail to appreciate the value of “alternative” organisations and enterprises, rooted in local and collective dynamics (Borzaga *et al.* 2008). Moreover, to a large extent, the neoliberal paradigm has been espoused by the media, the elites and politicians, and little attention is paid to collective and solidarity values (Fougère *et al.* 2017).

Thirdly, academic and grey literature discussing social enterprises in CEE is strongly influenced by the “European-integration narrative”, which is built on an evolutionary approach towards development and stresses, the need and the capacity of CEE countries to “catch up” with more developed European Union (EU) countries (Nenovsky and Tochkov 2014). Most of the scholars would also concur on the fact that many programmes of the EU have exerted and still exert a strong influence on the way in which social enterprise is understood and shaped in the region. The same is true regarding the way in which SE missions are framed, thereby fostering homogenous trends and moves across countries and

fields, and thus overlooking the fact that the very nature of social enterprise is closer to grassroots dynamics and bottom-up movements; but without strong endogenous drivers, exogenous factors only produce short-term and often vague effects (Cvejić *et al.*, Chapter 14 in this volume). In any case, many researchers would conclude that the emergence of social enterprise in Central and Eastern Europe can rather be linked to EU policies and to international donors' programmes than to national policy reform strategies (Srbijanko *et al.* 2016; Vidović and Rakin 2017; Baturina *et al.*, Chapter 13 in this volume).

In the framework of various EU-funded research projects covering most of the European countries, some research leaders tried to avoid conceptual debates and decided to build *ad hoc* SE "operational" definitions.<sup>1</sup> Such a strategy proved to be useful to deal with certain types of issues, for instance, to compare legislations or policies targeting disadvantaged persons. However, when it comes to defining the boundaries of the SE field, the limitations of such approach become quite obvious, especially if statistics about the weight of social enterprises or their value added are expected to be delivered to the funding institution(s).

As evidenced by the overviews of existing definitions of social enterprise and social entrepreneurship proposed by Dacin *et al.* (2010), Brouard and Larivet (2010), Bacq and Janssen (2011), Alegre *et al.* (2017), Aliaga-Isla and Huybrechts (2018) or Persaud and Bayon (2019), the concept of social enterprise is still heavily debated in various scientific arena (academic journals, conferences, etc.). Some of these authors also tried to build their own synthesis, in an attempt to reach larger conceptual agreements, which could serve as foundations and key references for the academic sphere, public authorities promoting SE development and intermediary bodies providing various types of services (advocacy, legal or technical tools, financial support and so on).

In spite of all these efforts, it is today acknowledged, to a large extent, that the SE field is too wide and too diversified to be embraced by a single definition which would be unanimously accepted. Against such background, an increasing number of scholars tend to adopt an alternative research strategy whose main principle is to accept *a priori* SE diversity and to describe the various types or categories of social enterprise. Some go one step further and look for factors that could account for such diversity.

This book clearly adopts this alternative strategy, and it focuses on social enterprise as the main unit of analysis. As far as the geographical coverage is concerned, this volume is part of a series of four books on social enterprise, covering, respectively, Asia (Bidet and Defourny 2019), Latin America (Gaiger *et al.* 2019), Western Europe (Defourny and Nyssens 2021) and Central and Eastern Europe (this volume).

In Europe, the very first study of social enterprise covering several countries and comparing SE types dates back to the late 1990s (Borzaga and

Defourny 2001).<sup>2</sup> In line with this pioneering work, the EMES Network then went on to deepen the analysis of SE types operating in a specific field and with a specific mission: the work integration of disadvantaged and disabled people (Nyssens 2006).<sup>3</sup> Since then, various research projects have been developed at the European level, oriented to management tools, policy instruments and other challenges related to the promotion and development of social enterprises.<sup>4</sup>

But the comparative analysis of SE types or models still lacked strongly integrated theoretical foundations and, even more, empirical surveys that would enable researchers to statistically test typologies of SE models; this was all the more true at the international level, as empirical relevance should be sought beyond national borders.

This book aims precisely at documenting SE diversity in CEE countries, as well as addressing the lack of a scientifically robust typology of SE models by providing an analysis that combines two key strengths: (1) it is rooted in sound theoretical grounds, allowing for a wide diversity of SE models within each country and across countries; and (2) it is supported by strong empirical evidence, provided by the statistical exploitation of a large international dataset, resulting in turn from a survey carried out in the same way in many countries.

The International Comparative Social Enterprise Models (ICSEM) Project was designed in this twofold ambitious perspective. This large research project was carried out over several years by a large number of research partners from all world regions. In this introductory chapter, we will show how this Project was structured and developed along three major phases, which took place one after the other in most cases, but not exactly at the same time across countries, as many researchers actually joined the project at different times during its first years.

## **1. Documenting SE Diversity (Phase 1 of the ICSEM Project)**

The International Comparative Social Enterprise Models (ICSEM) Project was presented and launched at the end of the 4th EMES International Research Conference on Social Enterprise, which was held in Liege (Belgium) in early July 2013. From the outset, some 100 researchers from 25 countries decided to get involved and committed themselves to carrying out the proposed work over at least four years. Over the following twelve months, some 80 additional researchers joined the Project, and some others came in each year until 2016; by 2018, the ICSEM community of active research partners gathered 230 researchers from some 55 countries from all regions of the world.<sup>5</sup>

In short, the main objective of the ICSEM Project was to document the diversity of SE models as a way (1) to overcome most of the problems related to the quest for a unifying and encompassing conceptualisation



of social enterprise; (2) to try to theoretically and empirically build an international typology of SE models; and, consequently, (3) to pave the way for a better understanding of SE dynamics and ecosystems.

### *1.1. Country-Based Contributions About the SE Landscape*

All researchers involved in the project were first asked to provide a “country contribution” about the SE landscape in their respective countries. Two distinctive features of this approach should be underlined. First, no *a priori* strict definition of social enterprise was imposed for these national contributions. We broadly delineated the field of analysis as “made of organisations that combine an entrepreneurial dynamic to provide services or goods with the primacy of their social aims”. The emphasis was put on the embeddedness of the SE phenomenon in local contexts. Secondly, most of the research was carried out by teams rather than by individual researchers, and this fostered discussion at the local or national level, thereby reducing the risks of biases induced by purely personal perceptions.

On such a basis, researchers were requested to follow a work plan made of three main parts.

Part A—titled “Understanding concepts and context”—aimed to address questions such as: Is the notion of social enterprise explicitly used in your country? If so, in which circles: academic spheres, among policymakers, civil-society organisations . . . ? What is (are) the major existing or emerging conception(s) of social enterprise in your country? Is it (are they) rooted in any specific social, political or cultural background? Which other terms or concepts tend to be used in your country (instead of or beside that of social enterprise—for example, social entrepreneurship, non-profit organisation, social economy, voluntary organisation and NGO)? Do public authorities tend to be interested in the notion of social enterprise? If so, which kind of conception tends to be adopted in their discourse or policies?

In a similar perspective, a recent EU-funded study on “*Social Enterprises and Their Ecosystems in Europe*” proposed a comparative analysis of the degree of acceptance of the concept of social enterprise across European countries (see Table 0.1). In spite of the limitations of such exercise, it is striking to note how the acceptance of the SE concept seems different in Western Europe and in Central and Eastern Europe. In the Western part of Europe, social enterprises benefit from a strong political and legal recognition as well as from a high level of self-recognition in only three countries—namely Italy, the UK and Ireland. In “Latin” European countries other than Italy, the SE concept is challenged by other notions, such as the social and solidarity economy, social entrepreneurship, corporate social responsibility or social innovation. In most of the other Western European countries, and especially in Scandinavia and Germany, the central place of traditional welfare institutions leaves little

Table 0.1 Degree of acceptance of the SE concept in European countries

<i>Degree of acceptance</i>	<i>Country</i>
Politically and legally accepted—large self-recognition	Ireland, Italy, the United Kingdom
Challenged by social economy/social and solidarity economy	Belgium, France, Greece, Luxembourg, Portugal, Spain
Not commonly used—limited space due to traditional welfare institutions	Austria, Denmark, Finland, Germany, Iceland, The Netherlands, Norway, Sweden
Politically and legally accepted but narrow understanding (work integration)—weak self-recognition	Bulgaria, Croatia, Czech Republic, Finland, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia, Serbia, Sweden
Challenged by other concepts, such as corporate social responsibility, social entrepreneurship and social innovation	Cyprus, Denmark, Estonia, Iceland, Montenegro, The Netherlands, Norway, Sweden
Emerging acceptance	Albania, Malta, North Macedonia, Turkey

Source: European Commission (2020: 35)

space for discourses about the SE concept and for social enterprises to play a significant role as key actors.

From the point of view adopted in this table, the situation in CEE countries appears much more homogenous, as almost all CEE countries are listed in the same cell. A more thorough reflection on this single cell also reveals at least three interwoven features that are probably shared by a large majority of social enterprises in most of the CEE countries. First, in the eleven CEE countries listed in this category, the SE concept is said to be “politically and legally accepted” but with a “narrow understanding”; it is actually understood as referring only to the field of work integration. Secondly, this field happens to be the priority of many EU programmes. Being eligible to such funding programmes is certainly a strong incentive for both governments and organisations to pursue a goal of employment creation for disadvantaged groups. Moreover, most of the new legal frameworks which have been passed in CEE countries to enhance SE development clearly target unemployed, unskilled or disabled people. Thirdly and finally, a “weak self-recognition” might mean, in such contexts, that social enterprise is more an instrument to attract new resources than a qualification expressing a deep identity.

Part B—titled “Mapping SE categories”—aimed to identify and characterise various sets of social enterprises as well as their fields of activity, social mission, target groups, the public or private forms of support they receive, their operational and governance models, stakeholders, etc. In such a perspective, researchers were encouraged to collect and analyse all

available literature and documentation, to establish a first classification of the main groups/categories of social enterprises, either on the basis of existing classification(s) or through personal intuitive attempts, and to select the main indicators or variables reflecting the major features that differentiate these various categories.

It was suggested to use, as one among other tools, the three dimensions of the EMES “ideal-typical” social enterprise—namely the nature of the social mission or social aims, the type of economic model and the governance structure—to inform the diversity of social enterprises. In the EMES approach to social enterprise, these three major dimensions can be apprehended through various indicators—more precisely, three indicators are proposed for each dimension.<sup>6</sup> Most importantly, these indicators were never intended to represent a set of conditions that an organisation should meet to qualify as a social enterprise; rather than constituting prescriptive criteria, they describe an “ideal-typical” social enterprise in Weber’s terms, that is, an abstract construction or a tool, analogous to a compass, which helps locating social enterprises (“stars”) or groups of social enterprises (“constellations”) relative to one another in the “galaxy” of social enterprises. Therefore, the EMES SE ideal-type has to be seen as an analytical construct, an “abstract model” in relation to which enterprises can be located.

Part C—titled “Analysing institutional trajectories of the main SE categories or types”—aimed to identify and describe the main “institutions” (at large) shaping the profile of social enterprises: legal frameworks used by social enterprises, public policies and programmes, major forms of financial support, tools such as norms or accreditations, federations of social enterprises and private charters to which they subscribe.

All the country contributions prepared during this first phase were presented and discussed during ICSEM Meetings, which took place in different parts of the world.<sup>7</sup> Then, revised versions of these country contributions were published in the series of ICSEM Working Papers.<sup>8</sup> The quantity and the average quality of these Working Papers led us to consider the publication of three “ICSEM books” focusing on three different parts of the world—namely Asia, Latin America and Europe. As already mentioned earlier, the first two books, covering Asia and Latin America, were published in 2019 (Bidet and Defourny 2019; Gaiger *et al.* 2019), but the number of contributions on European countries kept increasing, thanks to the support of a European COST Action.<sup>9</sup> As a result, two books, instead of one, were finally prepared to cover the European landscape, respectively, on Western Europe and on Central and Eastern Europe in a broad sense (including Georgia and Russia).<sup>10</sup>

The first part of the present volume, dedicated to Central and Eastern Europe, is made up of contributions covering Bulgaria, Croatia, the Czech Republic, Georgia, Hungary, Latvia, Lithuania, Poland, Romania, Russia and the Slovak republic.

## 1.2. *Transversal and Comparative Analyses*

In addition to—and on the basis of—country contributions, several international research teams were formed to address some transversal issues through a comparative analysis. In such perspective, four chapters (namely Chapters 12, 13, 14 and 15) were prepared to highlight some specific SE features across CEE countries. These four chapters correspond to a second level in the first phase of the ICSEM Project, which aimed to “document SE diversity”. As already underlined earlier, two cross-cutting themes emerge from the transversal chapters, which analyse the emergence of social enterprise in CEE from different angles. One of these themes is the historical legacy of state socialism; the other one is the role of international financial support in SE development, including the role of international donors and the EU as a supra-national actor.

### *The Historical Legacy of State Socialism*

The transversal chapters distinguish three main types of former socialist states: (1) countries that were ruled by the USSR, such as Armenia and the Baltic States; (2) the so-called “allied states” of the USSR, such as Czechoslovakia, Hungary and Poland; and (3) post-Yugoslav countries, such as Croatia and Serbia. The most oppressed socialist states were the former republics of the USSR, such as Armenia (see Chapter 14) and the Baltic states (see Chapter 15). Socialism started earlier in these countries than in post-Yugoslav countries and in the allied states. The Soviet occupation of Armenia started right after the communist revolution in Russia; as a socialist state, Armenia was thus among the founding members of the USSR in 1922. The Soviet occupation of the Baltic states started in 1939 and lasted for some 50 years. Yugoslavian countries were the least oppressed among the three types of socialist states. Indeed, the “Yugoslavian type” of state socialism gave more freedom to people than “Soviet-type” socialist regimes (which included both the Soviet socialist republics and the allied states), as it was based on self-management and was largely marked by more liberal tendencies (see Chapter 12 in this volume). The allied states of the USSR were in an intermediate situation: they were not Soviet republics but still had a “Soviet-type” socialism (ideologically marked as “real” socialism), which was more repressive towards human rights and freedoms (see Chapter 12) than state socialism in Yugoslavia. Although state socialism was implemented at the same period (after World War II) in Yugoslavia and in the allied states, the political democratisation started later in former Yugoslavia, due to the Yugoslav Wars (1991–2001) (see Chapters 12 and 14), than in the allied states (1989–1990).

The authors of all the transversal chapters concur on the fact that all the three types of state socialism had a negative influence on the cooperative

movement and on formal civil society in CEE countries. Prior to state socialism (before World War I and during the interwar period), the cooperative movement was strong in Serbia (see Chapter 14), Croatia, Czechoslovakia, Hungary and Poland (see Chapter 12). But the cooperative movement of the 20th century, despite having a strong rural base and an image of representing primarily the interests of small-scale farmers (see Chapter 14), was not necessarily a bottom-up democratic movement. For instance, capital and politics played an important role in the Hungarian cooperative movement, and the leaders of cooperatives were not small-scale farmers but members of the ruling political elite. Under state socialism, cooperatives became fundamental economic institutions, and they even monopolised some branches (such as farming) under centrally planned economies (see Chapter 12). They also became instruments of the socialist regime: they were fully controlled by the state, and membership in them was compulsory. After the collapse of most of the socialist regimes and during the Yugoslav Wars (1991–2001), the number of cooperatives remained smaller than before World War II, and they were still hindered from becoming democratic organisations, autonomous from the state (see Chapter 14).

As far as voluntary organisations are concerned, they have existed in Poland, Hungary, the Czech Republic, Slovakia and Croatia since the Middle Ages (see Chapter 12). Beside organisations dominantly driven by the Catholic Church or rich individuals and based on philanthropic solidarity (Laville 2014), mutual-aid associations and guilds were also present in CEE countries (for example in Hungary and Croatia, see Chapter 12). During the interwar period, the number of associations increased and their main role was to supplement public authorities in providing social services for vulnerable groups (see Chapter 12). After World War II, Yugoslavian socialist authorities declared all types of civic organisations to be bourgeois entities; both foundations and citizens' associations were abolished until the late 1940s. The legal form of foundation was prohibited in Poland in 1952 and seven years later in Hungary. State-sponsored and state-controlled “(mass) social organisations” were created in place of foundations and associations in countries like Poland and Czechoslovakia (see Chapter 12). In socialist Yugoslavia, work-integration social enterprises (WISEs) emerged in significant numbers, based on strong egalitarian values and an inclusive social policy, but they suffered from economic inefficiency and low productivity; therefore, many of them could not survive after the collapse of state socialism (see Chapter 14). Steps towards a slight liberalisation (such as the introduction of the socialist self-management model in Yugoslavia in 1948) and the political opening of the allied states between 1960s and 1980s contributed to the emergence of human rights and welfare organisations (see Chapter 12). In most of these countries, the legal recognition of civil society took place in the 1980s and early 1990s.

*The Role of International Financial Support in SE Development*

The collapse of state socialism opened up the borders of CEE countries for international development aid and made the Eastern enlargement of the European Union possible. Among other influences, international aid supported the re-emergence of civil society. The concept of social enterprise is also linked to international development agencies that stepped in to initiate and influence the development of the SE field in CEE countries (see Chapter 13). SE development agencies (such as NESsT, Ashoka, Yunus Social Business) and other international donors (e.g. ERSTE Foundation, Open Society Foundations, UN programmes, USAID, the World Bank, the British Council and the Swiss Agency for Development and Cooperation) played a crucial role in thematising social entrepreneurship in Central and Eastern Europe. The concept of “social enterprise” emerged around 1995 in the former allied states, such as Hungary and Poland. In Albania, Armenia, Croatia, Serbia and North Macedonia, it only started receiving attention in the new millennium (see Chapters 13 and 14). International donors (including SE development agencies) mainly frame social enterprises as a tool to increase the financial sustainability of civil society; their approach can thus be considered to belong to the “earned-income school of thought” (Defourny and Nyssens 2014).

The transversal chapters point out that, beside international development agencies, the EU is highly influential in shaping the SE field in the CEE countries that are already members of the EU (see Chapters 12, 13, 14 and 15), and that this influence seems to be even stronger in the countries that are not yet EU members but are engaged in the pre-accession process (see Chapter 13). In other countries, the SE field is less of a policy priority, and it continues to be mainly shaped by international donors; in Armenia, for example, there is neither a definition of social enterprise in policy papers and ministry documents nor a specific legal framework for social enterprises and social entrepreneurship (see Chapter 14).

Social enterprise, which is in line with the EU’s ideals of “inclusive growth”, “full employment” and “competitive market economy” (European Commission 2011), is considered as both a vehicle of economic growth and a solution to social challenges (Fougère *et al.* 2017). Social entrepreneurship is indeed a priority area in EU Structural Funds (European Parliament and European Council 2013), and its role is increasingly important in rural development (see Chapter 15). Policy narratives, however, fail to reflect on structural mechanisms resulting in socio-spatial polarisation. It is contradictory that, while social enterprises are expected to tackle complex challenges, such as those linked to territorial cohesion and social exclusion, they are funded on a project basis (see Chapters 12 and 13). Furthermore, SE policy frameworks are often shaped by a top-down approach, and policymakers reflect only to a limited extent on the challenges that social enterprises are facing (see Chapter 12). A top-down

approach aiming to establish an SE sector is probably not likely to succeed if it does not meet with genuine social entrepreneurial initiatives and a collective identity in the field (see Chapter 14).

The SE field is often considered to be “less developed” in CEE countries than in Western Europe (Borzaga *et al.* 2008; Galera 2016; ICF 2014). Such an approach might be methodologically problematic, as it relies on a linear historical approach. Considering this, Baturina and his co-authors (see Chapter 13) emphasise the importance of avoiding “self-colonisation” in studying social enterprises in Central and Eastern Europe. Funding represents power in the development of the SE field in CEE countries, and this must be reflected upon.

## **2. Theorising and Mapping Major SE Models (Phase 2 of the ICSEM Project)**

In emerging fields, it is common to develop descriptive works as well as classifications of observed facts or entities to be compared to an ideal-type. This may particularly take place in an exploratory research step aimed at developing conceptual tools for future research purposes. Discrepancies between the ideal-type and the facts or entities actually observed can give rise to a set of hypotheses aimed at providing explanations. It is in this perspective that we developed a framework to theorise the diversity of SE models and to highlight theoretically a few major SE models.

Considering that social enterprises are often seen as belonging to the “third sector” or as being somehow related to the latter (Defourny 2014), we chose to build our analysis upon some of the strongest theoretical frameworks focusing on this sector’s identity, such as those proposed by Gui (1991) and Hansmann (1996). Leaving aside “capital-interest-driven” or capitalist enterprises, which distribute their profits to their investors, who also control these for-profit firms, Gui (1991) defines the third sector as composed of “mutual-benefit organisations” and “public-benefit organisations”. “Mutual-benefit organisations” are those in which the stakeholders (other than the investors) who have the ultimate decision-making power (the “dominant category”) also make up the “beneficiary category”, that is, the category of stakeholders to whom the residual income is explicitly or implicitly distributed. Indeed, such convergence of control and benefit ensures that members’ mutual interest is the objective pursued by the organisation. As for “public-benefit organisations”, they correspond to those entities in which the beneficiary category is different from the dominant category: they are voluntary organisations oriented to serving other people (beneficiaries) than the stakeholders who control the organisation. Beneficiaries are those who are at the heart of the organisation’s mission—more precisely, in the case of social enterprises, of the enterprise’s social mission (Santos *et al.* 2015).

### 2.1. Three “Principles of Interest” as a Cornerstone

These distinctions lead us to consider three distinct major drivers or “principles of interest” that can be found in the overall economy: the capital interest (CI), the mutual interest (MI) and the general interest (GI). We propose to represent them as the vertices of a triangle in which mixes of principles can also be represented along the sides (see Figure 0.1).

Before locating types of social enterprise on our graph, we note that all traditional cooperatives and associations that are pursuing the interests of their members (for instance, sport clubs) are located in the “mutual-interest” angle. By contrast, those associations (voluntary organisations, charities etc.) that are pursuing a public benefit as defined by Gui may be seen as located close to the general-interest angle. However, they are not in the vertex itself, as their general interest (the community they serve) is usually not as wide as the one targeted by the state. On the right-hand side of the triangle, shareholder companies are located in the “capital-interest” vertex. However, when they develop CSR strategies, through which they tend to express a concern for some issues of general interest, such concern may be represented as a limited move upward along this side of the triangle.

The figure’s lower (horizontal) side represents a continuum between the cooperative treatment of profits and the capitalist stance on profits. The search for profit in a cooperative is mainly instrumental to its productive activity. Profits may only be distributed as dividends with a cap and/or put into collective reserves with an asset lock; by contrast, the main goals of shareholding companies are profit distribution and increasing the value of their shares. Many small- and medium-sized enterprises, though, especially family businesses, although capitalist, may balance in a different way the search for profits and non-financial goals (Zellweger *et al.* 2013).

### 2.2. Market Reliance and the Resource Mix as Central Issues

Many publications and discourses on social enterprise underline a significant move towards market activities as a key feature of social enterprise. When trying to identify social enterprises, many observers suggest to look at the proportion of market income and might require that at least half of the enterprise’s resources come from market sales. Such a stance, however, is often far from the field reality in many countries, and it is not shared by all schools of thought (Defourny and Nyssens 2010). However, we fully acknowledge that market reliance is a major issue in the debate, and it is why we have drawn two dotted lines across our triangle to take into account the various combinations of resource types (market income, public grants, philanthropic resources). Let us also note that the lower dotted line divides the “mutual-interest” angle: cooperatives



mainly operate on the market and they appear below this dotted line, as do all enterprises earning all or most of their income from the market; by contrast, mutual-interest associations, like leisure voluntary organisations, are located above the line, because they generally rely on a mix of market resources (membership fees, sales at a bar or cafeteria) and other resources, such as volunteering and various types of public contributions.

### 2.3. Institutional Logics Generating SE Models

On the basis of the various elements presented earlier, we tried to show how various “institutional logics” in the whole economy may generate SE models (Defourny and Nyssens 2017a).

As shown in Figure 0.1, SE models (in grey) emerge from six traditional models through two distinct institutional logics:

1. The first type of logic generating social enterprises can be observed among non-profits or public organisations experiencing a *downward move towards marketisation* (solid-line arrows):
  - **The entrepreneurial non-profit (ENP) model** gathers all non-profit organisations, most often general-interest associations (GI-Assoc.), that are developing any type of earned-income activities in support of their social mission (Fitzgerald and Shepherd 2018).

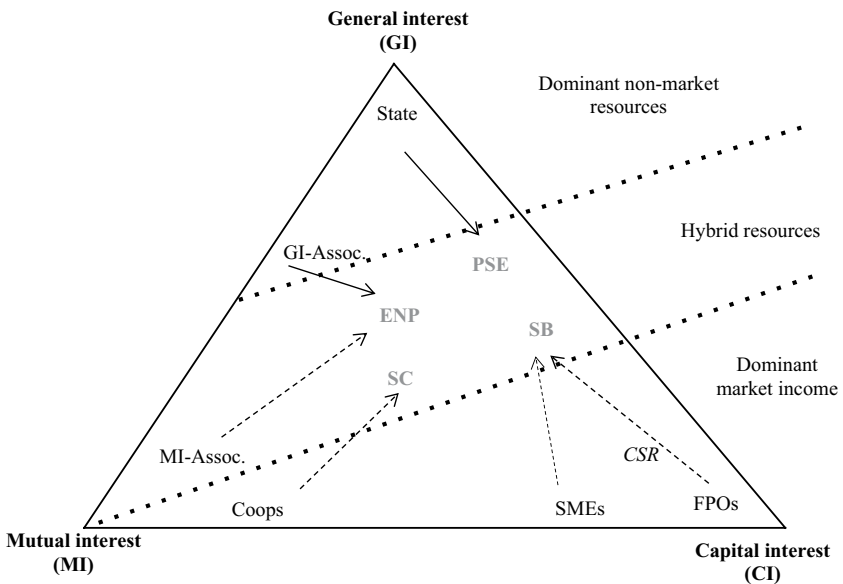


Figure 0.1 Institutional logics and resulting SE models

- The **public-sector social-enterprise (PSE) model** results from a movement towards the marketisation of public services which embraces “public-sector spin-offs”. These social enterprises are usually launched by local public bodies, sometimes in partnership with third-sector organisations, to provide services which are outsourced (such as care services) or new services (such as those offered by work-integration social enterprises).
2. The second type of logic corresponds to an upward move of conventional cooperatives and mutual-interest associations *towards a stronger general-interest orientation*; such a move may also be observed through some advanced CSR initiatives launched by the traditional business world (dotted arrows):
- **The social-cooperative (SC) model** differs from traditional mutual-interest organisations—that is cooperatives (Coops) and mutual-interest associations (MI-Assoc.)—in that it combines the pursuit of its members’ interests (mutual interest) with the pursuit of the interests of the whole community or of a specific group targeted by the social mission (general interest).
  - **The social-business (SB) model** is rooted in a business model driven by shareholders’ (capital) interest, but social businesses mix this logic with a “social entrepreneurial” drive aimed at the creation of a “blended value”, in an effort to balance and better integrate economic and social purposes.

At first sight, when looking at Figure 0.1, the four SE models seem to arise from new dynamics at work in pre-existing organisations. Thus, it may seem that social enterprises cannot be created from scratch. Such an interpretation would be clearly misleading, as a new (social) enterprise can emerge anywhere in the triangle; its location will depend on its general-interest orientation and on the way in which it balances social and economic objectives and financial resources.

As suggested earlier, our typology of SE models is based on some key dimensions, but we do not pretend that it covers all possible SE cases. Especially, we are aware of the many types of hybridity that can be observed in the field. For example, partnerships between for-profits and non-profits and those also involving local public authorities in a community-development perspective are quite common.

#### 2.4. *Social Missions Across Models*

Most of the SE approaches in the literature, if not all, share the view that social enterprises combine an entrepreneurial dynamic to provide services or goods with the primacy of a social mission. For Nicholls (2006: 13), “the primacy of social mission over all organisational objectives is

the first key determinant of a potentially socially entrepreneurial venture”. Dees (1998: 2) also argues that “for social entrepreneurs the social mission is explicit and central”. For Chell (2007), it is the centrality of the social mission that distinguishes social enterprises from commercial ventures. As we summarised elsewhere, “for all schools of thought, the explicit aim to benefit the community or the creation of social value is the core mission of social entrepreneurship and social enterprises” (Defourny and Nyssens 2010: 44).

In our analytical construction, the social mission is also central but implicitly assumed through the notion of “general interest”. However, to what extent are our SE models able to accommodate the diversity of social missions carried out by social enterprises? We do not intend to analyse this question in depth here, but for illustrative purposes, we just present Table 0.2, in which the work integration of disadvantaged

Table 0.2 SE models and diversity of social missions

<i>Social mission</i>	<i>Work integration</i>	<i>Access to health or social services</i>	<i>Ecological transition</i>	<i>Fight against social exclusion, access to housing, culture, social finance, etc.</i>
<i>SE models</i>				
<i>Entrepreneurial non-profit</i>	WISE implemented by a charity	Association providing home care services for the elderly	Second-hand associative shop	NGO providing training to migrants
<i>Public-sector SE</i>	WISE implemented by a local public authority	Local public body providing social services on a quasi-market	Joint initiative of municipality and citizens to produce renewable energy	Social-housing public agency
<i>Social cooperative</i>	Cooperative WISE	Cooperative of health-care professionals	Citizens' cooperative in short circuits for organic and local food	Social-finance cooperative
<i>Social business</i>	Social venture whose primary social mission is to hire vulnerable people	Residential care institution launched by a social worker	SME providing compensation for CO <sub>2</sub> emissions	SME active in fair trade

Source: Based on Defourny and Nyssens (2017a: 2488)

persons, which appears to be a particularly widespread mission for social enterprises in Central and Eastern Europe, is presented in the first column. The importance of this work-integration mission in CEE countries is confirmed through all parts of this book, from country contributions to the last chapter, which focuses on the identification of clusters and major SE models; but depending on social or societal challenges that are particularly pressing and poorly addressed by the existing public and private for-profit sectors in a given country or region, other types of social mission may have more or less importance in the SE landscape. The other columns of Table 0.2 illustrate the diversity of models for some social missions other than work integration, such as ensuring access to health and social services, implementing ecological transition, fighting poverty and social exclusion, promoting more ethical economic behaviours and access to social finance or housing.

### **3. Testing SE Models (Phase 3 of the ICSEM Project)**

The approach we had adopted in the previous section to build a typology of SE models was theoretical. In order to test the relevance of the latter, we relied on data collected through a large survey that we coordinated and that was carried out by researchers from 43 countries across the world.

In order to address the lack of reliable datasets at enterprise level, in-depth information was collected about social enterprises on the basis of a common questionnaire. Researchers were asked to collect information regarding the nature of the enterprise's social mission or social aims, the type of economic model and the governance structure, relying on the hypothesis that these three dimensions particularly informed the diversity of social enterprises, in line with the use of the EMES ideal-type as an analytical tool.

More precisely, ICSEM research partners interviewed the managers of three to five social enterprises that were deemed emblematic of each of the SE types which they had identified in the project's first phase. As a result, detailed data were collected in a rather homogenous way for 721 social enterprises from 43 countries. Within this dataset, a subset of data covering 164 social enterprises from seven CEE countries was extracted to provide a workable statistical basis.

In the last step, which also corresponds to the last chapter of this book, the dataset built through the ICSEM survey was exploited to see if it provided any empirical support to the proposed typology of SE models in Central and Eastern Europe. More precisely, a hierarchical cluster analysis was performed in order to identify relevant clusters. A careful analysis of each of these clusters was carried out and paved the way to the identification of three of the four theorised SE models (see Section 2.3): the entrepreneurial non-profit model, the social-cooperative model and the social-business model. No significant support was found for the public (or quasi-public) SE model.

This book's introduction was designed as a guide to navigate the various steps of the ICSEM Project and their specific objectives: a first phase to document SE diversity in each country; a second phase to theorise SE diversity and to map SE models through an original analytical framework; and finally, a third phase to empirically test the relevance of these SE models in Central and Eastern Europe.

## Notes

1. See for instance the recent report of the European Commission (2020) on social enterprises and their ecosystems in Europe.
2. This EU-funded research project was carried out from 1996 to 1999. It focused on the “Emergence of Social Enterprise in Europe”—hence the acronym “EMES”, which was subsequently retained by the research network that had carried out the project.
3. This large EU-funded research project was based on a detailed survey covering 160 “work-integration social enterprises” (WISEs) across eleven Western European countries.
4. Major EU-funded research projects included EFESEIIS (2013–2016), TSI (2014–2017) and SEFORIS (2014–2017); see also European Commission (2020). Although it was much less-oriented towards academic research, the “Social Business Initiative”, launched by the European Commission in 2011, also played a significant role in fostering SE development across Europe (European Commission 2011).
5. One outstanding feature of the ICSEM Project was that participants did not get any financial support. Only accommodation costs and sometimes part of travel costs to take part in meetings were covered by the Belgian Science Policy Office, national and international foundations as well as a COST Action at the European level.
6. See Defourny and Nyssens (2014) for a detailed presentation of the EMES approach.
7. The so-called “ICSEM Local Talks” were organised in a dozen countries. At the regional level (Latin America, Eastern Asia, Western Europe, Central and Eastern Europe), ICSEM Symposiums took place in Chile, Belgium, South Korea, Albania, Brazil and France, and at the worldwide level, ICSEM General Meetings were organised in Finland, Sweden, Belgium and the United Kingdom, in relation to the EMES International Research Conferences, in 2013, 2015, 2017 and 2019.
8. All these country contributions are available on the website of the ICSEM Project: [www.iap-socent.be/icsem-working-papers](http://www.iap-socent.be/icsem-working-papers).
9. This COST Action (2017–2021) was titled “Empowering the next generation of social enterprise scholars”. Its first Working Group aimed at the production of exactly the same kind of “country contributions” as the ICSEM Project for a dozen additional EU or neighbouring countries.
10. The ICSEM Project also generated a set of country contributions that did not fit the “regional approach” adopted for the four books. Most of these contributions were published in a special issue of the *Social Enterprise Journal* (Defourny and Nyssens 2017b), which included country contributions about Australia, Canada, Israel, the United States, the United Arab Emirates, Rwanda, South Africa and South Korea.

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Part I

# National Overviews of Social Enterprise



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# 1 Social Enterprises in Bulgaria

## Historical and Institutional Perspective

*Tsvetelina Marinova and Elizabeth Yoneva*

### Introduction

In the last decade, the development of the social economy and social enterprise (SE) has drawn the attention of policymakers, scholars and large groups of people in Bulgaria. Various domestic and international factors have fostered their growth. As regards domestic factors, the transition to a market economy, during the 1990s, has been characterised by the emergence and deepening of a great number of negative economic and social processes and trends. The 1996/1997 crisis led to a radical restructuring of the economy; this was followed by an orthodox monetary and conservative budget policy, under a currency board system. The monetary regime that was implemented imposed significant restrictions on many public policies and further limited the role of the state in providing social care, assistance and services to the people in need. The weakness of the welfare state, in combination with rising poverty, inequality and social exclusion among the population, led to a fast growth in the number of vulnerable people. As a result, many social initiatives and organisations have appeared; they aim to contribute to solving some of the key socio-economic problems.

From the perspective of international influence, the most important driver of the SE sector's development has been the integration into the European Union (EU) in 2007. Bulgaria has made a commitment to achieve EU priorities and goals in this field, and the EU's policies and measures to promote social entrepreneurship and social enterprise have been taken into consideration in the design of a national policy. We argue that the Bulgarian government has acknowledged the role that social enterprise can play in the economy and in catching up with other more developed European countries.

This chapter aims to study social enterprise in Bulgaria in a historical and institutional perspective. The first part deals with the emergence and historical evolution of social institutions and social enterprises in Bulgaria. In the second part, we focus on public policy in the field of the

social economy and social enterprise. The main features of Bulgarian SE models are outlined in the third section.

## **1. Genesis and Evolution of Social Institutions and Social Enterprises in Bulgaria**

A historical overview of the evolution of social institutions and social enterprises in Bulgaria bears testimony to their century-long existence in the country.<sup>1</sup> In such a historical perspective, we distinguish three major types of social institutions and social enterprises in the country; these are described in the following paragraphs. The social institutions presented later can be considered as the forerunners of social enterprises.

### ***1.1. Charitable Activities of the Church***

In the Bulgarian territories of the Ottoman Empire, the churches and monasteries developed as social institutions committed to charity and mutual aid. After the Liberation of the country, the first charitable activities of the Bulgarian Orthodox Church (the Bulgarian Exarchate, established in 1870) developed in response to the needs of the poorest people. Later, in 1934, the Law on Public Assistance for Social and Charitable Activities was passed. Until 1944, the church made remarkable achievements in the field of orphanages, rest homes and summer camps, but with the imposition of the communist regime, in 1944, the charitable work of the church was ruined and its property confiscated or destroyed (Lyubenova 2014).

Many charity activities were also based on private initiatives by wealthy people and influential elites' representatives, who funded different social causes and projects. These initiatives proliferated especially during the Bulgarian National Revival.<sup>2</sup>

### ***1.2. Voluntary Organisations***

Many voluntary organisations appeared after the Liberation. The first *Red Cross societies* emerged in 1878, and the National Red Cross Organisation was created in 1885. They performed a wide variety of social activities to help sick people, injured men and refugees, especially during the wars. But in the period spanning from the 19th century, when Bulgaria was still under Ottoman rule, to World War II, the most important social institutions in Bulgaria were the so-called *chitalishta*<sup>3</sup> and the cooperatives (analysed in Section 1.3).

*Chitalishta* are community centres, engaged in charity and volunteer programmes. They fulfil educational, cultural and art-related functions. These institutions have an autonomous governance and a unique self-support and funding system.

The first *chitalishte* emerged in January 1856 in Svishtov (Velikov and Zhechev 1987). *Chitalishta* played a crucial role in the socio-political upbringing of the Bulgarians during the Ottoman period. They also acted as an effective tool for the social and cultural integration of Bulgaria at the international level, facilitating the transfer and the adoption of modern ideas and practices from other European countries. After the Liberation, *chitalishta* continued to deliver social services to local communities. In 1945, the first legal act on *chitalishta* was adopted, and the state played an important role in their development until the collapse of socialism, in 1989.

The Chitalishta Act of 1996<sup>4</sup> stipulates that *chitalishta* are non-governmental self-regulatory organisations. According to the National Register of Chitalishta, as of June 2018, there were 3,668 *chitalishta* in Bulgaria.<sup>5</sup> Developed within a local context, established by and for the communities themselves, *chitalishta* combine their social goals with an entrepreneurial component.

### 1.3. Cooperatives

Cooperatives (particularly agricultural credit cooperatives and popular banks) played an important role in the economic development of Bulgaria from the beginning of the 20th century to the Second World War. We distinguish three major periods in the development of cooperatives in the country.

#### *From the Liberation to World War II*

The first period, from the Liberation to World War II, was marked by the emergence, rapid dissemination and strong acknowledgement of the role and importance of cooperatives by the Bulgarian population and national authorities. Bulgaria developed as an agrarian country in which the major part of the active population (about 80%) was engaged in agriculture. The backwardness of the Bulgarian villages and the poverty and misery of the farmers created favourable conditions for the expansion of agricultural cooperatives and their transformation into multi-service organisations.

Cooperatives emerged as a social institution based on the principles of voluntary membership, solidarity, democratic decision-making and autonomous governance. Their emergence was related to the forms of mutual aid and solidarity that had existed among Bulgarians ever since the Ottoman period and had persisted until the Liberation, and it can also be linked to a strong European influence (transfer of the practice of Raiffeisen savings and credit cooperatives).

During the Ottoman period, the oldest known associations of collective labour in agriculture (*zadruga*) appeared spontaneously and spread

in the Bulgarian and many other Balkan territories of the empire. The *zadruga* was an informal institution, a form of cooperative within a barter economy, based on family customs and values (Iorga 1929; Laveleye 1888; Novakovitch 1905).

The first formal social institutions in the Bulgarian territories of the Ottoman empire were the *credit funds of public utility*, established by the Turkish authorities in the period 1864–1868. They aimed at providing cheap and accessible credit to farmers to combat poverty and widespread usury. These funds also financed public projects in the Ottoman empire (Atanasov 2017; Bakardzhieva 2009).

In the Bulgarian territories, the Turkish authorities also developed a social policy for orphans and widows by establishing special *funds (sirot-ski kasi)*, through which savings and donations were collected to support them.

As regards the social institutions in the cities, during the Ottoman period, the main forms of collective labour in the towns were *guilds* called *esnaf*. The *esnaf* was a social and economic craftsmen association representing a specific craft. *Esnaf* existed in the 18th and 19th centuries and gained official recognition by virtue of a sultan's *firman* in 1773; they organised the delivery of raw materials or the resale of goods with a view to supporting the competitiveness of Bulgarian producers.

*Urban mutual credit associations* were the predecessors of savings and credit cooperatives in the cities before the Liberation. The first urban mutual credit association was founded in 1871.

After the Liberation, Bulgarian authorities acknowledged the significant role of agricultural credit for the country's development and decided to maintain the main functions of the existing state-owned credit funds of public utility while transforming them, in 1878–1879, into *agricultural funds*. In the absence of private banking institutions, agricultural funds became the only savings and credit institutions in the countryside; they operated in a context marked by peasants' growing indebtedness and need of capital. They also extended their offer of loan services to agricultural cooperatives.

In 1903, the *Bulgarian Agricultural Bank (BAB)* was established as the only state-owned bank supplying farmers with cheap and accessible loans through local support to cooperatives. Then, in 1910, a second state cooperative bank—the *Bulgarian Central Cooperative Bank*—was established to promote different types of cooperatives by providing them with loans and to attract their savings. These two state cooperative banks became (and remained until World War II) the biggest creditors of the cooperative sector in Bulgaria (Marinova and Nenovsky 2017a).

The first *agricultural credit cooperative*, “Oralo”, was established in 1890. It was the first cooperative not only in Bulgaria—but also in the Balkans—based on the principles of Raiffeisen savings and credit cooperatives.

In the course of time, agricultural credit cooperatives developed into *multi-service cooperatives*, as their lending activities were complemented by other activities, such as the sale of consumer goods and farming machinery, the manufacturing of materials and the sale of farm produce. These cooperatives engaged in cultural and educational activities among the rural population (Tsentralen kooperativen sayuz 1986a, 1986b).

It is noteworthy that the Bulgarian cooperative movement developed in the framework of the first Cooperative Law (1907)<sup>6</sup>, which was based on most of the modern European legislation and practices at that time, namely the German and Hungarian cooperative laws. The implementation of the law contributed to the boom of the cooperative movement in the country at the beginning of the 20th century (Palazov 2005 [1935]).

Cooperative credit in urban settings developed from the beginning of the 20th century onwards. During the period 1903–1939, the cooperative savings and credit institutions in the cities were the *popular banks*. The first popular bank in Bulgaria was the Popular Bank of Sofia (1903)<sup>7</sup>. The bank's by-laws were inspired by those of the popular banks in Milan (Italy) and Menton (France), which had been created by Luigi Luzzatti. The Bulgarian popular banks, which brought together mainly small artisans and tradesmen, appeared much later than those in Western Europe because of the poor development of urban crafts during the Ottoman period. These banks gradually became a powerful tool to combat usury and the shortage of capital among artisans. The popular banks financed many social projects in fields, such as the development of the electricity grid and the water-supply system, and the construction of cooperative wineries. Although popular banks emerged and developed primarily in urban areas, some also appeared and operated in rural settings. In many villages, the popular banks found themselves in competition with agricultural credit cooperatives (Marinova and Nenovsky 2017b).

In 1939, about 16% of the country's total population (6.3 million people) participated in the cooperative movement. During the interwar period, many different types of cooperative—such as consumer, production, tobacco and rose distillery cooperatives—proliferated in the country.

Before the outbreak of World War II, the state started to strictly regulate and limit the activities of cooperatives but that did not stop their growth. Nevertheless, the state succeeded in putting them under control and in taking over the management of the funds on which they operated, thereby using the cooperatives for political goals and struggles; such evolution was evidenced by the merging of the two state cooperative banks into the Bulgarian Agricultural Cooperative Bank in 1934. That process of gradual submission of the cooperative sector to the state created favourable preliminary conditions for the new communist regime.



*The Socialist Period*

During the socialist period (1945–1989), the cooperative movement developed in the broader framework of building the socialist economy in the country. Cooperatives evolved under the Cooperative Law, passed in 1948. The socialist period was characterised by the “transplantation” of the Soviet cooperative model in Bulgaria. The socialist state functioned on the principle of public ownership of the means of production, and the cooperative sector was totally subordinated to and dependent on the state. Cooperatives were deprived of their autonomy, self-governance and democratic nature; that was clearly discernible in the agricultural sector, in which agricultural credit cooperatives were transformed into labour cooperative agricultural farms (*trudovo kooperativni zemedelski stopanstva*, or TKZS), which were quite similar to the Soviet kolkhozes. Table 1.1 illustrates some of the basic differences between agricultural cooperatives under the capitalist system and TKZS under socialism.

Due to the institutional transformation they underwent under socialism, cooperatives practically became “forms without substance” (Daskalov and Mishkova 2014).

*From 1989 Onwards*

After the fall of socialism, in 1989, the state embarked on a rapid application of the principles of market economy and private property through price liberalisation and privatisation. This trend was further accentuated after the 1996–1997 crisis, which was followed by the orthodox monetary policy and the conservative fiscal policy of the currency board. Cooperative financial institutions have disappeared, mainly due to the unfavourable legal environment that subjects them to the same regulations as private financial institutions. As for agricultural cooperatives, they mostly operate today as traditional businesses. Cooperatives, due to their links to the country’s socialist past, are still considered incompatible with the market and capitalist economy.

**2. Institutional Environment**

Public policies play a crucial role in fostering social enterprise. In this section, we present the laws, policies, definitions and funding sources of social enterprises in Bulgaria.

**2.1. Laws and Policies**

In the absence of a legal definition of social enterprise, the first legal acts that were enacted and can be related to the field of social enterprise in

Table 1.1 Comparison between agricultural cooperatives and TKZS

<i>Criteria</i>	<i>Agricultural cooperatives</i>	<i>TKZS</i>
Membership	Voluntary	Initially voluntary; later on, the state imposed constraints through legislative changes
Governance	Autonomous governance (adopted by-laws); democratic decision-making (“one member, one vote” rule); election of the managing bodies	By-laws elaborated and adopted by the state; each cooperative member had one vote in the management body; election of the management body
Basic principles and values	Self-help, self-responsibility, equality, democracy and solidarity	Abolition of inequality and collectivism
Ownership of the means of production	Preservation of the private ownership of the land, cattle and equipment of each cooperative member	Members brought their land, livestock and equipment in the farm; the ownership of the land was transferred to the cooperative and became public
Funds	Share contributions by the members and loans from the BAB	The farm’s revenue came from its produce and from loans granted by the BNB
Remuneration of the cooperative members	Members were not paid; they used their own labour and that of their families	Initially, a rent was paid by the state to the farmers for cultivating the land and part of the income was distributed among the farmers. Later on, farmers were paid according to the number of days of work
Termination of membership	At any time; the invested capital was paid back	Each cooperative member had to be a member of the farm for a minimum of three years
Activities	Provision of short-term social credit; supply of industrial goods to the members; manufacturing and sale of agricultural produce; involvement in cultural and educational activities in the village	Collective cultivation of the land; supply of produce to the state at administered prices; sale of part of the produce on the market. The activities were subject to state planning

Source: Compilation by the authors

Bulgaria were the Cooperative Law, in 1999,<sup>8</sup> and the Non-Profit Legal Entities (NPLE) Act, in 2000.<sup>9</sup>

The government elaborated the national policy on the social economy and social enterprise in compliance with the European priorities and policy measures in this field. The first important policy measure was the adoption of the National Social Economy Concept (*Nacionalna koncepcia za socialna ikonomika*) by the Council of Ministers, in 2012.<sup>10</sup> The implementation of the Concept is supported by biannual action plans, adopted by the Council of Ministers, which focus on the improvement of the legal framework, measures aiming to create favourable conditions for education, training and research on the social economy and assessment of the economic and social impact of social enterprises on employment and social inclusion.

In the Governmental Programme of Bulgaria for the period 2017–2021,<sup>11</sup> social entrepreneurship is one of the priorities. The goal is for social entrepreneurship to achieve a 2% contribution to the country's GDP. Meanwhile, estimates show that, by 2017, such contribution amounted to less than 1% of the GDP.<sup>12</sup>

Fostering social enterprise has become a national priority, as is clear from the adoption, in October 2018, of the Law on Social and Solidarity-Economy Enterprises, which entered into force in May 2019.<sup>13</sup> This law aims to create a favourable ecosystem for social enterprises, providing them with a better access to the market and improving their competitiveness. Moreover, a Social-Economy and Social-Responsibility Department was established in 2018 within the Ministry of Labour and Social Policy.

## 2.2. Definitions

The first official definition of the social economy was provided in the National Social-Economy Concept: “The social economy is part of both the private and the public sectors. [It includes] volunteer associations or other organised entities (i.e. social enterprises) [that] pursue economic activities for public benefit and reinvest [their] profit to achieve social goals” (p. 6). This definition was subsequently further developed in the Law on Social and Solidarity-Economy Enterprises, which stipulates:

*The social and solidarity economy is a form of entrepreneurship oriented to one or several social activities and/or social aims, performed by enterprises, including through the production of goods or the provision of services in cooperation with the state or the municipal authorities, or independently.*

Law on Social and Solidarity-Economy  
Enterprises, article 3

According to Article 5 of the law, social and solidarity-economy entities are cooperatives, public-benefit non-profit legal entities and social enterprises.

The law defines a social enterprise as:

*an enterprise which, regardless of its legal organisational form, performs activities—producing goods or providing services—that combine economic results and social aims. Moreover, it achieves a measurable, positive social added value; it is managed by its members, workers or employees through transparent decision-making processes; and its economic activity [is characterised by one or several of the following elements:] its staff belongs to specific groups or/and its profit is mainly allocated to a social activity or/and to the social aim defined in its by-laws.*

Law on Social and Solidarity-Economy Enterprises, § 1.5

This legal definition is in line with the EMES approach to social enterprise and its three dimensions—the economic, social and governance-related dimensions.

The law distinguishes two groups among social enterprises: “class-A social enterprises” and “class-A+ social enterprises”. According to article 7 of the law, class-A social enterprises are those enterprises that, regardless of their legal form, meet the first two criteria of the following list and one of the last two criteria:

- The enterprise performs a social activity which produces a social added value, measured by a methodology adopted by the Minister of Labour and Social Policy.
- The enterprise has transparent management, involving its members, workers or employees in the decision-making processes through a procedure defined in its by-laws or articles of association.
- More than 50% of the profits and at least BGN7,500 (€3,750) are allocated to the enterprise’s social activity or aim.
- At least 30% of the staff and not less than three persons belong to (a) vulnerable group(s) (people with disabilities, long-term unemployed, people under the age of 30 without professional experience, homeless people, refugees, ex-convicts, former drug and alcohol addicts, etc.).

Class-A+ social enterprises are those enterprises that, regardless of their legal form, either fulfil all these criteria or fulfil class-A criteria and at least one of the following criteria:

- The social added value is realised in municipalities in which the recorded unemployment rate corresponds to the average rate in the country or was higher than this average in the preceding year.
- More than 50% of the profits and at least BGN75,000 (€37,500) are allocated to the enterprise’s social activity.

- At least 30 workers belong to a certain vulnerable group and they have been working for this enterprise for the preceding six months.

Another important goal of the Bulgarian government is the establishment of a national public register of social enterprises, to be published on the website of the Ministry of Labour and Social Policy. The entry in the register shall be made at the request of the undertaking concerned, and the certificate will be issued by the Minister of Labour and Social Policy.

Moreover, the law provides for the creation of a digital platform by the Ministry of Labour and Social Policy to promote and support interaction among different stakeholders of the social and solidarity economy through the establishment of partnerships, and to arrange collective purchase, by the populations, of the goods and services provided by social enterprises. The platform shall also provide online training courses on social entrepreneurship and qualifications and employment opportunities for disadvantaged and vulnerable people. In this regard, the platform will foster the development of all social enterprises and facilitate their access to the market. The platform is currently in an initial stage of preparation.

### **2.3. Incentive Measures**

The law envisages different types of incentive measures for different groups of organisations. Registered social enterprises will be eligible for non-financial aid, such as participation in national educational and training programmes, methodical assistance in obtaining funds, and brand-creation and certification of their goods and services by the Minister of Labour and Social Policy. Additional incentive measures are envisaged by article 15 of the law for class-A+ social enterprises, such as:

- the establishment of a building right on private municipal property for these social enterprises, by decision of the municipal council, without tender or competition, with a view to helping these enterprises achieve their social objective, and under the condition that the social enterprise continues to exist and operate for at least ten years after it has benefited from such right (in case of violation of this condition, a financial compensation will be owed to the municipality);
- the establishment of the right for social enterprises to use private municipal property or objects by decision of the municipal council, without tender or competition, with a view to helping these enterprises achieve their social objective. This right is given to the social enterprise until the latter is deleted from the register or for a ten-year period;
- financial aid to support the education and the development of the qualifications of employees belonging to a vulnerable group. Such aid is granted on the basis of a proposal by the Minister of Labour and Social Policy; the economic activity must be performed entirely in

municipalities with a recorded unemployment rate that corresponds to or is higher than the average in the country in the preceding year.

#### 2.4. *Funding*

The biggest challenge for social enterprises in Bulgaria is the fact that access to funding is limited and difficult. EU funds (namely the European Social Fund and the European Regional Development Fund)<sup>14</sup> have become the main funding source (providing grants) for social enterprises. Furthermore, the Bulgarian Development Bank has signed an agreement with the European Investment Fund to participate in the “Social Impact Accelerator” (SIA), which aims to create a sustainable stock exchange for social enterprises. Some of the biggest NGOs also provide funding opportunities for social enterprises.

#### 2.5. *Synthetic Overview of Public Policies on the Social Economy and Social Enterprise*

In Table 1.2, we use the analytical framework put forward by Chaves Ávila and Monzón-Campos (2018) to present and summarise the most recent development of public policies on the social economy and social enterprise in Bulgaria.

### 3. SE Models

The process of EU integration has given a new impetus to the social economy and social enterprise in Bulgaria. It is worth noting, though, that as far as cooperatives are concerned, and unlike what is the case in many other EU member states, their role remains limited in Bulgaria.

It is also noteworthy that new models of social enterprise have emerged and developed in the country from the 1990s onwards. International influence on the development of the civil society has been clearly visible in the financing of social projects and in the provision of consultancy and expertise. In the late 1990s, the first projects on social entrepreneurship were funded mainly by foreign donors (such as USAID).

We present in Table 1.3 (at the end of this third section) the different SE models in Bulgaria, their legal forms and their main characteristics based on the EMES approach. This approach puts forward three sets of indicators for three dimensions:

Indicators of the economic dimension:

- a continuous activity producing goods or services;
- a significant level of economic risk;
- a minimum amount of paid work.

Table 1.2 Public policies on the social economy and social enterprise in Bulgaria

<b>Soft policies</b> Policies aimed at creating a favourable ecosystem for social enterprises	Institutional measures	<b>Measures aimed at creating a legal definition of social enterprise:</b> Law on Social and Solidarity-Economy Enterprises (2018) <b>Measures aiming to recognise social-economy enterprises as policymakers and as an interlocutor in public-policy processes:</b> Creation of the Social-Economy and Social-Responsibility Department of the Ministry of Labour and Social Policy (2018)
	Cognitive measures	<b>Measures focusing on awareness-raising and on disseminating knowledge about the social economy and social enterprise:</b> National Social-Economy Concept and Social-Economy Action Plan Regional forums on the social economy and social enterprises organised by the Ministry of Labour and Social Policy <b>Measures promoting training on social entrepreneurship:</b> Setting up of an academy for social entrepreneurs Creation of master programmes and courses on social entrepreneurship at several universities
<b>Hard policies</b> Economic policies promoting social enterprises	Supply-side measures, aimed at improving competitiveness among social-economy enterprises	<b>Measures focusing on access to funds:</b> Operational programme “Human resources”, funded by the European Social Fund 2014–2020 Financial instrument “Microcredit with shared risk”, managed by the Fund of Funds Annual social innovation award, granted by the Minister of Labour and Social Policy
	Demand-side measures, aimed at supporting the activity of social-economy enterprises	<b>Measures aiming to ease access to public markets:</b> Digital on-line platform (digital cluster) for interaction between stakeholders in the social and solidarity economy and aiming to support the development of e-commerce, e-education, e-investment and e-recruitment in the sector

Source: Ministry of Labour and Social Policy and authors' analysis

Table 1.3 Main features of SE models in Bulgaria

<i>SE models</i>	<i>Legal forms</i>	<i>Economic model</i>	<i>Social mission</i>	<i>Governance model</i>
Social-business model	Small- and medium-sized enterprises registered under commercial law, specialised enterprises for people with disabilities	Production of goods and services; economic risk	Primacy of the social mission; civil-society initiative	High autonomy; participatory governance
Social-cooperative model	Cooperatives pursuing a social mission, cooperatives for the disabled, credit cooperatives	Production of goods and services; economic risk	Primacy of the social mission; civil-society initiative; limited profit distribution	High autonomy; participatory governance
Entrepreneurial non-profit model	Associations, foundations, <i>chitalishta</i> , informal organisations	Production of goods and services; minimum paid work	Primacy of the social mission; civil-society initiative; limited profit distribution	High autonomy; participatory governance
Public-sector SE model	Specialised enterprises for people with disabilities created by municipalities, social enterprises created by municipalities	Provision of social services; economic risk	Primacy of the social mission; limited profit distribution	Participatory governance

Sources: European Commission (2014); Ministry of Labour and Social Policy; authors' study

Indicators of the social dimension:

- an explicit aim to benefit the community;
- an initiative launched by a group of citizens or civil-society organisations;
- a limited profit distribution.



Indicators of the governance dimension:

- a high degree of autonomy;
- a decision-making power not based on capital ownership;
- a participatory nature that involves various parties affected by the activity (Defourny and Nyssens 2012).

The four SE models identified and studied by Defourny and Nyssens (2017) and by Defourny *et al.* (2019)—namely the social-business model, the social-cooperative model, the entrepreneurial non-profit model and the public-sector SE model—have been developing in Bulgaria.

### ***3.1. The Social-Business Model***

In Bulgaria, the main legal forms of social enterprises belonging to the social-business model are those of *specialised enterprises for people with disabilities* and *commercial companies* (SMEs registered under the 1991 Trade Law). These enterprises and companies combine the provision of goods or services with the primacy of a social mission.

According to the Law for the Integration of People with Disabilities (2004)<sup>15</sup>, specialised enterprises for people with disabilities are established under the Trade Law or the Cooperative Law and are registered by the Agency for People with Disabilities. Data published by this agency show that there are 242 specialised enterprises for people with disabilities in Bulgaria.<sup>16</sup> These enterprises are active in various areas, most of them in tailoring; other—less important—fields of activity are the production of plastics goods, souvenirs and accessories, cosmetic products, web advertising and design, publishing, touristic services, etc.<sup>17</sup>

### ***3.2. The Social-Cooperative Model***

*Cooperatives pursuing a social mission, cooperatives for the disabled, credit cooperatives* and *microfinance organisations* correspond to the social-cooperative model. Nowadays, the most developed form of social cooperative in Bulgaria is that of cooperative for people with disabilities. These organisations are allowed to perform economic activities, but the social aim must have primacy over the profit-making purpose.

### ***3.3. The Entrepreneurial Non-Profit Model***

As regards the entrepreneurial non-profit model, we distinguish the following legal forms of social enterprise in Bulgaria: *associations, foundations* and *chitalishta*. The Non-Profit Legal Entities Act defines two main types of organisation: associations and foundations. They can work

for public or private benefit. Public-benefit non-profit legal entities are allowed to engage in economic activity, subject to certain conditions.

### 3.4. *The Public-Sector SE Model*

The public-sector SE model includes *specialised enterprises for people with disabilities created by the municipalities and other social enterprises established by the municipalities*. These enterprises are mostly set up under public-private partnerships. These social enterprises provide social services, paid for by the municipality, to their members and to other people. Recently, many municipal social enterprises have been established under the Operational Programme “Human resources”, funded by the European Social Fund.

## Conclusion

In recent years, the collective spirit and culture, mutualism and solidarity embedded in the Bulgarian society and deeply rooted in the country’s past have been revitalised. We have observed a very dynamic trend towards the creation of social organisations, linked to both domestic and external drivers and influences (such as rising poverty and inequality in the country, the EU integration and the global economic crisis).

Nevertheless, regardless of the country’s century-old traditions (especially as regards the cooperative movement) and the upward trend in the establishment of social enterprises after EU accession, Bulgaria is still lagging behind many developed European countries in terms of SE development. The communist period and its legacy constitute one of the reasons for this backwardness. We argue that further explanation can be found in the “crony” redistribution of wealth at the beginning of transition (in the 1990s), the process of private-capital accumulation in the country and the growing individualistic spirit, which totally crashed with the basic principles and goals of social-economy organisations.

The recent adoption of the Law on Social and Solidarity-Economy Enterprises is considered to be the first step towards the definition of social enterprises and the creation of a favourable ecosystem for them in the country.

Furthermore, reinforcing research about social enterprise as well as education and training among the population could constitute major drivers for increasing the interest in social enterprise in Bulgaria.

## Notes

1. The Bulgarian state was established in the 7th century in the Balkan Peninsula. The Bulgarian territories were part of the Ottoman Empire from 1396 to 1878, when, at the end of the Russo-Turkish war, Bulgaria once more

- emerged as a national state; this is referred to as the “Liberation of Bulgaria”. In 1885, Bulgaria effected the fusion between the autonomous principality and Eastern Rumelia, which had been separated by the Treaty of Berlin. In 1908, Bulgaria declared itself a fully independent state.
2. The Bulgarian National Revival started in the 18th century and ended with the Russo-Turkish war and the Liberation, in 1878.
  3. In Bulgarian, *chitalishte* is singular and *chitalishta* is plural.
  4. Chitalishta Act: [www.lex.bg/laws/ldoc/2133897729](http://www.lex.bg/laws/ldoc/2133897729).
  5. National Register of Chitalishta: <http://chitalishta.com/>
  6. Palazov (2005 [1935]).
  7. Tsentralen kooperativen sayuz (1986a).
  8. Cooperative Law: [www.lex.bg/laws/ldoc/2134696966](http://www.lex.bg/laws/ldoc/2134696966).
  9. Non-Profit Legal Entities Act: [www.lex.bg/laws/ldoc/2134942720](http://www.lex.bg/laws/ldoc/2134942720).
  10. National Social Economy Concept: <http://seconomy.misp.government.bg/page.php?c=1&d=54>.
  11. Governmental Programme of Bulgaria for the period 2017–2021: [www.government.bg/files/common/GovPr\\_2017-2021.pdf](http://www.government.bg/files/common/GovPr_2017-2021.pdf).
  12. Approximate estimates by the Ministry of Labour and Social Policy, National Statistical Institute.
  13. Law on Social and Solidarity-Economy Enterprises: <http://dv.parliament.bg/DVWeb/showMaterialDV.jsp?idMat=131143>.
  14. One of the key priorities of the Operational programme “Human resources development” (2014–2020), funded by the European Social Fund, is “fostering social entrepreneurship and professional integration in social enterprises and stimulating the social economy to facilitate access to employment”. Social entrepreneurship is also funded by the Operational programme “Innovations and competitiveness” (2014–2020) of the European Regional Development Fund.
  15. Law for the Integration of People with Disabilities: <http://dv.parliament.bg/DVWeb/showMaterialDV.jsp?idMat=132871>.
  16. Agency for People with Disabilities: <https://ahu.misp.government.bg/portal/se/>
  17. National Federation of Employers of Disabled People: <http://nfri.bg/?page=18&lang=bg>

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# 2 Social Enterprise in Croatia

## Charting New Territories

*Davorika Vidović and Danijel Baturina*

### Introduction

Social enterprises emerged in Croatia in the mid-2000s, but practices closely related to social entrepreneurship have existed in the country for a long time, although under other names—fully or partly correlated with the activities of civil initiatives, voluntary organisations, cooperatives or the social economy at large. The new terms “social entrepreneurship” and “social enterprise” brought hybridity in the field and marked a new conceptual era, but despite this recent advance, conceptual clarity and a broadly accepted understanding of the concept of social enterprise (SE) are still seriously lacking. This observation shaped the overall purpose of this chapter, namely to “chart new territories” by analysing the context of SE development in Croatia and by proposing a working typology of social enterprise.

The first part of the chapter<sup>1</sup> deals with various notions and historical, contextual and conceptual issues that may contribute to the overall understanding of the SE field in Croatia. In the second part, we propose a typology of social enterprise in Croatia that is based on the EMES approach. In the final part of the chapter, we try to map and describe the major institutional developments that have been observed in the SE field. We also provide an insight into how the existing institutional environment relates to the different SE models. The main goal is to apprehend the extent to which existing institutional frameworks relate to and interplay with identified types of social enterprise.

### 1. Understanding Concepts and Context

The terms “social entrepreneurship” and “social enterprise” emerged rather late in the Croatian discourse—around 2005. They are still not broadly recognised or accepted, but a slight increase in public interest in these concepts could be observed after the Croatian accession to the European Union, in 2013, when several EU funding schemes became available for Croatian social entrepreneurs. However, several other related

terms and concepts—namely those of civil society, associations and cooperatives—are much more deeply rooted in Croatian discourse. The development of social enterprise in Croatia rests on different traditions and practices that go back a long way, as well as on different influences and conceptual approaches that have emerged recently.

The origins of civil initiatives in Croatia can be traced back to the late 19th and early 20th centuries. Examples include brotherhoods and other mutualist organisations, often related to the activities of the Catholic Church, as well as foundations established by noble families or church communities with cultural, educational and social goals (Bežovan and Zrinščak 2007). In the period after World War II, the political framework was associated with the one-party system, which dominated for half a century. The socialist regime was characterised by the repression of many freedoms. Similarly, to what happened in other transition countries, during the socialist period, civil society in Croatia was marginalised by the paternalistic approach of the state (Bežovan and Zrinščak 2007).

The concepts of civil society, non-profit sector or third sector emerged in Croatia with the broad political, social and economic transition in the early 1990s (Bežovan and Zrinščak 2007). However, during the 1990s, the political and socio-cultural environment remained quite unfavourable to civil-society development (Deacon *et al.* 1994). First, the beginning of the decade was marked by the war, so civil-society organisations' engagement originally focused on humanitarian assistance to displaced persons and response to the refugee crisis. Secondly, another important reason for the slow development of the civil-society sector was the low level of social capital in the country (Štulhofer 1998). Finally, the authoritarian political regime acted repressively towards civil society. Various restrictions were imposed on civil-society organisations, such as barriers when registering, and they were controlled by the state in many ways. Non-profit organisations, especially those that operated in the field of human rights, democratisation and development of civil society, came under special scrutiny, as they were foreign-funded organisations and, therefore, under suspicion of being likely to act against the state (Bežovan and Zrinščak 2007).

In Croatia, terms such as “civil-society organisation”, “non-governmental organisation” (NGO) or “non-profit organisation” (NPO) are more common than “social entrepreneurship” or “social enterprise”; they also have a longer tradition in the country. The term “non-governmental organisation” was dominant during the 1990s; after 2000, it was gradually replaced by the terms “civil society”, “civil-society organisation” and “association”. After 2000, when institutional and legal frameworks became more favourable, the concepts of “civil society” and “non-profit organisation” became widely used, in particular, in governmental and public administration discourse. These concepts include several legal forms: associations, foundations and (social-welfare) institutions. As for

the concept of “third sector”, it is virtually unknown in Croatia not only among the public but also among academics and professionals. The concept of “social economy” was rarely used until recently, and so far, the term has not become really “embedded” in the Croatian context, despite its long historical usage and role in continental European tradition.

As mentioned earlier, the discourse on social entrepreneurship and social enterprise emerged in Croatia around 2005; the concept was “imported” from abroad, introduced by international organisations and donors (Vidović 2012). These organisations (most of which were English-speaking actors) promoted the income-generating approach for non-profit organisations to achieve sustainability. The first social enterprises in Croatia emerged from such approach, and they were mainly organised as organisations embodying a “symbiosis” between non-profit organisations and the subsidiary companies they had established, mostly in the areas of the environment, child care, social services, education and research, non-profit accounting and community development.

With the further development of the sector, in particular with the intensification of the EU accession process, the understanding of social entrepreneurship in Croatia evolved and became closer to the EU approach. It became somewhat officially formalised in the national Strategy for Social Entrepreneurship Development (adopted in April 2015), which is largely consistent with the definition proposed by the European Commission in its “Social Business Initiative” (European Commission 2011). The Strategy defines social enterprise as a “business activity based on principles of social, environmental and economic sustainability where gained profit/surplus is entirely or partly reinvested for community well-being” (Government of the Republic of Croatia 2015).

The understanding of social entrepreneurship and social enterprise varies among stakeholders involved in the sector. As far as terminology is concerned, it was largely debated which of the two Croatian terms translating as “social” in English—namely “*socijalno*” or “*društveno*”—should be used. Some argued that the first term rather referred to activities related to “social assistance” or “welfare care” and was thus too restrictive, while others were reluctant to use the second term as it was usually linked to “collective organisations” introduced by the socialist regime. The first documents, strategies and research studies used the term “*socijalno*”, but many actors and activists in the SE sector lobbied for the term “*društveno*”. The latter was finally chosen in the Strategy for Social Entrepreneurship Development, thus becoming somehow the “official” term.

The terms “social entrepreneurship”, “social enterprise” and “social entrepreneur” are often used interchangeably; this is also the case in the Strategy. This is probably due to the fact that different traditions and influences—international donors, EU institutions, academic community—shaped these concepts and that there is still no clear understanding of

this area. For several years, there was no official definition or institutional recognition of social enterprises. This caused a lack of the overall recognition and visibility of these organisations. Moreover, this situation resulted in the coexistence of multiple approaches and understandings of social entrepreneurship and social enterprises, with definitions ranging from “self-financing activities of civil-society organisations” or “entrepreneurship for the poor” to “employment of disabled persons or other marginalised social groups” (Vidović 2012). Today, social entrepreneurship as a concept is becoming better recognised, not only among civil-society organisations and social entrepreneurs but also among public authorities and academic researchers.

In Croatia, there is no specific legal form for social enterprises. However, a number of legal forms may be used by social enterprises; these organisations most often register as cooperatives, associations or limited-liability companies (subsidiary companies of associations). Eligible forms also include foundations and private social-welfare institutions, but those are either rare (foundations and sheltered workshops) or not perceived as social enterprises (social-welfare institutions). Private social-welfare institutions are often important providers of social services (such as care for the elderly or child care) in local communities, but co-production practices (i.e. greater involvement of the service users or of their family members in service delivery) are often underdeveloped in these organisations (Matančević 2014), which also tend to have undemocratic forms of governance (Vidović 2012).

More than two years after the Ministry of Labour and Pension System had initiated its creation, the national Strategy for Social Entrepreneurship Development was finally adopted in April 2015. Not only did that Strategy provide an official definition of social enterprise, introducing nine criteria to be met by social enterprises, but it also planned to establish an institutional and financial framework for these initiatives. The plan was to set up some kind of list or register of social enterprises complying with the nine criteria; then, being listed in the register would have been a condition for social enterprises when applying for public support and grants. One of the criteria provided that at least 25% of the income had to be generated through economic activities, and that 75% of the profit or surplus had to be reinvested in the enterprise’s social purpose. In addition, criteria prescribed that social enterprises should “achieve balanced social, environmental and economic goals”, have a “favourable impact on the environment” and “contribute to the development of the local community and society at large”.

However, the implementation of the Strategy failed to a large extent: many of its activities or goals (including the creation of the list of social enterprises) were not achieved in its five years of existence. As a consequence hereof, no accurate official number of social enterprises in Croatia was available yet at the time of writing of this chapter.



## 2. Identification of SE Models

The overall lack of data determined our methodological approach. Our development of a typology of social enterprise follows the inductive qualitative approach; it takes into account many years of observations, participation, data collection and interviews carried out in the field by the two authors of the chapter. Social enterprise is the unit of analysis. Our main approach in identifying social enterprises was the EMES conceptualisation, which distinguishes three main dimensions in social enterprise: a social mission, the entrepreneurial nature of the activities and a participatory governance structure (Defourny and Nyssens 2012).

The SE sector in Croatia is marked by significant fluctuation, caused by many factors, but mostly by an unsupportive institutional and financial environment. Many social enterprises are short-lived because they do not succeed in achieving financial sustainability. At the core of the SE sector, though, some social enterprises persist and grow, despite this unfavourable surrounding.

The typology offered here is the first attempt to identify and classify existing SE models in Croatia. The intention was to recognise how various models are shaped not only by internal factors—such as the social mission, the field of activity or the type of governance—but also by external driving forces—such as public policies, socio-cultural factors and the dynamics of the sector. Based on an inductive approach and interpretivism, categories were identified according to observed similarities or patterns. The motivation or the reason behind the decision to establish and run a social enterprise was identified as a key dimension in distinguishing models of social enterprise. In other words, it appeared that social enterprises were largely shaped by what their founders perceived as important to achieve.

Our tentative typology proposes to distinguish three SE models, namely: social enterprises driven by employment purposes (or “people-driven” social enterprises); social enterprises driven by financial-sustainability goals (or “income-driven” social enterprises); and social enterprises driven by the search for innovative solutions (or “innovation-driven” social enterprises).

This typology should be understood as a preliminary mapping and classification. In practice, the boundaries of the various models are fluid and flexible, and social enterprises often demonstrate features of various models; indeed, social enterprises tend to have a hybrid organisational nature and to try to address and achieve different goals (social, economic and environmental goals).

### 2.1. *Social Enterprises Driven by Employment Purposes* (“People-Driven” Social Enterprises)

The main driving force behind the first type of social enterprise that we identified is the intention to create jobs and to ensure employment for

vulnerable people who have only limited access to the labour market. Those include *inter alia* persons with disabilities, (older) women, ethnic minority groups, long-term unemployed persons and young and under-experienced workers. The economic activity, that is, the production of goods or delivery of services, is organised around this goal. In other words, the economic activity is often chosen to suit the human and technical capacities of the vulnerable group(s).

Very often, the employment-related aspect of the project is accompanied by important social and/or environmental aspects. However, this is not an absolute rule. This “people-driven” type overlaps with what is known as work-integration social enterprises (Borzaga *et al.* 2008), to the extent that the main objective of these social enterprises is the work integration of people experiencing serious difficulties in the labour market or people who are at risk of being excluded from the labour market and from society. The intention is also to integrate and re-socialise those persons by giving them a work experience or by encouraging them to create permanent self-financed jobs. The most important social impact of this SE type is thus related to job creation, employment and social inclusion.

In Croatia, this type of social enterprise usually operates under the cooperative legal form, usually as social cooperatives or worker cooperatives, as the Act on Cooperatives allows (OG 34/11). Some social enterprises of this type are also legally registered under other legal forms, such as limited-liability companies.

Several examples of this type may be identified in the landscape of Croatian social enterprises. The social cooperative Humana Nova Čakovec was established in 2011 by the non-profit organisation ACT (now ACT Group) as a social enterprise that primarily employs people with disabilities and other socially excluded people. Humana Nova Čakovec produces and sells textile products, made of reused and/or organic textile, for the domestic and overseas markets. In 2018, the cooperative employed 23 persons, among whom 15 were persons with disabilities. The women cooperative Lika, in Gospić, had been established as part of the follow-up of the project titled “Together towards employment and social inclusion”, launched by a Split-based non-profit association, Cen-zura. The cooperative was engaged in the production and sale of original and traditional souvenirs from the area of Lika. Members of the cooperative were women in rural and war-affected areas of Lika; the cooperative aimed at their personal, social and economic empowerment through their engagement in the production and sale of their handicrafts. The social cooperative Ruke, in Bilje, was established by the non-profit association Baranja within the aim of preventing violence towards women. The economic activities, such as growing seasonal vegetables and providing care for the elderly in the local community, are organised for women victims of domestic violence and hard-to-employ women from Baranja. Hedona

Ltd, in Križevci, was founded in 2013 by the non-profit Association of Disabled Persons Križevci. It was first established as a cooperative but then changed its legal form to that of a limited-liability company. Its core business is the production of chocolate and chocolate pralines. Most of the employees are persons with disabilities.

## ***2.2. Social Enterprises Driven by Financial-Sustainability Goals (“Income-Driven” Social Enterprises)***

This type of social enterprise is driven by the need to establish an economic activity in order to generate income. However, the search for income is not motivated here by the “lust for profit” but by the desire to ensure the sustainability of the existing social mission of the (parent) non-profit organisation. Therefore, social enterprises of this type usually emerge in (often “old” and well-established) civil-society or non-profit organisations having lost the majority of their (donor-based) financial sources. In order to keep pursuing their social objectives, associations of this type decide to develop economic activities. The products and services they produce and/or deliver are usually very closely related to their social mission, which remains the main focus of the organisation. This type is partly related to the so-called “earned-income” school of thought (Defourny and Nyssens 2012), which claims that social entrepreneurship emerges as a strategy implemented by non-profit organisations (NPOs) to generate revenue to pursue their social objectives. The economic activities of this type of social enterprise are not just marginal activities; on the contrary, they are often highly integrated in the organisation’s activities. Apart from ensuring sustainability, the most important impact of this form of social enterprise is the increased visibility of social entrepreneurship not only among non-profit organisations but also among the broader public.

Because of the specific limitations that non-profits face in performing economic activities (see Vidović 2012, 2013), the most common legal and organisational form for this type of social enterprise is a somewhat hybrid form, combining a non-profit association and its subsidiary company (trading arm), which in most of the cases takes the form of a limited-liability company (Ltd). Social enterprises of this type do not generate much employment—or at least, they have not done so until now.

Several examples of this type may be identified in the Croatian SE sector today. ACT Conto Ltd and ACT Printlab Ltd, in Čakovec, were established by the non-profit organisation ACT (today ACT Group). The ACT Printlab is a graphic and web-design studio, specialised in providing services to the non-profit sector. ACT Konto provides tax consulting, bookkeeping and accounting services for non-profit organisations. Both subsidiary companies reinvest their surplus into the activities of their parent organisation or provide grants for other local non-profits. Alfa

Albona is a youth NPO in Labin. Besides its regular youth-oriented programmes, the organisation's main social-entrepreneurial project was to convert a former dormitory building into a youth hostel and a centre for social-entrepreneurship promotion. The non-profit organisation Roda, in Zagreb, started their social enterprise in the sector of production, sale and promotion of cloth diapers. After they had operated as an association for several years, they founded "Rodin let" as a separate (trading-arm) company with an intention to separate economic activities. Although the company closed down in 2017, Roda is still broadly recognised as one of the pioneering social enterprises in Croatia.

### 2.3. *Social Enterprises Driven by the Search for Innovative Solutions ("Innovation-Driven" Social Enterprises)*

Social entrepreneurship may be seen as a form of innovation *per se*. However, here we focus on a specific type of social enterprise that is primarily driven by the idea to offer a new solution to a recognised social or environmental problem. The motivation lies specifically in implementing an innovative response to a need that is not met by the social system. Very often, individual experts or educated persons with adequate know-how initiate a very innovative project, which then grows up into a social enterprise. The innovation can take many different forms, from providing an innovative community service to developing high-tech facilities for vulnerable or deprived social groups.

This type of social enterprise tends to be highly innovative in the development of new products, services or models, with a good potential to scale up, or even to transfer their know-how regionally or worldwide. However, as recent studies have shown (Brandson 2014; Bežovan *et al.* 2013), this potential often remains untapped:<sup>2</sup> according to findings, most of the social innovations remain local. They usually do not last long and are only rarely transferred on a broader scale.

The most common legal and organisational form for this type of social enterprise is the company (in most cases, the limited-liability company), but hybrid models, combining an association and its trading-arm company, are also encountered. These initiatives often tend to be initiated or driven by individuals. Therefore, to some extent, they might follow less democratic models of governance than the two previous types.

Only few examples of this type can easily be identified in Croatia. E-glas, in Rijeka, is a spin-off company established by the University Centre of the Faculty of Engineering at the University of Rijeka. E-glas produces advanced hi-tech systems for voice-operated home devices, intended primarily for people with severe physical disabilities. The non-profit association UZOR, in Križevci, developed a free-of-charge system of waste paper collection in the local community. UZOR used cargo bicycles (thus reducing greenhouse gas emissions) to collect paper waste

from households. The enterprise employed long-term unemployed male workers. Over the course of several years, the business model became well rooted in the local community and sustainable in the long run, so in 2018, UZOR decided to transfer the business to local authorities, which continue running its activities. OmoLab is a small company from Split that develops communication tools for persons with dyslexia or other visual disabilities. The social enterprise was founded by a designer who created a special font and tools for reading in order to help dyslexic members of his family. The company provides free tools for users and generates income from selling designed merchandise they produce.

The three models of social enterprise identified in this classification should be understood only as ideal-types, created to provide researchers with a “compass” to navigate the complex hybrid sector of social enterprise in Croatia. In each of these three types, the social mission and the economic activity are equally important. The participatory nature is also one of the key aspects, although its forms and level of importance vary.

Interconnections between the different SE models may also be linked to and accounted for by the fact that social enterprises have a hybrid nature—a characteristic that is recognised as a specificity of these organisations. Social enterprises tend to combine different—almost contrary—types of organisation, governance mechanisms, sources of funding and forms of actions (Evers 2005). Hybridity is indeed a central characteristic of the operating principles of Croatian social enterprises, mostly due to the limitations of the institutional and financial framework.

### **3. Institutional Trajectories**

This section gives a brief overview of the recent historical background that shaped the institutional framework for social enterprise in Croatia and provides some insights into interplays between institutional trajectories and the three models of social enterprise identified earlier.

#### **3.1. Brief Historical Overview**

The institutional framework for social enterprise in Croatia is still in its early stages of development. As underlined earlier, there is no specific law regulating social enterprise in the country. However, the Strategy for Social Entrepreneurship Development, adopted in 2015, offered a definition of social enterprise and identified nine criteria to be met by these organisations. It defined a social enterprise as a “business based on the principles of social, environmental and economic sustainability, in which generated profit or surplus is entirely or largely reinvested for the benefit of the community” (Government of the Republic of Croatia 2015). This definition is very much in line with the EU understanding of

social enterprise such as it is described in the “Social Business Initiative” (European Commission 2011).

Different legal entities—associations, cooperatives, companies, foundations and some private institutions<sup>3</sup>—may operate as social enterprises. It also often happens, as explained earlier, that social enterprises emerge from non-profit organisations that establish a company or a cooperative; social enterprises can thus also operate under a hybrid form, consisting of an NPO and its trading-arm company. Social enterprises are regulated through several acts, depending on the legal forms under which they operate. Current legislation that may be relevant for social enterprises include the Act on Associations, the Act on Cooperatives, the Company Act, the Act on Foundations and the Act on Institutions. Other legislation may also be relevant, such as the Act on the Vocational Rehabilitation and Employment of Disabled Persons and the Act on Public Procurement.<sup>4</sup>

We provide here a brief overview of the legal and institutional development for associations and cooperatives, as those are the most common and suitable legal forms for social enterprises (as just underlined, possibly in combination with each other or with another legal form), and we illustrate how the institutional, legal and fiscal frameworks have shaped the current state of the SE sector. This may help to understand the main institutional trajectories, and how they relate to the three main models we identified in Section 2.

The Act on Social Organisations and Civil Associations, adopted in the 1980s, during the socialist period, served as a regulatory frame for associations long after the democratic changes. A new Act on Associations was adopted in 1997, but it did not bring about the expected changes in opening more space for the development of civil society; on the contrary, this new Act was seriously criticised for being too restrictive and for not ensuring freedom of association. After the political shift, in 2000, yet another Act brought about favourable changes for a stronger development of associations, more in line with European standards. This shift also marked the end of donor-based funding and the emergence of a stronger orientation towards market-based resources. The Act on Associations and the Act on Financial Operations and Accounting of Non-Profit Organisations,<sup>5</sup> adopted in 2014, introduced stricter regulation of the economic activities of non-profit organisations, primarily by compelling organisations gaining profit from their economic activities to pay taxes, and by making the accounting requirements more complex (which is seen as a burden, especially for smaller associations).

Similarly, to what is the case in other post-socialist countries, cooperatives in Croatia suffer from a negative perception among the general population and from institutional marginalisation. The Cooperative Act, which was adopted in 1995, did not particularly stimulate the development of the cooperative sector. Legislative changes introduced in 2011 and then in 2014 (such as a change in the required number of founders,

from three to seven) resulted in a decrease in the number of cooperatives. The latest Act on Cooperatives, adopted in 2011, enabled the creation of different types of cooperatives—*inter alia* social cooperatives, some of which were recognised as typical work-integration social enterprises (WISEs). However, in terms of regulation, not much distinguishes social cooperatives from other cooperative types.

The fiscal framework is not particularly stimulating for social enterprises, as they are not entitled to specific tax incentives or tax deductions. After 2000 and the change of regime, some tax benefits in favour of NPOs (in particular, tax deductions for donations to non-profits) were introduced. Since the adoption of the Act on Associations, in 2014, associations have been subject to profit tax when such profit is gained from economic activity. In addition, associations now have to pay the value-added tax if their annual income from economic activities reaches HRK300,000 (around €40,000).

The development of a supportive policy context for social enterprise has been long and slow. The *Joint Memorandum on Social Inclusion of the Republic of Croatia*, published in 2007, was one of the first documents that promoted the deinstitutionalisation of social services and the involvement of non-state actors in the provision of such services.<sup>6</sup> This document established a framework for the use of resources from the Instrument for Pre-Accession Assistance (IPA), which constituted one of the financial sources for several social enterprises. The 2006–2011 National Strategy for the Creation of an Enabling Environment for Civil-Society Development and its 2012–2016 counterpart were the first documents that discussed social entrepreneurship. The adoption of the Strategy for Social Entrepreneurship Development for the period 2015–2020 marked a greater institutional focus on this area, which resulted in increased expectations placed on social enterprises. This Strategy proposed four main areas of action to support SE development, namely: developing a legislative and institutional framework; establishing financial mechanisms for the efficient operation of social enterprises; promoting social enterprises and their role through formal and informal education; and ensuring the visibility of the role and potential of social enterprises. The Strategy intended to channel the resources available from EU funds, mainly the European Social Fund (ESF), and planned to allocate around €37 million for the implementation of the goals and measures of the Strategy. However, the Strategy failed to implement its objectives and delivered only a small portion of the expected funds, that is, €1.4 million, which corresponds only to 3.8% of the total funding. The Ministry of Labour and Pension System was the managing body in charge of the implementation of the Strategy; within this Ministry, a particular office for social enterprises was formed,<sup>7</sup> which was to operate as a central institutional unit for the SE sector.

Not only did the Strategy fail to channel the expected EU resources; in addition, the social-investment market is still in its infancy in Croatia. As a result, the country suffers from a shortage of funds and resources available to social enterprises, be they in their start-up stage or in a subsequent, scaling-up stage. Only rare traditional banks offer some financial instruments for social enterprises; an example hereof is provided by Erste Bank and its social banking programme, which granted tailored loans to five social enterprises in Croatia in 2017 and 2018. New ways of funding, such as crowdfunding, are also developing, with a few social enterprises already successfully using this model for some small-scale projects.

Apart from institutional actors, a few intermediary organisations and networks should be mentioned, as they played a major role in promoting and supporting social enterprise in Croatia, making up for the lack of institutional support. The Cluster for Eco-Social Innovation and Development (*Cluster za eko-društvene inovacije i razvoj*, or CEDRA) and the Social Entrepreneurship Forum (SEFOR) were the main intermediary actors for several years. SEFOR is not active any longer, but the majority of its members—be they individuals or organisations—have remained active through some CEDRA centres. The ACT Group, in Čakovec; SLAP, in Osijek; CEDRA, in Split; Impact HUB, in Zagreb; and the Cooperative for Ethical Financing are some of the committed intermediary players that offer non-financial support programmes and small-scale financial support particularly targeting social enterprises.

### ***3.2. Interplay Between Institutional Trajectories and the Three Models of Social Enterprise***

The shaping of the institutional and policy framework for social enterprise during the last decade interplayed with the development of each SE type identified in this study.

*“People-driven” social enterprises* may have benefited from several programmes and schemes supporting employment. Since 2008, the Instrument for Pre-Accession Assistance (IPA) – 4 Human Resources Development has provided funds to support the social inclusion and work integration of social groups with difficult access to the labour market. The employment and work integration of specific vulnerable groups were promoted in several strategies: the Strategy for Combating Poverty and Social Exclusion in Croatia 2014–2020; the Entrepreneurship Development Strategy 2013–2020; the Strategy for Women’s Entrepreneurship in Croatia 2014–2020; and the Strategy for Social Entrepreneurship Development. The Act on the Vocational Rehabilitation and Employment of People with Disabilities regulates specific forms of social enterprise, such as sheltered and integration workshops, specifically designed to employ people with disabilities.



One may also track the institutional trajectories that have supported the development of “*income-driven*” *social enterprises*. During the last decade, income generation was promoted as a legitimate strategy for non-profit organisations to become financially sustainable. Income generation through social entrepreneurship is the first SE model emphasised in the Strategy for the Creation of an Enabling Environment for Civil-Society Development. Gradually, income generation through economic activities has become a “regular” mode of operation for non-profit organisations, and this has resulted in legislation changes towards a more rigid regulation of economic activities that NPOs undertake.

The development of institutions and policies framing the activities of the third type of social enterprise identified earlier—namely “*innovation-driven*” *social enterprises*—is more recent. Indeed, although innovation has long been considered a substantial part of entrepreneurship and a generator of economic development and growth, it is only recently that social innovation, as a concept, has become more popular in the public discourse and has been integrated in various strategies. At the end of 2014, the Strategy for Innovation Encouragement in Croatia 2014–2020 (Government of the Republic of Croatia 2014) was adopted, with the purpose of increasing innovation and competitiveness in the country. Other strategies also target innovation through some measures; for example, the National Strategy for the Creation of an Enabling Environment for Civil-Society Development 2012–2016 (Government of the Republic of Croatia 2011) aimed to support social innovations in the civil-society sector. The Strategy for Social-Entrepreneurship Development prescribes measures to support both innovative financial instruments for social enterprises and, more generally, social innovations in the SE sector. Croatian organisations have also recently become eligible to apply to tenders of the EU programme on Employment and Social Innovation (EaSI), which mainly supports the development of social innovations.

## Conclusion

The main intention of this chapter was to propose a preliminary typology of social enterprise in Croatia, based on the current state of the art and on empirical observations and analysis. The driving purpose or motivation behind the foundation and operation of a social enterprise was used as the main criterion to distinguish the various SE types. It also appeared that the purpose that drives social enterprises and their founders largely influenced their choice of legal and organisational form and business strategies and the availability of funding. The chapter also briefly outlined the institutional trajectories that have interplayed with the development of each SE type during the last decade.

Based on an inductive and interpretative approach, we identified three distinct types of social enterprise. For the first type, named

“*people-driven*” social enterprise, job creation (for vulnerable people) was the main purpose for establishing the enterprise. Social enterprises of this type are often founded as cooperatives. The second type, referred to as “*income-driven*” social enterprise, is commonly established by non-profit associations aiming to generate income for their social mission. Their products and services are usually closely related to their social mission, and they often operate as a trading-arm company. “*Innovation-driven*” social enterprise is the third type that was identified; it is usually based on an innovative way of addressing some social problem. The most common legal form for this type is the company—often a spin-off or trading-arm company.

This typology should be seen as a working tool that makes it easier to understand the variety of initiatives, entities and intentions appearing in the emerging—and yet complex—SE sector in Croatia. The three models we identified are to be considered as ideal-types; indeed, in reality, each social enterprise integrates all three aspects in different ways: all social enterprises are favourable to the employment of vulnerable people; they all tend to generate some income to address a social problem; and they are all usually innovative in some way, combining existing resources to produce new value for the common benefit.

Social enterprise in Croatia is facing many challenges, but the most important barrier to their development is without doubt the slow pace of progress in the creation of a supportive legal framework and institutional environment. This study may contribute to a better understanding not only of the complex universe of social enterprise but also of the different SE models’ needs and impacts, which may in turn lead to different institutional and policy approaches. Studies on social entrepreneurship and social enterprise in Croatia are still rare, so we hope this typology may stimulate other research attempts—both to identify other models of social enterprise and to gain more in-depth insights into many aspects of social enterprise that hitherto remain unknown.

## Notes

1. For a longer version of this chapter, see Vidović and Baturina (2016).
2. For more details, see the WILCO Project’s website: [www.wilcoproject.eu/](http://www.wilcoproject.eu/) (accessed on June 16, 2015).
3. “Institution” (*ustanova*) is a legal form in Croatia; among institutions, the most important type in the SE field is that of “social-welfare institution”.
4. Act on Associations, OG 70/97, 106/97, 88/01, 11/02, 74/12; Act on Cooperatives, OG 36/95, 67/01, 12/02, 34/11, 76/14; Act on Foundations, OG 36/95, 64/01; Act on Institutions, OG 76/93, 29/97, 47/99, 35/08; Act on Companies, OG 152/11, 111/12; Act on the Vocational Rehabilitation and Employment of Disabled Persons, OG 143/02, 33/05, 157/13, 152/14, 39/18; Act on Public Procurement, OG 90/11, 83/13, 143/13, 120/16.
5. Act on Financial Operations and Accounting of Non-Profit Organisations, OG 121/2014.

6. It promotes the involvement of those non-state actors that are focused on addressing poverty and social exclusion.
7. The official name of this office is the “Department for the preparation and implementation of projects in the field of social entrepreneurship”.

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# 3 Social Enterprise in the Czech Republic

## Heritage and New Developments

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### Introduction

The term “social enterprise” (SE) is used in the Czech Republic; however, it has not yet been legally acknowledged. It is particularly used by social enterprises with different legal forms, by non-governmental organisations that promote the idea of social entrepreneurship and support social enterprises as well as by individuals who consider starting up a social enterprise.

Some facts create suitable conditions for the establishment and development of social enterprises in the country, and research confirms the actual existence of social enterprises, even though a formal definition of the concept is still lacking. Foreign concepts and experiences, especially from the European Union countries, serve as the basis for developments in the Czech Republic—which was, it is worth noting, the first country in Central and Eastern Europe to hold an international conference on the social economy, in 2002. One of the outputs of this conference was the “Declaration of Prague”, which highlights three major features of social enterprise: social enterprise is not based on capital but on participatory democracy; the object is not the pursuit of profit but mutual support; and social enterprise can make a significant contribution to the inclusion of disadvantaged people into society.

Knowledge of foreign theory and practice about the social economy helps to spread ideas about social enterprise in the country and supports the establishment of Czech social enterprises (Dohnalová 2010). A non-official group of experts and interested people was recently established with the aim of defining the social economy and social enterprise nowadays. The term “social enterprise” is also used by academics, particularly at the Faculty of Humanities of Charles University in Prague. A course on “Social economy and social entrepreneurship”, accredited by the Ministry of Education of the Czech Republic as an obligatory course in

the master study programme “Civil-Sector Studies”, is organised by the Department of Civil-Society Studies within this Faculty.

## 1. Understanding Context and Concepts

### 1.1. *Historical and Legal Background for SE Development*

The background for SE development in the Czech Republic is a long and rich tradition of solidarity, mutual-help organisations, foundations and cooperatives; such organisations have indeed existed under different forms in the country for over 100 years. Efforts to establish associations and cooperatives, which seem to constitute the “roots” of Czech social enterprises, are documented in the country at the beginning of the 19th century already. Well-known figures who formulated basic principles of economic individualism and solidarity were František Cyril Kampelík (1805–1872), František Ladislav Chleborad (1839–1911) and Karel Engliš (1880–1961). The First Republic of Czechoslovakia, under the presidency of Tomáš Garrigue Masaryk (1850–1937), created a friendly environment for the development of civil organisations. The high number of associations between World War I and World War II was linked to the civil activities started in the 18th and 19th centuries and related to the Czech National Revival. The New Liberal Federal Law, passed in 1867 (Act No. 134/1867), enabled the establishment of different types of associations; this law remained in force until 1951. In that period, Czechoslovakia was one of the world’s ten most industrialised countries. Associations and public organisations’ growth was mainly related to the development of Czech small and medium enterprises in the second half of the 19th century; the new social class of Czech wealthy businessmen played an important role in philanthropy. Most of them became famous patrons. The well-known architect Josef Hlávka, for example, established the “Nadání Josefa, Marie a Zdeňky Hlávkových” Foundation, which still operates nowadays (Skovajsa 2010). Another well-known patron was Alois Oliva, who established Oliva’s Foundation in 1896.

The Act of 1873 (Act No. 70/1873 about Profitable and Productive Cooperatives) defined cooperatives as organisations based on mutual support among the members. The eldest production cooperative in the country, “Kovo Věšín”, was founded in 1892. Many cooperatives were developed in every business sector at the end of the 19th century, and the period between World War I and World War II is considered as the “golden years” of Czech cooperatives.

Plenty of charitable organisations were founded after World War I with the aim of alleviating the consequences of the war. The number of active public and humanitarian organisations increased significantly between 1919 and 1931 and reached its maximum in 1938, with 9,115 public

associations registered (Rataj and Ratajová 1998). But based on government regulation, from 1939 onwards, all associations were immediately or gradually dissolved.

All associations, foundations and cooperatives quickly resumed their activities after World War II, but February 1948 brought about significant changes. Indeed, public associations were prohibited by the new social regime, and only Hlávka's foundation (the "Nadání Josefa, Marie a Zdeňky Hlávkových" Foundation) remained. Productive cooperatives also remained, although under a different shape—as a tool of the communist regime. The economy was characterised by comprehensive central planning and the abolition of private ownership of capital.

The 1970s brought about a more authoritarian socialism, in which all public life was under control and no public organisations were allowed to operate. This situation persisted until the end of communism, in November 1989.

The "Velvet Revolution" brought about civil liberty and the collapse of the Communist Party. This regime changeover triggered the renewal of many public associations. A wide range of new associations and cooperatives of a social type were founded (see Section 3). The development of the civil sector after 1989 constituted the basis for the emergence of today's social enterprises.

### *1.2. Social Enterprise Nowadays*

Social enterprises in the Czech Republic emerge from a "bottom-up" approach; they are based on citizens' voluntary initiatives. New jobs are usually created and people from disadvantaged social groups are employed. Social enterprises offer products and services in towns and municipalities. As already mentioned earlier, the first international conference on the social economy to be organised in post-communist countries took place in Prague in 2002; although it did not bring about any incentives for social enterprises, it was nevertheless important for Czech social enterprises.

The real beginnings of the SE phenomenon in the Czech Republic are mainly connected with the implementation of projects supported by the European Structural Funds. From 2003 to 2008, non-governmental organisations (cooperatives and registered companies) often established international cooperation relations, gained experience from abroad and started to call themselves "social enterprises" or "social companies". The interest to establish social enterprises was supported by the Human Resources and Employment Operational Programme of the European Social Fund. Between 2009 and 2013, the Ministry of Labour and Social Affairs defined, in its call for grant-applying projects in the social economy, the requirements to be fulfilled for an organisation to be considered as a social enterprise.

The concept of social enterprise is mainly connected in the Czech Republic with the employment of disabled people. The legislative background supports these social enterprises by providing subsidies for the creation of jobs complying with the code of employment. However, thanks to the call issued by the European Social Fund, the concept of social enterprises has become broader and now includes the employment of people belonging to other groups that are considered as socially disadvantaged: the youth and young adults (people between 15 and 26 endangered by social pathological phenomena, and young adults leaving institutional care); homeless people; people leaving institutional or protective care and people leaving prison; victims of crime, of domestic violence, of human trafficking, and commercially exploited people; people caring for a relative; people with experience of drug addiction and people with diagnosed addiction to drugs; and other unspecified socially excluded people or people at risk of social exclusion.

Two main reasons can account for the emergence and strength of the topic of social enterprise. First, as mentioned earlier, social enterprises are created through a “bottom-up” approach; the activity is carried out by the subjects themselves. People initiating social enterprises have often gained experience with social enterprises from abroad, so they refer to their initiatives as “social enterprises”. The second reason is connected with financial support from the European Social Fund, which was allocated, within the “Social Economy” call, to projects dealing with newly established social enterprises. This factor has proven very important for the current programming period (2014–2020), as social enterprises have been supported by different operational programmes of the European Social Fund concerning the fight against poverty, employment support, social inclusion and support to small and middle-sized enterprises.

Social enterprises’ weaknesses in the Czech Republic can be related to the following obstacles, which were highlighted by Borzaga *et al.* (2008) in their analysis of the situation in post-communist countries:

- government policies relying on the strength of the free market and underestimating the value of alternative organisations and enterprises, particularly regarding regional development;
- deficiencies of the legislative framework that should regulate the profit-generating activities of the third sector;
- problems encountered by social enterprises in mobilising human and financial resources (lack of resources, lack or insufficiency of experience with entrepreneurship and marketing and lack of knowledge about how to work with disadvantaged social groups);
- distrust in cooperatives caused by a negative understanding of cooperatives as organisations connected with the communist regime (even though there are cooperatives that were established before the communist era);



- high dependence of social-sector NGOs on the state;
- insufficient recognition of the role of the third sector as an alternative sector;
- influence of financing opportunities on the activities of NGOs (even though non-governmental organisations are established for the purpose of fulfilling a social mission, they sometimes adjust their activities to the possibilities of financial support);
- general lack of trust in solidarity (the concept of solidarity is understood as applying to the relationship of an individual with friends and family; the vision of economic activity is connected with individual targets rather than with possible positive effects for the entire society);
- continuing influence of the political culture of the previous regime, in which the activity of social-economy actors was limited to their members' own interests.

Beyond these various obstacles, the biggest problem remains the lack of knowledge of the concepts of social enterprise, social entrepreneurship and social economy in the general public. Indeed, why should an enterprise be established as a social enterprise when this does not work as a “positive sign” to distinguish the enterprise from other enterprises, when the public does not hold social enterprise in high regard, and when most of the people do not even know what a social enterprise is?

### ***1.3. Social Enterprise or Civil Sector?***

The term “social enterprise” is still not well-known in the Czech Republic, but there are other terms that are used in connection with (or instead of, or besides) that of social enterprise.

The “civil sector” and the “non-profit sector” are the concepts most frequently used in the country. The civil sector and non-profit sector are usually defined by listing the types of (not-for-profit) organisations that compose it: associations, foundations, endowment funds, church institutions and charitable trusts. These are private organisations, distinct from the state and involved in economic activities. They are characterised by the fact that their activities are not only oriented by the search for profit; they also fulfil other missions and pursue other visions. People who set them up voluntarily establish organisations with social-welfare targets. These organisations provide public services; they work for their members, for foundations supporting the activity of others, etc. They can be local or national, and they often arise in reaction to concrete problems and needs. They are present in nearly all fields of human activity and their financing comes from various sources.

The concept of “social economy” is not well-known either in the Czech Republic. The notion of social economy is little used, and the awareness

about the concrete meaning of the term is really low. The social economy and organised civil society represent in many ways the same realities, and these terms are often used interchangeably. Generally speaking, the social economy overlaps with the civil sector to a great extent; however, it is not exactly the same. Indeed, the social economy is a larger concept than the civil sector, to the extent that it includes market-oriented organisations (cooperatives, some trading companies); on the other hand, it is also a narrower concept, to the extent that civil-sector organisations which do not carry out any economic activity are not included in the social economy.

#### ***1.4. Existing Research in the Field of Social Enterprise***

Although the term “social enterprise” is not yet legally acknowledged in the Czech Republic, there is some existing research on the subject, and some authors have already worked on social enterprise.

The main institution that focuses part of its work and research on social enterprise is the Faculty of Humanities at Charles University in Prague. Social economy and social enterprise constitute one of the main research topics of this Faculty’s Department of Civil-Society Studies, in connection with foreign institutions since 2002.

Two other institutions also focus part of their work and research on social enterprise: the Research Institute for Labour and Social Affairs and the charitable trust P3—People, Planet, Profit. Since 2011, this trust has spread the idea of social economy and social enterprise in Czech society. The trust provides consultancy in the field of social enterprise, it supports the preparation of projects for establishing social enterprises and implements projects to support and promote social enterprises. In 2009, the trust created the “TESSEA Thematic Network for the Development of the Social Economy” (*TESSEA Tematická síť pro sociální ekonomiku*); since then, the trust has coordinated this network’s activity.

#### ***1.5. Public Authorities’ Interest for Social Enterprise***

Among public institutions, the entity that has demonstrated most interest for the concept of social enterprise is the Ministry of Labour and Social Affairs. In 2010, this Ministry defined the concept of social enterprise in the framework of the “Social Economy (2009–2013)” grant scheme. Social enterprises applying for grants under the calls for proposals launched by this global scheme had to fulfil several criteria:

- The enterprise must contribute to the reduction of unemployment and it must support social inclusion (at least 30% of all the social enterprise’s employees must belong to specific target groups).
- Employees should participate in the decision-making process.

- The enterprise's profit has to be used for the development of the enterprise and/or to fulfil a mission of public benefit (at least 51% of the profit should be reinvested into the social enterprise).
- The enterprise should be locally oriented, use local resources, support local needs and contribute to local development.

Two government advisory bodies also use the term “social enterprise”: the Government Council for Non-Governmental Non-Profit Organisations (*Rada pro nestátní neziskové organizace*) looks for possibilities for non-governmental non-profit organisations to gain their own income, while the Agency for Social Inclusion (*Agentura pro sociální začleňování*) focuses on the employment of disadvantaged people as a social-inclusion tool, particularly in socially deprived areas.

Social enterprises bear economic risk, try to find innovative ways to provide services and generate income, meet public and social needs and contribute to local development. As in other European countries, social enterprises in the Czech Republic generate new jobs, employ people from disadvantaged groups and provide social services. Undoubtedly, social enterprises are going to develop in many areas of the country's life in the years to come.

## 2. Definition of Social Enterprise

As already mentioned, a specific legislative framework for social entrepreneurship and the social economy is still lacking in the Czech Republic. The country's current legal system does not recognise the concepts of social economy and social entrepreneurship.

In the Czech Republic, companies operating under commercial law can follow the principles of social entrepreneurship (e.g. reinvestment rules). The lack of a legislative framework for social entrepreneurship and social economy in the country might appear not to be an obstacle to their development, but it is indeed, and it would thus be necessary to lay down rules, anchored in the Czech legal order, to regulate the field. We believe that it would be important, for social entrepreneurship and the social economy, that a legal framework be established and subsequently adapted if necessary so as to reflect changes in the development of the social economy in the country, as has happened abroad.

Researchers in the Czech Republic use two current foreign approaches to define the social economy and social enterprises: the legal/institutional approach and the normative approach.<sup>1</sup> Five factors are important to understand the current status and development of social enterprise:

- The influence of foreign definitions: international definitions, and in particular the EMES approach, have exerted and still exert a

significant influence on the definition of the concept and indicators of social enterprise in the Czech context.

- “Bottom–up” initiatives from the civil sector: these initiatives, whose origins are to be found in civil-society organisations (NPOs), create a model of social enterprise referred to as the “associative model”. Social entrepreneurship is expected to complement the organisations’ financial resources by increasing the importance of the income they generate.
- “Bottom–up” initiatives from the cooperative sector: these initiatives, whose origins are to be found in cooperatives, create a model of social enterprise called the “cooperative model”. These initiatives are part of a cooperative tradition that dates back to the 19th century and to the so-called “disabled workers cooperatives” from the socialist era.
- “Bottom–up” initiatives from the commercial sector: these initiatives are business companies and self-employed persons (limited-liability companies, stock corporations, public companies and special partnerships). They adopt business models but with the addition of a social objective and are thus referred to as the “business model” of social enterprise.
- The impact of the European environment: funding from European funds and operational programmes to promote the social economy and social entrepreneurship led to the creation of work-integration social enterprises—the so-called “WISE model”. WISEs create jobs and employ people from disadvantaged social groups (both in the civil, cooperative and in the business sectors).

The EMES International Research Network proposes a set of indicators, based on an empirical approach, to define an ideal-type of social enterprise. In the absence of a specific legislative framework for social enterprise, and in a context characterised by the “bottom–up” emergence of initiatives, the EMES approach constitutes the basis for current research on Czech social enterprise.

Like in other countries, social enterprises in the Czech Republic perform economic activities *qua* private entities. They differ from profitable companies to the extent that they pursue social and/or environmental goals. They often employ people from disadvantaged social groups and contribute to social inclusion and to the fight against unemployment.

From 2008 to 2010, the research team of the Department of Civil-Society Studies (Faculty of Humanities, Charles University) carried out research on the Czech social economy using an international definition of the social economy which combines a legal/institutional approach and a normative approach (Defourny *et al.* 1999; Noya and Clarence 2007).<sup>2</sup> According to the international legal/institutional approach, the social economy is made

up of different legal entities, namely non-profit organisations, cooperatives, mutual societies and foundations. The normative approach highlights values and principles guiding these entities' actual behaviours.

On this basis, the researchers from the Faculty of Humanities of Charles University came to the conclusion that the Czech social economy is made up of the following entities, independent from the state:

- public-benefit organisations;
- associations;
- legal persons established by the church and religious societies and performing an economic activity to finance their mission or to support the employment of hard-to-employ groups of people in the labour market;
- cooperatives (especially manufacturing cooperatives);
- business companies established for purposes other than business;
- self-employed people from socially disadvantaged groups.

The research carried out between 2008 and 2010 focused on public-benefit organisations in the social field. Public-benefit organisations are legal persons that can develop economic activities—with one restriction: they cannot hold shares in other business entities.

TESSEA, an opinion platform supporting social enterprises and the social economy, was created in 2009. This platform was established within the project “Thematic Network for the Development of the Social Economy”, which was co-financed by the European Social Fund and the Czech government. The public-benefit organisation *Nova ekonomika* was the initiator of the working group “Definition” within TESSEA; it used the indicators of social enterprise developed by the EMES Network. The group worked out a definition and a table of principles of social enterprise (see Table 3.1) adapted to the Czech environment (Dohnalová *et al.* 2011).

Social enterprise is defined as a “subject of social entrepreneurship”; it is a legal person founded according to private law or a part of a legal person or a natural person that complies with the principles of social enterprise. The social enterprise pursues a goal of public benefit, which is formulated in its founding documents. It is established and developed on the basis of the so-called “triple bottom line” (economic, social and environmental) concept.

### **3. Identification of SE Models**

Four main models of social enterprise can be identified in the Czech Republic:

- the associative model, which consists of civil-sector organisations or different types of non-profit organisations (associations,

Table 3.1 Principles of social enterprise: the TESSEA framework

	<i>Social benefit</i>	<i>Economic benefit</i>	<i>Environmental and local benefit</i>
<b>Characteristics/ features, in accordance with the European understanding of social enterprise</b> Social enterprises have to fulfil—or to evolve towards the fulfilment of—these criteria. <i>Characteristics in italics are not compulsory.</i>	(a) The activity must benefit society at large or specific groups of (disadvantaged) people. (b) Employees and members must take part in the enterprise's strategic planning. (c) Any possible profit must be used primarily for the development of the social enterprise and/or for fulfilling community goals.	(a) The enterprise must perform a systematic economic activity. (b) The enterprise must be autonomous in its management decisions; management must not be dependent on external founders. (c) At least a minimal share of the total output (products or services) must be sold on the market. (d) The enterprise must demonstrate an ability to cope with economic risk. (e) The enterprise must use a combination of volunteer work and paid work.	(a) Priority must be given to satisfying the needs of the local community. (b) The enterprise must favour and use local resources. (c) <i>The enterprise should preferably satisfy the local demand.</i> (d) The enterprise must respect environmental aspects in production and consumption. (e) The enterprise must cooperate with important local players. (f) <i>The enterprise should implement an innovative approach and innovative solutions.</i>

public-benefit organisations, institutes, foundations and registered church legal entities);

- the cooperative model;
- the business model, which includes business companies and self-employed persons (limited-liability companies, stock corporations, public companies and special partnerships); and
- the WISE model, which is the most frequently encountered type of social enterprise in the Czech Republic.

### **3.1. Civil-Sector SE Model**

Civil-sector entities were affected by changes that occurred in the Czech Republic in connection with the new Civil Code, which came into force on January 1, 2014. These changes concerned not only the names of the organisations concerned but also their ability to exercise an economic activity.

Using the “structural-operational” definition mentioned earlier, civil-sector social enterprises are defined as:

- organisations, that is, they have an institutional structure and existence. They are usually legal persons;
- private, that is, they are institutionally separate from the government, although they may receive public funding and may have public officials on their governing bodies;
- self-governing, that is, they are able to control their own activities and free to select and dismiss their governing bodies;
- non-profit-distributing, that is, not-for-profit organisations may make profits but these must be ploughed back into the organisation’s main mission and not distributed to the owners, members, founders or governing bodies of the organisation;
- voluntary, which means two things: firstly, that membership is not compulsory or legally imposed; and secondly, that these organisations must have volunteers participating in their activities or management.

In the Czech context, the following organisations fulfil the earlier conditions:

- associations;
- public-benefit organisations;
- institutes;
- foundations;
- legal persons established by the church and religious societies.

### **3.2. Cooperative-Sector SE Model**

A cooperative is a non-restricted community of people, which is established to support each of its members or third parties, or for business purposes.

A “social cooperative” (§ 758–773 of Act No. 90/2012 Collection on Corporations) is a specific type of cooperative that consistently develops charitable activities aimed at promoting social cohesion for the vocational and social integration of disadvantaged persons. Its primary goal is to satisfy local needs, using local resources, according to the place of location and scope of the organisation. Social cooperatives are active especially in the area of job creation, social services and health care, education, housing and sustainable development. According to the Business

Corporations Act, social cooperatives are not entitled to any specific advantage or benefit.

Disabled workers' cooperatives employ persons with a handicap, so with a reduced working ability. Jobs for these people are managed through the labour offices.

Unlike all legal entities arising under the Civil Code (associations, foundations, endowment funds and institutes), cooperatives are in practice unable to perform secondary economic activities: a cooperative can only perform the activity for which it was founded.

### ***3.3. Business-Sector SE Model***

Commercial companies are legal entities that are established for business purposes, that is, they systematically work towards making profit. However, the Czech law also allows to establish the same type of companies but with non-profit activities. The legal forms under which such enterprises can operate are:

- the limited-liability company;
- the public company.

### ***3.4. Work-Integration SE Model***

The work-integration social enterprise (WISE) is currently the only form of social enterprise that is officially defined and recognised in the Czech Republic. In its call for grant-applying projects within the “Social Economy” part of the Human Resources and Employment Operational Programme, the Ministry of Labour and Social Affairs of the Czech Republic formulated the requirements that an enterprise has to meet to be recognised as a social enterprise.

Work-integration social enterprises are autonomous economic entities whose main objective is the work integration of unemployed people (whether within the social enterprise itself, or within enterprises in the open labour market) who have difficulties to succeed in the job market and who are at risk of long-term exclusion from the labour market. The integration of these individuals back into society is achieved through a productive activity or through retraining the workers.

## **4. Institutional Context Shaping the Development of Czech Social Enterprises**

The objective of this fourth section is to identify and describe the main “institutions” (at large) shaping the profile of social enterprises in the Czech context: the legal framework within which social enterprises operate and major platforms for social enterprises.



#### **4.1. Legal Framework**

As already mentioned in the previous sections, social enterprise, social entrepreneurship and the social economy have not yet been defined by Czech law<sup>3</sup> (Dohnalová 2012). Various experts are currently working on the preparation of a specific law on social entrepreneurship, but it is not certain when this law will be passed.

The only law specifically related to social enterprise is Act No. 435/2004 Collection on Employment; it concerns primarily WISEs. Another law, namely Act No. 262/2006 Collection of the Labour Code, is also important for social enterprises—as it is for all enterprises.

##### *Act No. 435/2004 Collection on Employment*

This law defines the relations between employers and employees in the Czech Republic and regulates the relationship between the state and employers of people with disabilities. People with disabilities receive a higher degree of protection in the labour market. The state provides financial contributions only to social enterprises that employ persons with disabilities; the consequence of this is that most of the social enterprises do. These financial contributions are an important financial source, which is regular and helps with cash flow. However, in the current context of reduction of state expenses, the state reduces the volume of funds available for these enterprises, which has a significant impact on them.

##### *Act No. 262/2006 Collection of the Labour Code*

The Labour Code regulates the general rules relating to employment relationship, labour agreements, working hours and rest periods, safety and health protection, remuneration rules, income deductions, reimbursement of expenses to employees in connection with their work performance, obstacles to work, leave (with pay), care of employees, compensations for damages, employee information and consultation procedure, competence of trade union organisations, work council and representatives for occupational safety and health protection. Social enterprises that employ people must follow the Labour Code.

#### **4.2. Platforms for Social Enterprises**

The “Association for Social Responsibility” (*Asociace společenské odpovědnosti*, or A-CSR) is an open and independent platform that unites, connects and represents the interests of socially responsible entities in the Czech Republic. Its unique vision involves the social responsibility topic, not only in private companies (CSR) but also in all segments of society, including public administrations, NGOs, social enterprises,

schools and individuals. Since 2009, A-CSR has run a popular portal about CSR, sustainability and responsible business in the Czech Republic, and it broadcasts information about interesting projects, events or publications in this area. A-CSR is a professional consultant for issues related to social responsibility among the general public, and it participates in a number of successful projects and research.

“TESSEA”, an opinion platform supporting social enterprises and the social economy, was created in 2009. The platform was established within the project “Thematic Network for the Development of the Social Economy”, which was co-financed by the European Social Fund and government budget. The platform brings together individuals, enterprises, non-profit organisations, universities and other institutions linked by a common interest—namely to promote the social economy and social entrepreneurship and to raise awareness about these among the unprofessional and professional public.

“P3—People, Planet, Profit, o.p.s.” is a public-benefit organisation that brings about and promotes new and innovative approaches to business, with a positive impact on society. P3 coordinates TESSEA; it also supports social and socially beneficial business, provides consulting and organises seminars and workshops. Social entrepreneurship is at the centre of P3’s attention.

## **Conclusion**

This chapter summarises the history and current status of social enterprise in the Czech Republic. The long tradition of solidarity, mutual-help organisations, foundations and cooperatives in the country was interrupted by the period of socialism. The “Velvet Revolution” and the development of the civil sector after 1989 constituted the basis for the emergence of current social enterprises, but the real beginnings of the SE phenomenon in the Czech Republic are mainly connected with the implementation of projects supported by European Structural Funds.

The concept of social enterprise is mainly connected in the Czech Republic with the employment of disabled people. The legislative background supports these social enterprises by providing subsidies for the creation of jobs according to the code of employment. However, thanks to the call issued by the European Social Fund, the concept of social enterprises has become broader and now includes the employment of people belonging to other groups that are considered as socially disadvantaged.

In spite of the lack of a legal form dedicated to social enterprise, we were able to identify four major SE models, which correspond to a large extent to the “international typology of SE models” put forward by Defourny and Nyssens (2017). Though our fourth model (WISE) cannot be considered as corresponding, to Defourny and Nyssens’ “public-sector SE model”, we stress the fact that work-integration social enterprises, which

constitute the largest group of social enterprise in the Czech Republic, are strongly acknowledged and supported by the state.

## Notes

1. For more information, see Dohnalová *et al.* (2011).
2. For more information, see Dohnalová *et al.* (2011).
3. Czech legislation is generally influenced by international and European legislation/institutions (e.g. the United Nations, the International Labour Organisation [ILO], the Organisation for Economic Cooperation and Development [OECD], the International Social Security Association, the Council of Europe, and their conventions, declarations, charters, resolutions or recommendations). European documents, the Constitution and the Charter of fundamental rights and freedoms are the basis for the national action plan on social inclusion.

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# 4 The Social Enterprise Phenomenon in the Georgian Context

*Maya Giorbelidze*

## **Introduction**

People mean many different things when referring to “social enterprise” (SE) in Georgia, and a clear common definition is lacking; however, many experts agree on the crucial need for such a definition. The term “social enterprise” has recently gained popularity, but the concept itself is not a new one, and it is important to look at some of the antecedents of the current idea to understand it better. There is a strong belief in the idea that enterprises operating within a free market are socially beneficial, as businesses provide jobs, create wealth that is shared within society and generate revenue for the governments; the market, operating within a strong framework of state regulation and rule setting, enables this to happen most efficiently through competition, which ensures that the strongest enterprises grow and develop. Adam Smith expressed the idea that an individual pursuing his/her own self-interest also tends to promote the good of the community as a whole, perhaps even more so than those actions nominally born of higher motives: “By pursuing his own interest, he frequently promotes that of the society more effectually than when he really intends to promote it” (Smith 1776).

## **1. Historical Context**

The historical context of SE development in Georgia has deep roots and can be linked with the period of trade development in the country in the 18th century. The economic conditions during that period revealed the need to join public and private equities to produce goods and services and reduce economic risks, and the evolution of trade relations led to the establishment of small merchant unions. These “union-type formations” can be identified as the first seeds of social entrepreneurship and collective capital development.

This period was followed by the Soviet era; in the early 1920s, the individual economic risk component was completely removed. The vulnerability of the owners of agricultural resources was “taken over”

by agricultural cooperatives—the “collective farms”. Yet, although the Soviet agrarian reform succeeded in eliminating individual economic risks, it also failed in several ways, as it was undermined by several indirect and spill-over effects, such as low-quality management, waste and robbery of resources and products, lack of basic food, foreign debts and falsification of statistical information. Although “social” enterprises were created, the non-existence of the individual sphere (with its concomitant private property and risks) resulted in a total lack of motivation.

Georgia was among the first former Socialist republics to implement a large-scale land redistribution plan. This land redistribution, which started in 1992, resulted in hundreds of thousands of people becoming small landowners; they replaced the large-scale collectives and production cooperatives (*sovkhoses* and *kolkhozes*) of the Soviet period (Lerman and Sedik 2014), which can be considered to a limited extent as predecessors of social enterprises. The main purpose of this land privatisation process was to help a large part of the population survive the extremely hard times that followed the dissolution of the Soviet Union.<sup>1</sup> The 1990s were indeed a difficult period for Georgia, and the agricultural sector was not spared. Agricultural production decreased by 11% annually between 1991 and 2000; even after this period, the sector’s recovery was very modest, lagging behind the rest of the economy, with a growth rate of 0.6% per year between 2001 and 2012 (Millns 2013).

In the late 1990s, a new type of social entrepreneurship started to emerge in Georgia, which mainly focused on supporting the poorer layers of society—conflict-affected and socially vulnerable people; these new initiatives were fostered by socially oriented businesses.

All in all, the term “social enterprise” remains a very recent concept in Georgia. Interest in the concept was fuelled by the shift that happened in international donors’ activities. Indeed, because the country achieved middle-income status, international donors’ grant funding to NGOs started to decrease, and this led many Georgian NGOs to look for alternative funding sources; many turned to the sale of goods and services within an SE framework. Social entrepreneurship thus corresponds to dynamics which are not totally new in Georgia, but the actors involved in these activities are. One could even argue that the current development corresponds mainly to a redefinition of business types rather than to the invention of new types—which makes sense, as SE-related concepts seem to generate increasing interest among donors and can be considered as a possibility to attract additional financial resources.

## 2. Legislative Context

When developing a legal framework for social enterprise, it is important to first determine what is regarded as a social enterprise and what the characteristics of such an initiative are. On the basis of corporate law, it

may be said that, despite the diversity of legal definitions among countries, there are fundamental features of social enterprise that are more or less recognised in all legal systems. The study requested by the European Parliament on a European statute for social and solidarity-based enterprises<sup>2</sup> states that, beyond individual differences and peculiarities, a primary condition for an adequate legal framework pertaining to social enterprises is that it recognises and specifically regulates them under organisational law. Indeed, *ad hoc* legislation on social enterprise offers several advantages to social entrepreneurs and fosters the growth and development of this particular type of business organisation. It makes it possible to reserve the use of the legal denomination of social enterprise for real social enterprises, and allows social entrepreneurs to signal the terms and conditions that their organisations offer to stakeholders and to give credence to their commitment not to change such terms and conditions. The Georgian reality is aligned with the *acquis* in most of the areas, even though it can also differ on some aspects.

- The EU definition states that a social enterprise is a legal entity based on private law, and that it is independent from state and public governing bodies. In Georgia, there is no specific legal form for social enterprises, and these are registered under various legal forms, but they do meet these two conditions.
- According to the EU definition, social enterprises have an exclusive or at least a leading goal to serve the community or community interests. Georgian initiatives do aim to serve the community; community interests are seen as a key priority, and all activities are oriented in this direction.
- The EU definition states that a social enterprise is subject to full or at least partial restriction on the distribution of profits; more generally, specific rules regulate the distribution of income and profits during the enterprise's existence and in case of liquidation or if the entrepreneur loses his/her qualification of "social entrepreneur". Since, in Georgia, in a large majority of cases, social enterprises are registered as non-profit organisations, this provision is usually *de facto* respected.
- According to the EU definition, a social enterprise should take socially useful actions; such actions could include labour-integration activities for vulnerable groups. In Georgia, social enterprises are working with people with disabilities, internally displaced persons (IDPs), socially vulnerable people, etc. A large share of the activities carried out by social enterprises is directed towards producing goods and services, which is also in line with the EU definition.

Due to a gap in Georgian legislation, most of the social enterprises are currently being established in the country as non-profit organisations.

A few social enterprises choose to be established as limited-liability companies (LLCs), which is also a possibility. Recently, a coalition of local and international NGOs started lobbying for the adoption of specific legislation that would enable social enterprises to register as such; this is currently under discussion in the Parliament.

### **3. Analysis of Current Operating Practices of Social Enterprises in Georgia**

In order to assess the challenges and opportunities that social enterprises currently operating in Georgia are facing, we designed and carried out a qualitative survey. In a first stage, case study was identified as the best strategy for the study; then the processes of data collection and interpretation were planned. Before fieldwork began, a case-study protocol was constructed to establish the instruments to be used for evidence gathering and analysis. The case-study protocol provided guidance and ensured consistency in the research process.

In order to identify trends, a cross-case analysis (case comparison) was performed by inspecting cases and forming groups—or “clusters”—that shared similar configuration patterns or were similar with respect to some dimensions (Ghauri 2004). In addition to case comparison based on pattern seeking, clustering and matrices were also used. Through these various techniques, which can also be used individually but were combined here to tend towards a flawless analysis process, four clusters were identified. Ongoing reduction of data was performed to increase the focus on key elements; less relevant evidence was put aside, while the most relevant elements were coded and classified. Graphical tools, such as matrices and tables, were used to illustrate the magnitude and relationships of constructs and phenomena identified in the analysis.

Initially, we contacted the Centre for Strategic Research and Development of Georgia (CSRDG), which operates a social-entrepreneurship centre. The Centre provided a list of 102 social enterprises, among which 20 enterprises were selected through random sampling. The sampling criteria included the fields of activity, size and geographical location of the enterprises. This chapter presents the findings that resulted from the analysis of the 20 selected cases.

Because case studies are usually about human behaviour and social processes, Yin (1998) regards interviews as one of the most important sources of case-study information. For the investigation, personal interviews were conducted with top-level managers of the 20 selected social enterprises. Interviews were semi-structured: they were controlled through the use of an interview guide listing the topic areas to be covered in the discussion. The guidelines did not only provide a general structure for the discussion, but they also made it possible to ensure that the same questions were addressed by each informant. The set of topics and

questions was based on the questionnaire developed during the case-study approach and on the preliminary conceptual framework and initial propositions. However, the interview process was also flexible, to the extent that, when areas of investigation that had not been originally foreseen or planned appeared to provide insight into the area of investigation, adjustments were made to the study: questions were added to probe particular themes or issues which had emerged from previous cases.

### *3.1. Research Findings*

As underlined earlier, there is currently no unified approach towards social entrepreneurship in Georgia, and many organisations define the term in their own way. In order to ensure comparability of data across the whole research process, all key informants were asked to share their perception of the term “social enterprise”. It is interesting to note that a social enterprise is generally defined by the respondents as an enterprise operating according to business principles but with primary social objectives.

Particularly noteworthy is the fact that the term “social enterprise” is perceived in a similar way by public, private for-profit and civil-society organisations. However, as already mentioned, there is no unified database gathering information on all types of social enterprise as it is difficult to identify “social enterprises”, and such identification is currently done only in a subjective way.

#### *Specific Constraints*

The study demonstrated that operating a social enterprise is even harder than managing a for-profit business. In particular, the following constraints were highlighted by the respondents:

- Lack of access to finance: due to the fact that there is no proper definition of social enterprise in the legislation, social enterprises operate under various legal forms, and those registered as NGOs cannot access credit. Indeed, based on the regulations of commercial banks operating in Georgia, NGOs are not eligible for loans. However, an initiative launched by international NGOs in partnership with a commercial bank considers making loans available to social enterprises in that particular financial institution—an evolution that would require an amendment of the law.
- Absence of specific legal status and legislation: nowadays, in the absence of specific legislation that would define and identify an SE legal form, social enterprises self-identify as such but officially register under various legal forms. As mentioned earlier, the majority of social enterprises operating in Georgia are registered non-profit



organisations. The rationale behind such choice is that the vast majority of social enterprises are established with financial grants, and the other most commonly encountered legal form under which social enterprises can operate—namely that of limited-liability company—is not authorised to receive grant money as per Georgian legislation. As for the agricultural cooperatives mentioned in Section 1, they are, quite logically, registered under the legal form of cooperative. Gaps in legislation also lead to confusion in financial reporting and accounting. The entrepreneurs surveyed indicated that they had to consult with many different agencies, lawyers or financial specialists (sometimes to no avail) in order to ensure proper taxation by the state. The social entrepreneurs surveyed nevertheless considered that no separate legislative form was needed, and that a definition of “social enterprise” should simply be added in existing laws.

- Gap in knowledge and skills: along with the lack of specific legislation, the low level of knowledge of business-management practices among social entrepreneurs was outlined as a challenge. All participants indicated that, due to the fact that the majority of them had a background in the field of non-governmental organisations (NGOs), they lacked experience/tools of business management.
- Lack of guidance and support: the vast majority of the social enterprises surveyed outlined that they had received almost no guidance at the inception stage. There is no unified information providing direction and guidance for new social entrepreneurs; the respondents stated that the existence of a manual/guidebook for operating a social enterprise would have been helpful.
- Low awareness of the SE phenomenon: as evidenced by the survey, social enterprises’ clients are not aware of the SE phenomenon. As a respondent put it: “The population does not know anything about social entrepreneurship and the situation is the same in the capital and in rural areas. Only those who have attended training have a basic knowledge of the subject”. Respondents highlighted this as a constraint for the initiatives’ development; they suggested that awareness-raising campaigns be organised among the general public, and that state and private-sector representatives be targeted as well, with a view to enhancing their engagement in favour of social enterprise.

To summarise, social enterprises operating in Georgia appear to experience the same type of constraints as social enterprises in many other countries. Access to finance, enhanced skills and capacities and legislative support, coupled with encouragement from the general public, are crucial for the successful operation of inclusive businesses, thus enabling them to make a social impact on a larger scale.

### *Social Mission and Impact of Social Enterprises*

The research demonstrated that the social enterprises operating in Georgia typically support the training and employment of vulnerable groups of the population (young people, the elderly, rural youth), which is expected to reduce internal migration.

While social enterprises balance social and financial objectives, the social mission is usually prioritised, although several cases are known where entrepreneurs were primarily guided by financial goals to ensure the sustainability of the enterprise.

The research demonstrated that none of the surveyed social enterprises assessed its social impact; however, they did outline the importance and urgency of such impact assessment.

The participating enterprises aimed to meet the basic needs of their target population; in other terms, they focused on the first level of Maslow's hierarchy of needs. They attempted to create learning and employment opportunities for their customers in order to enable them to meet their basic needs.

### *On-line Survey*

In order to further justify and strengthen the evidence generated by the case studies, an on-line survey was conducted. In total, 102 on-line questionnaires were distributed, and 57 responses were collected. The following facts can be drawn from this survey.

- Legal form: 77% of the social enterprises surveyed ( $N = 57$ ) were registered as non-profit organisations and 18% as limited-liability companies.
- Age: interestingly, 44% ( $N = 25$ ) of the social enterprises participating in the research had been founded between three and five years before the survey and 5% ( $N = 3$ ) less than one year prior to the survey. Only 4% of the surveyed enterprises ( $N = 2$ ) had existed for at least nine years.
- Fields of activity: given the high diversity of the collected answers, these were grouped in five clusters, namely: education and science, employment of vulnerable groups, economic development, tourism and health care. Analysis of the results revealed that all social enterprises were engaged in several fields of activity, and that all enterprises could be linked to two or more clusters.
- Income: 53% of the social enterprises surveyed had received funding from the state or a non-governmental organisation. Economic activity constituted a source of income for 70% of the respondents, and 52% had more than one funding source. It should also be noted that

grants represented the only source of income for 19% of the social enterprises.

- **Employment:** the number of employees of social enterprises differed according to the enterprise's type of activity. On average, each enterprise employed 9.05 persons, including people with disabilities, internally displaced persons and socially vulnerable people.
- **Profit and reinvestment:** only 2% of the surveyed social enterprises ( $N = 2$ ) recorded an annual profit of more than GEL10,000 (€300), while 51% ( $N = 29$ ) claimed that they had recorded no profit in 2017 (they had either broken even or recorded a loss). It is interesting to note that 23% of enterprises generated a profit that did not exceed GEL1,000 (€30) in the same year, and a similar share of enterprises reported a profit between GEL1,000 (€30) and GEL5,000 (€150). Interestingly too, 90% of the enterprises surveyed reinvested all their profits in the social goals defined in their charter.
- **Relative weight of social and economic goals:** the study also explored the relative weight of the social and economic goals for each social enterprise. Respondents were asked whether, in their social enterprise, social goals prevailed over economic goals; economic goals prevailed over social goals; when the enterprise stood at risk, the achievement of social goals was taken into consideration; when the enterprise stood at risk, the achievement of economic goals was taken into consideration. The results show that, for all the enterprises surveyed, social goals were given priority over economic goals and that, when the enterprise was at risk, the achievement of social goals was given the priority, at the expense of economic goals.

### *3.2. Compliance With the EMES Indicators*

In this section, we provide a brief summary of the nine indicators put forward by the EMES International Research Network to describe the ideal-typical social enterprise, and examine the extent to which social enterprises operating in Georgia meet each of these indicators.

#### *Economic Indicators*

- **Continuous production/delivery of goods or services:** this component, together with social goals, is one of the main elements characterising the functioning of social enterprises. This indicator was fully met by the enterprises surveyed, which were all engaged in the production/delivery of goods/services.
- **A certain degree of economic risk:** unlike what is the case for public institutions, the financial sustainability of a social enterprise depends on its members and employees' efforts to secure adequate resources. The social enterprises participating in the Georgian study

were mostly generating financial resources through grants and sales of goods and services.

- A minimum amount of paid work: a social enterprise should have a minimum number of paid workers, while other non-profit organisations might operate by relying on volunteering alone. All the enterprises surveyed had at least one paid worker. The social enterprises analysed also relied on volunteering.

### *Social Indicators*

- An explicit aim to benefit the community: one of the main goals of a social enterprise is to serve a community or a specific group of people (e.g. vulnerable layers of the population). The primary purpose of the social enterprises that took part in the Georgian survey was the well-being of the community, and the majority of these initiatives focused on the production of goods and/or services for marginalised groups.
- An initiative launched by a group of citizens or a civil-society organisation: social enterprises are the result of collective dynamics involving people belonging to a community or to a group that shares a well-defined need or aim. This collective dimension should be maintained over time, although the importance of leadership should not be ignored. All the enterprises surveyed were founded on a collective basis by people sharing a common objective.
- A limited distribution of profits: the primacy of the social goals should be reflected in a constraint on the distribution of profit. However, social enterprises do not include only those organisations that are characterised by a total non-distribution constraint; the social enterprise can also be an organisation that distributes profits but only to a limited extent. Interestingly, 90% of the surveyed enterprises reinvested all their profits to pursue the social goals set out in their charter. As underlined earlier, the study also highlighted the fact that, in all the participating enterprises, social goals were given priority over economic goals; and when an enterprise was at risk, it still tried to achieve its social goals, at the expense of its economic goals.

### *Governance-Related Indicators*

- A high degree of autonomy: social enterprises are created by a group of people on the basis of an autonomous project, and they are managed by this group. These enterprises may be dependent on public subsidies, but they should not be managed, directly or indirectly, by public authorities or other organisations (federations, private firms, etc.). As mentioned earlier, the Georgian study revealed that 53% of social enterprises received funding from the state or a

non-governmental organisation, but their management and decision-making remained independent.

- A decision-making power not based on capital ownership: this indicator mainly refers to the “one member, one vote” principle, or at least to a decision-making process in which the voting power is not distributed according to capital shares on the governing body which has the ultimate decision-making rights. The compliance of Georgian social enterprises with this indicator could not be assessed on the basis of the survey results, as data collected on this topic were not sufficient to allow such analysis.
- A participatory nature, which involves various parties affected by the activity: representation and participation of users or customers, influence of various stakeholders on decision-making and a participative management often constitute important characteristics of social enterprises. On this subject as well, data collected in the framework of the survey were insufficient to assess the extent to which Georgian social enterprises met this indicator.

### *3.3. Tentative Typology of Social Enterprises in Georgia*

Based on the discussion earlier and considering three dimensions, namely the nature of the social mission, the type of economic model and the governance structure, a first tentative typology of social enterprise in Georgia can be put forward. This typology consists of the following SE types:

- *Work-integration social enterprises*: this type of social enterprise corresponds to commercially driven businesses that provide employment opportunities to particular disadvantaged/marginalised groups, such as persons with disabilities, internally displaced persons, youth or the rural poor. It is a quite common practice in Georgia to establish an enterprise in the field of work integration, and it has become an attractive “shield” to attract donor funding.
- *Entrepreneurial non-profit organisations*: this category includes those non-profit organisations that generate income to achieve their social goals and objectives (Boschee 2001). As evidenced by the research, the vast majority of the surveyed social enterprises are registered under the legal form of NPO. This group also includes organisations providing to marginalised groups public services that are supposed to be delivered by the government.
- *Socially oriented businesses*: this type of social enterprise refers to companies developing business activities for a primary social purpose or mission (Defourny and Nyssens 2017). In our sample of Georgian social enterprises, one-fifth of enterprises belonged to this type.

- *Cooperatives*: this category corresponds to social cooperatives combining the pursuit of their members' interests with the pursuit of the interests of the whole community or of a specific target group (Defourny and Nyssens 2017). In 2013, the Georgian government passed the Law on Agricultural Cooperatives, which defines the purposes of agricultural cooperatives in the following way:
  - developing family farming, organising farming households into cooperatives, and strengthening their viability;
  - promoting the revival of rural areas and agriculture;
  - ensuring the social and economic development of rural areas;
  - eliminating rural poverty;
  - stopping the rural exodus;
  - increasing agricultural productivity, improving competitiveness and raising profitability, as well as developing the national economy;
  - promoting the development of biological farming.

## Conclusion

Social entrepreneurship in Georgia has been increasingly developing in recent years, and it is gaining popularity among the population. This chapter discusses the characteristics—identified through qualitative and quantitative research methods—of social enterprises operating in Georgia.

It is interesting to note that there is no specific legal form for social enterprise in Georgia. In theory, social entrepreneurship can take any entrepreneurial or non-entrepreneurial legal form. In practice, however, the vast majority of social enterprises are registered as non-profit organisations or limited-liability companies. Furthermore, no (branch of a) government agency is directly responsible for supporting social entrepreneurs, and no regulations of any of the current ministries mention functions or responsibilities related to social entrepreneurship. There is no state or municipal fund providing subsidies, loans or grants specifically intended for social entrepreneurs or aiming to support their growth.

Based on the results of the research, the following recommendations were identified:

- Improving the legal framework for social enterprises: first of all, it appears necessary to recognise the phenomenon of social entrepreneurship under Georgian law; social enterprises should be subject to specific regulation, and the terms “social enterprise” and “social entrepreneurship” should be defined in the legislation. This can be done in a variety of ways. For example, these terms could be defined

in the Civil and Tax Codes, or a separate law could be adopted to comprehensively regulate the field of social entrepreneurship. The problem of the legal recognition of social enterprises could also be solved by simultaneous modifying the Company Law and the Civil Code of Georgia. The path chosen among these various alternatives will depend on the model that will best suit the Georgian legal system and will thus be selected by the legislature.

- Developing social-entrepreneurship-related public policies, in particular at the national level: despite the fact that social entrepreneurship is mentioned in some policy documents of several state institutions, it would be good to establish as well an “umbrella” framework to regulate and promote social entrepreneurship at the national level.
- Increasing access to finance: based on the research findings outlined in this chapter, the lack of access to financial resources was identified as one of the obstacles to the development of social enterprise. For the advancement of the field, it is necessary that these initiatives have access to cheap credit.
- Developing the capacity of social entrepreneurs: as stated earlier, the lack of business management skills is a crucial challenge for SE development. With a view to solving this problem, it is essential that social entrepreneurs be systematically trained in marketing, business management, business law and other related disciplines.
- Promoting international cooperation: it is necessary to share information about successful examples of social enterprises to enterprises operating in Georgia as well as to promote cooperation at the international level.

Considering the emerging nature of the SE field in Georgia, the aforementioned steps are crucial for advancing its development and creating an ecosystem to boost the culture of social enterprise in the country.

## Notes

1. See <http://iset-pi.ge/index.php/en/iset-economist-blog-2/entry/to-cut-or-not-to-cut-shifting-government-priorities>.
2. See [www.europarl.europa.eu/RegData/etudes/STUD/2017/583123/IPOL\\_STU%282017%29583123\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/STUD/2017/583123/IPOL_STU%282017%29583123_EN.pdf).

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# 5 Social Enterprise in Hungary

## Concepts, Models and Institutions

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### Introduction<sup>1</sup>

The concept of social enterprise (SE) was introduced in Hungary more than two decades ago by international development organisations, but remained little known and seldom used for a long time. This has begun to change recently, however. *Non-profit organisations*, which had not relied on the concept prior to the appearance of these development organisations in the country, increasingly started looking at social entrepreneurship and its potential for income generation. The *private sector* had not hitherto used the concept either because, for a long time, businesses were not thought to be responsible for social issues, and they lacked connections with the non-profit sector (Tóth *et al.* 2011: 6), but in recent years, some market-based organisations showing interest in the sector have appeared. Until recently, the focus in *public policies* was not on social enterprise, but rather on the social economy and the creation of social cooperatives, mainly supported through EU-funded programmes; in the new Hungarian Partnership Agreement for the 2014–2020 Programming Period, though, the term “social enterprise” was explicitly used for the first time. Regarding the *academic field*, only one university course on social enterprise existed for several years (it had been launched in 2006); today, however, several universities offer courses and conduct research on this topic. Multiple stakeholders thus appear to be increasingly interested in the concept, and a number of organisations now identify themselves as social enterprises.

### 1. The Concept of Social Enterprise in Hungary

The relatively new concept of social enterprise can be connected to various concepts, such as those of “non-profit sector”, “civil society” and “social economy”, which have a longer history and are usually better understood in Hungary. The concept of *non-profit sector*, which emphasises the non-profit distribution element, and that of *civil society*, which

stresses the active involvement of citizens and democratic participation, (re)emerged after the regime change in 1989; they have been used to describe socio-economic organisations that do not belong to the for-profit sector or to the public one (Kuti 1998). As for the term *social economy*, it entered public and scientific discourse at the time of EU accession; this concept highlights the presence, in the organisations making up this sector, of economic elements besides social ones, and it stresses the importance of employment generation (Frey 2007: 2). The concepts of *community enterprise* and *community development* also appear in research about local or rural development highlighting the importance of participative governance within the organisations (Vágvölgyi 2012; Mészáros 2013). Researchers in the field of *business ethics*, *responsible enterprises* or *corporate social responsibility (CSR)* have also contributed to the conceptualisation of social enterprise in Hungary, stressing in particular the importance of ethical decision-making (see Pataki and Radácsi 2000). The concepts of *third sector* (focusing on the independence of the sector) or *solidarity economy* (challenging the dominance of the market economy) have had only limited influence in Hungary so far. There are often no or only minor differences between the Hungarian definitions of these concepts and their international definitions.

Regarding the concept of social enterprise in particular, there is no single and widely accepted definition in Hungary, nor is there a unified regulatory framework. It is also common to use the term without defining it (G. Fekete, Lipták *et al.* 2014: 22). Moreover, the word “social” can be translated in two different ways in Hungarian: as “*szociális*”, which has a somewhat narrower meaning, referring to the concept of “social” mostly in connection with funding and welfare-related issues, or as “*társadalmi*”, which has a broader meaning of “connected to society”. While the former was often used in the past, experts have recently started using the latter.

Different definitions of social enterprise coexist in Hungary; they emphasise different dimensions and can be connected to different international schools of thought. G. Fekete emphasises the *economic*, *social* and *civic dimensions* of the organisations—three dimensions that are also highlighted by the EMES International Research Network—and stresses in particular their role in employment generation (G. Fekete 2007: 64). In the first PhD dissertation written on the topic of social enterprise, Petheő (2009) used the *CONSCISE definition* of social enterprise (European Commission 2007), developed partially by EMES researchers (Petheő 2009: 10). *Financial sustainability* and *innovation* are emphasised in the definition put forward by the SE development agency NESsT, which describes social enterprises as organisations consciously organising and operating entrepreneurial activity in order to solve societal challenges in an innovative way (Tóth *et al.* 2011: 5). To the extent that NESsT places a strong emphasis on *earned-income strategies* implemented by

organisations and underlines the importance of *innovation*, it could be considered to represent both the earned-income school of thought and, to some extent, the social-innovation school of thought in Hungary. Ashoka, another international SE development agency present in Hungary, focuses on *social entrepreneurs*, that is, individuals who put forward and implement system-changing solutions to the world's most urgent social problems (Ashoka 2015); Ashoka represents the social-innovation school of thought in Hungary.

The definition that is most widely used by public authorities and programme managers is one that has been put forward by the European Commission (G. Fekete, Vicze *et al.* 2014: 1). In the new Hungarian Partnership Agreement for the 2014–2020 Programming Period, support to social enterprise is explicitly mentioned, and an official definition is also given for the first time in a policy document; according to this definition, social enterprises are “those non-profit and civil-society organisations that have viable economic goals in addition to their social objectives; the profit of their business activities is reinvested for social objectives; and they implement the principle of participatory decision-making in their budgets and organisational functioning” (Ministry for National Economy 2015: 6; authors' own translation). In current public policy, the issue of *employment* is of central importance; restrictions based on *legal forms* are also present.

Despite the diversity of present approaches, critical debates about the concept of social entrepreneurship—comparing for instance the positive and negative aspects of the different definitions—have been limited in Hungarian academia so far.<sup>2</sup> The definitions currently used in Hungary are adopted from Western European (EU-related) or US schools of thought, and their adaptability to the specific situation of Hungary has not yet been thoroughly discussed.

## 2. SE Models

Based on legal forms, sectoral affiliation, social aims, fields of economic activity as well as scale and form of employment, six major models of social enterprise can be distinguished in Hungary. In the following section, the main characteristics of these models are presented.

### 2.1. *Public-Service-Provision Social Enterprises*

Public-service-provision social enterprises are non-profit organisations with close ties to the public sector. Indeed, these social enterprises are usually not founded by citizens but by the state or by organisations close to the state; moreover, they provide services that were formerly a public responsibility, and they thus receive statutory state support.<sup>3</sup> They may also get engaged in the private market through the production of

goods or the provision of services. Such organisations operate mainly within the social and public-utility sectors; they are, for example, non-profit organisations employing people with altered working abilities, or foundations operating family day-care centres or old people's homes. They are typically legally registered as non-profit companies (previously, public-benefit companies) or foundations. As a result of local governments frequently being among their founders or members, this type of social enterprise, which is a dominant model in the SE field in Hungary, is often not autonomous (in the sense of being independent from the state in terms of decision-making).

## **2.2. *Enterprising CSOs***

In order to ensure their financial sustainability and reach their social goals, civil-society organisations (CSOs—i.e. mainly foundations and associations) have recently started to increasingly engage in economic activities. The business activity of enterprising CSOs is intended to complement private donations and grant-based public funding. This economic activity (e.g. book publishing, training, consultancy, running a charity shop, selling organic products and child care) is thus mainly a financial tool to reach the original social aims. In many cases, though, such activity only generates a small amount of additional income, thus helping to cover the overall costs of the organisation only to a small extent. Paid employment is limited; most tasks are performed by volunteers and a small number of paid managers. It often happens that traditional CSOs set up a separate legal entity—namely, a “non-profit Ltd.,” as this legal form is better suited for carrying out entrepreneurial activities. Enterprising CSOs do not necessarily consider themselves social enterprises, may find accessing public support challenging and often struggle with financial sustainability problems.

## **2.3. *Work-Integration CSOs***

Work-integration CSOs are non-profit legal entities set up by private citizens. Among these enterprises' target groups, different disadvantaged social groups can be identified—for example women, ethnic minorities (especially Roma people) and disabled people. These organisations can also receive statutory support for the employment of people with altered working abilities. Some of these enterprises aim at the employment of their target groups; others facilitate income generation by people from their target groups without employing them themselves (e.g. through training them in fields, such as gardening, farming and sewing). The number of employees can range from a few people to several hundreds. As the main aim of these organisations is to integrate marginalised people through work, they have a relatively high reliance on public funding,

and it becomes challenging for them when funding is not statutory but project-based. This category of social enterprise includes organisations with various legal forms: not only foundations, associations but also social cooperatives set up by civilians (prior to the adoption of the latest pieces of legislation about social cooperatives—see Section 3.1) and non-profit companies. Changes in policies supporting work-integration CSOs have negatively affected the financial resources available to these organisations; as a result, these social enterprises strive for a stronger market orientation, but their efforts are not always successful. As funding on a statutory basis is scarce, work-integration CSOs are dependent on project-based grants, resulting in management challenges or frequent changes in activities.

#### ***2.4. Local-Development Community Enterprises***

Local-development community enterprises implement local economic-development programmes in an integrated, multifunctional way, usually with the direct involvement of local governments. Some kind of local product or an activity serving the operation or development of the village/town is at the core of their activity. They mostly operate in rural areas lacking small- and medium-sized enterprises and they are developed with a view to providing certain public services. They take legal forms that are recognised by public bodies (such as those of foundation or social cooperative) and thus enable them, for instance, to apply for grants or statutory support. Social enterprises in this category focus on community development, but since the activities are often initiated and coordinated by the local municipalities, the participatory nature of the decision-making processes may be weak, and a local citizen—often the mayor—usually plays a crucial role in the initiative. These social enterprises can also be connected to public-work programmes managed by local governments, which are often criticised (see endnote 22). Another sensitive point is their possible negative impact on local mainstream enterprises. Indeed, due to the financial support they receive or to the opportunities they have to employ people through public-work programmes, local-development community enterprises have lower production costs than other local enterprises.

#### ***2.5. Social Start-Ups***

The business activity of social start-ups is rooted in business ethics. Their social aim directly influences their economic activity, which facilitates the development of an economy based on a greater degree of social justice and environmental consciousness. Both non-profit and for-profit companies putting emphasis on philanthropic solidarity and innovation can be included in this category. Social start-ups often emerge in the fields of IT, waste management, recycling, culture and transportation. The

democratic nature of these organisations may be weak, as a result of the emphasis on leadership and effectiveness in decision-making. Employment is not a major goal for social start-ups, and the number of employees in these organisations is determined by economic necessity.

## 2.6. *Solidarity-Economy Initiatives*

Solidarity-economy enterprises emerge in both rural and urban areas and implement or are constantly looking for transformative social innovation (Avelino *et al.* 2019), that is, alternative answers to current problems, going beyond modernism and capitalism to redefine traditional community-based practices. Mobilised by the forthcoming climate catastrophe and the management of the global economic crisis, which put increasing pressure on social reproduction,<sup>4</sup> three movements started to converge in developing a solidarity economy: (1) left-wing movements criticising the operation of the global capitalist economy; (2) “green” social movements criticising the destruction of ecosystems; and (3) feminist movements that act against the exploitation of reproductive labour (Gagyi 2020). A new consensus seems to emerge among these social movements; it contrasts the vision of a democratic global economy serving the sustainability of social and ecological systems with the limitless capitalist accumulation (economic growth) that results in climate catastrophe and reproductive crisis<sup>5</sup> (*ibid.*). Reciprocity, participation and democratic decision-making play a defining role in the principles of operation of solidarity-economy enterprises. These enterprises aim to channel various resources, such as re-politicised informal work, market-based income, public support or grants supporting the development of an alternative economy. They have economic activities that satisfy the needs of their members, who are often a group of friends and/or neighbours. However, the Hungarian solidarity economy aims to become not simply a multitude of democratically organised, environmentally conscious economic units; it also aims to become a wide economic network, linking solidarity-economy enterprises from various fields of the economy (Gagyi *et al.* 2020; website of the Centre for the Solidarity-Economy Network in Hungary<sup>6</sup>). Solidarity-economy enterprises may operate beyond the framework of the market economy; local exchange trading systems (LETS), and in particular time banks or re-politicised *kalákas*, can be examples of such enterprises.<sup>7</sup>

In the proposed typology, the different models are usually not connected to specific legal forms: all legal forms appear in almost all types of social enterprise, irrespective of the sectoral affiliation or social aim. Paid work can also be present in all models, though the largest potential for employment is observed in those models where employment is subsidised by the state—namely in public-service-provision social enterprises, work-integration CSOs and local-development community enterprises. None

of the models fully meets all the indicators of the EMES approach to social enterprise: central, state or local governmental influence (primarily through public funding) can be excessive in public-service provision social enterprises, work-integration CSOs and local-development community enterprises, which in turn can lead to a loss of autonomy; the entrepreneurial character of enterprising CSOs is often weak; the nature of operation in social start-ups is usually not democratic, and these initiatives are often characterised by a market bias. And though solidarity-economy initiatives are close to the EMES ideal-type social enterprise, their epistemologies are less diverse than in the EMES Network. While EMES researchers allow an epistemological plurality in SE research (e.g. in the ICSEM project), the epistemologies of the emerging solidarity-economy initiatives in Hungary are more integrated, in the sense that they generally involve an ideological stance that envisions socio-economic development beyond capitalism.

### 3. Institutional Development

SE activities—not-for-profit economic activities in both the substantive and formal economic senses—have a long history and are largely connected to the non-profit and cooperative (including the newly institutionalised social-cooperative) sectors in Hungary (see European Commission 2019 for more details). The relationship between the state and independent organisations in the country has always been characterised by cooperation as well as by mutual distrust and confrontation (Kuti 2008: 6). Currently, the relationship between the state and civil society is characterised by tendencies towards higher state control and clientelism (Kövér 2015).

#### 3.1. *Legal Framework*

Voluntary social organisations, which can be regarded as the predecessors of associations and foundations, have existed in Hungary since the Middle Ages, while the first cooperative was founded in 1845. During the 40 years of state socialism (1949–1989), the establishment of foundations was prohibited, while some associations working in some politically neutral areas (such as sport and leisure) were allowed to function, and cooperatives came under state control. However, in the 1980s, due to the economic crisis and bankruptcy threatening Hungary, the strict, centralised system began to soften (Horváth 2010: 5).

*Around the time of the regime change (in 1989), a first important step that facilitated the blossoming of the non-profit sector was the rehabilitation of foundations, in 1987.<sup>8</sup> In 1989, the Act on the Right of Association was adopted.<sup>9</sup> The new laws on foundations that were passed*

in 1990 made these organisations' operation financially more beneficial (Nagy 2011: 121). This led to an explosive growth in the number of organisations, and in particular of foundations, but it was not accompanied by a similar growth in the share of the population active in non-profit organisations.

Cooperatives experienced a different path of development. Before the regime change, cooperative membership was more or less compulsory, and cooperatives were not autonomous, bottom-up initiatives launched and run by citizens (Kováč 2012: 33). In 1991–1992, the political elite launched a campaign against agricultural cooperatives, which were transformed into limited companies; within a few months, many ceased to exist (Kováč 2012: 67).

*In the mid-1990s*, three new non-profit organisational forms were created: public bodies, public foundations and public-benefit companies.<sup>10</sup> In practice, these new types of organisation were larger than associations and foundations and were less independent from the state. Based on these the so-called “close-to-state” organisational forms, the outsourcing of public services started (Kuti 2008: 14), while the role of grassroots civil-society organisations in service provision remained very limited (Bocz 2009: 36). The growth in the number of organisations slowed down, and a kind of “polarisation” of the sector begun.

*The second half of the 1990s and first half of the 2000s* were characterised by measures aiming at the institutionalisation and professionalisation of the non-profit sector and increased financial support to its organisations. Such measures included, for example the adoption of the 1% Personal-Income Tax Law in 1996,<sup>11</sup> the Public-Benefit Act of 1997<sup>12</sup> or the 2002 Civil Strategy, followed by the creation of the National Civil Fund, in 2003<sup>13</sup> (Nagy 2011: 121).

*After the EU accession, which took place in 2004*, with a view to reducing state control over public-benefit companies, the legal form of “non-profit company” was introduced (in 2006),<sup>14</sup> and public-benefit companies were required to convert into this legal form. The legal form of social cooperative was also introduced in 2006; the creation of organisations of this type was linked in Hungary to EU-co-financed funding.<sup>15</sup>

*After the change of government, in 2010*, the new administration started to employ a less pluralistic, more centralising approach towards civil-society organisations (Márkus and Szabó 2015: 16). New pieces of legislation, passed in this period, mirror this trend. Although the new civil law, introduced in 2011,<sup>16</sup> settled certain previously problematic legal relations, it also “raised many questions, resulting in uncertainty and confusion among CSOs on how to adapt to the new rules” (USAID 2013: 2). The new legislation of 2013 allowed all social cooperatives to include legal persons in their membership, such as local governments and charitable public-benefit organisations;<sup>17</sup> in 2016, this law was amended,



making the inclusion of such institutional members compulsory for all social cooperatives.<sup>18</sup> As a result thereof, local governments can now easily influence social cooperatives.

Most recently, in 2017, a new law on the transparency of organisations receiving support from abroad<sup>19</sup> was adopted despite domestic criticism, demonstrations and international backlash. This law requires that associations and foundations receiving more than HUF7.2 million (around €20,000) in international support annually (not including EU funding) register at their local court as foreign-funded organisations, and make this status visible in all their communications.

Despite these alarming trends, the development of and support to social enterprise currently constitute a direct public-policy objective in Hungary. This is evidenced by the introduction, in 2016, of the first public—EU-co-funded—funding programme for social enterprises in the country.

### *3.2. Possible Legal Forms*

There is no specific law or legal form for social enterprise in Hungary. The legal framework regulating organisations that can be considered as social enterprises is provided by laws on the different types of non-profit organisations and cooperatives (including social cooperatives), and especially by the New Civil Law of 2011.

According to the most recent data by the Hungarian Central Statistical Office, in 2017, there were 18,871 foundations and 34,742 associations (traditional civil-society organisations) in the country; the number of organisations among these that engaged in entrepreneurial activities was significantly lower, though. There were also 3,343 non-profit companies, and altogether 4,865 cooperatives, among which 3,005 were social cooperatives.<sup>20</sup>

Associations are allowed to carry out business activities, but only on a supplementary basis; such business activities should not jeopardise the association's main aim and should only be a means to achieve the economic conditions under which the organisation can pursue its main goal. As far as the allocation of profits is concerned, the association's assets can only be used in accordance with its basic aims, and profits may not be distributed to the members.

Foundations may not be established to pursue economic activities either. Similarly, to associations, they are only authorised to carry out economic activities directly connected to their main goal.

Non-profit companies are business companies, that is, “legal entities formed by the financial contribution of their members for a joint business-like economic activity, in which members collectively share the profits and collectively bear the losses” (Civil Code 3:88. §). However,

non-profit companies differ from ordinary businesses to the extent that the distribution of profits is not allowed in these organisations.

Cooperatives are for-profit organisations that aim to meet the economic and social needs of their members. Profit distribution is limited, as at least half of the cooperative's profits have to be distributed among the members. The social cooperative is the only legal form in Hungary intended specifically for social enterprise. Profit distribution is limited, similarly to what is the case in traditional cooperatives. However, due to the recent legal changes (see Section 3.1), social cooperatives have recently been losing their autonomy from the state.

Researchers disagree about whether social enterprises can have for-profit legal forms or not. The recent state programme that directly targets social enterprises only considers non-profit legal forms—with the exception of social cooperatives—as eligible to apply for the programme's benefits (Ministry for National Economy 2015: 6). It should be noted, though, that from the turn of the millennium onwards, “for-profit social enterprises have also appeared and they have become [ever] stronger” (Etchart *et al.* 2014: 6).

### 3.3. Support Schemes and Programmes

Support schemes and programmes connected to social enterprise in Hungary have mostly been co-financed through EU Funds, for example certain EU pre-accession funds before the accession and certain operational programmes and community initiatives after the accession, focusing mainly on the labour-market integration of vulnerable social groups and local economic development in disadvantaged areas (see G. Fekete *et al.* 2017; Kiss 2018 for more details). Besides programmes directly co-funded by the EU, certain initiatives fostering the development of SE-like activities were financed by the domestic state budget as well.<sup>21</sup> Unfortunately, due to the small number of comprehensive impact assessments, the efficiency and results of these programmes are difficult to measure. Existing analysis often points out the deficiencies and lack of sustainable results of certain programmes (see European Commission 2019).

As of now, the main public funding schemes available are specified in the new Hungarian Partnership Agreement, where the term “social enterprise” appears beside those of “social economy”, “transitional employment” and “sheltered employment” (Prime Minister's Office 2014: 31; for a detailed analysis, see Kajner and Jakubinyi 2015: 209–28). Within the Partnership Agreement, the Economic Development and Innovation Operational Programme (EDIOP), which is co-financed by the EU, aims—among other objectives—to support social enterprise and to facilitate NPOs' employment-generation projects. The “Programme for encouraging and supporting social enterprises”, which is part of EDIOP,

is the first programme targeting social enterprise in particular (Ministry for National Economy 2015: 6); within this Programme, non-profit organisations and social cooperatives receive funding, they can access interest-free loan, and they are offered professional support to employ underprivileged people in certain projects, but it is feared that the organisations might not be able to maintain these jobs when the funding comes to an end. Besides, another programme supporting the solidarity economy and community-supported agriculture also appears in the Rural Development Programme (RDP). Furthermore, a funding programme from domestic budget targeted social cooperatives with local governmental members and based on public employment<sup>22</sup> (for more details on currently available funding opportunities, see European Commission 2019).

Besides the state (influenced by EU policies), which played a key role in supporting non-profit organisations and social cooperatives that contribute to the employment of disadvantaged, unemployed people, certain actors from both the non-profit and for-profit sectors have played an important role in shaping the field through providing financial or professional support to social enterprises. The role of networks and the academia should also be mentioned (see Kiss 2018; European Commission 2019 for more details).

International and domestic private foundations and other organisations directly focusing on social enterprise have also been present in Hungary for years. The most important of these support organisations, NESsT (a US-founded, international non-profit organisation) has been present in Hungary since 2001; it provides both capacity-building services and investment in the form of loans, capital investment and non-refundable grants. Another important organisation is Ashoka, the largest network of social entrepreneurs worldwide, which has been present in Hungary since 1995. Besides, recently, a range of new organisations have started to offer professional and sometimes financial support to social enterprises.<sup>23</sup>

Certain financial and other for-profit institutions have also been supporting social enterprises. These institutions typically offer funding, business education, pro-bono consultancy and other expert support as part of their CSR activities.<sup>24</sup> Certain NGO funds—although they do not have a primary SE focus and rather aim to foster civil society in Hungary—supported projects with social entrepreneurial activities.<sup>25</sup> There are also several competitions offering different types of prizes (funding or professional development) for social enterprises, social-innovation projects or non-profit organisations in general.<sup>26</sup>

There are several networks and communities for certain types of social enterprise.<sup>27</sup> The National Association of Social Enterprises aims to represent the interests of organisations that specifically define themselves as social enterprises. Besides, certain professional events, fairs and conferences have facilitated networking. In recent years, academic interest for

social enterprise has also increased; several universities now offer courses and conduct research connected to the topic.<sup>28</sup>

#### 4. Main Challenges

No database or recent representative study is available on social enterprise in Hungary. Existing literature mostly analyses statistics related to the non-profit sector<sup>29</sup> or discusses qualitative case studies or quantitative research based on small samples. This makes any description of the sector in terms of number of enterprises, size, main activities and target groups difficult and the results unreliable.<sup>30</sup>

As already underlined earlier, there is no single and widely accepted definition of social enterprise in Hungary. The low level of awareness and understanding of the concept as well as the low level of trust of the general public in non-profit organisations performing economic activities hinder the emergence of the field (G. Fekete, Vicze *et al.* 2014; Etchart *et al.* 2014). It should also be noted that the concept was developed in contexts (US, Western Europe) that differ significantly from the one in Central and Eastern Europe.

There is no single law, uniform regulation or long-term strategy for the SE field, which contributes to a confusing legal and policy environment. According to Etchart *et al.* (2014: 10), the unpredictability of the regulatory environment has a negative impact on social enterprises.

Regarding finances, most of the social enterprises rely heavily on external—mostly public—financing (e.g. grants and subsidies), which constitutes a rather unpredictable source (since such financing is granted on an occasional basis) and is often scarce, bureaucratic, not based on local needs and lacks proper support infrastructure. Moreover, public funding is usually not tailored for the smaller organisations that are likely to be set up by groups of citizens. Though today there is substantial funding available for non-profit and civil-society organisations, certain organisations that are critical of current policies are not preferred, while others that envision development through means more acceptable to the current government might have privileged access to this source of funding (European Commission 2019). Funding explicitly intended for social enterprises—and co-financed by the EU—is also available (see Section 3.3), but it is restrictive in scope, focusing primarily on the work integration of disadvantaged groups. Certain state programmes specifically support social cooperatives with local governmental members, which pursue the work integration of people through the public-employment programme.

The Hungarian situation is also characterised by the low purchasing power of many consumers, especially in disadvantaged regions (G. Fekete, Vicze *et al.* 2014). In this respect, it should be underlined that although a stronger market orientation of Hungarian social enterprises

appears desirable in several aspects, many social enterprises—especially among those emerging in disadvantaged regions—would most probably not be able to survive on the basis of market resources alone.

The lack of business and management skills of social entrepreneurs is also emphasised by some authors as a problem (Horváth 2010). However, this explanation places the responsibility on individuals without reflecting on the structures they are embedded in, such as Hungary's semi-peripheral position in the global economy, the uneven economic development within the country, or the approaches of the state, the EU and influential SE development organisations.

## **Conclusion**

The concept of social enterprise—introduced in Hungary two decades ago—has recently started raising more interest. Similarly, to what is the case in other countries, the concept has several definitions and interpretations in Hungary. This stems from the diversity of approaches by various international and domestic development organisations and funds as well as from the different values and viewpoints of various stakeholders.

This conceptual diversity is also reflected in actual practices. In the framework of the present research, six models of social enterprise in Hungary were identified, namely public-service-provision social enterprises, enterprising CSOs, work-integration CSOs, local-development community enterprises, social start-ups and solidarity-economy initiatives. The major dimensions distinguishing the different models are the nature of the social aim (including employment), the economic opportunities and the sectoral affiliation of the initiatives, that is, the dominant sectors and interests at play, which also influence organisational autonomy and determine local relations.

Social enterprises' institutional context has been mainly influenced by the Hungarian state and the EU as well as by private international development organisations. Currently, there is an increase in public and private funding programmes, interested actors and public policy attention; this is due, to a large extent, to the priorities of the European Union. However, the available funding programmes have several shortcomings, and the legal and policy framework also lacks clear boundaries and comprehensive strategies for establishing the role of social enterprises in Hungary. The state is also playing a crucial role in the current polarisation of the sector through its support to certain activities (primarily work integration) and types of organisation and lack of support to others (e.g. it specifically targets social cooperatives in certain programmes, omits for-profits in others, and is hostile towards associations and foundations that receive funding from abroad).

Social enterprises face severe problems in their daily operation, due mostly to the unfavourable economic situation, unpredictable funding,

deficient support infrastructure and confusing legal and policy environment. In addition to these barriers, since 2010, the relations between the state and independent organisations have been characterised by increasing levels of mutual distrust, which has contributed to the difficulties in the development of the SE field and also negatively impacts its future prospects.

### Tribute to Éva G. Fekete by the Other Authors

In April 2017, our beloved colleague and mentor Prof. Dr. Éva G. Fekete passed away. Prof. G. Fekete was a respected and recognised researcher and practitioner of Hungarian rural development, a professor at the University of Miskolc and former head of the Northern Hungarian Department of the Centre of Regional Studies at the Hungarian Academy of Sciences. Throughout her work, Éva stood for the advocacy of the socially and spatially marginalised. She was one of the authors of the original working paper that inspired the present chapter, which was developed after her death.

### Notes

1. The present chapter is the shortened version of the ICSEM Working Paper titled “Social Enterprise in Hungary” (G. Fekete *et al.* 2017). In the original paper, Prof. Éva G. Fekete was responsible for writing the section about “Social enterprise models”, László Hubai for writing the section about “Possible legal forms”, while Julianna Kiss and Melinda Mihály wrote all the other sections, taking into account the comments made by the other researchers. The chapter was adapted from the original text and updated by Julianna Kiss, Melinda Mihály and László Hubai.
2. For a review of the adaptability of the different concepts to the Hungarian context, see Mihály (2017) or Kiss (2018).
3. By “statutory”, we mean that such support is not project-based, and that the right to this support is granted by law to all organisations providing a given service (e.g. employment of disabled persons).
4. “Social reproduction” should be understood here as referring to the process of reproducing social and ecological life; it is based on a logic that is independent and often contradicts capitalist accumulation processes but which, in a capitalist system, gets subordinated to the cycles of accumulation. This subordination happens not only through the exploitation of nature and the elimination of self-sufficient peasant societies or by shifting the burden of unpaid work on women but also through involving reproduction in the cycles of accumulation (Gagyí 2020).
5. The costs of capitalist accumulation are shifted onto society; the symptoms of a reproductive crisis include a high level of out-migration, a labour shortage, crises in the fields of care and housing, and the multiplication of informal subsistence solutions (Gagyí 2020).
6. See <https://szolidarisgazdasagkozpont.hu/> (accessed on April 26, 2020).
7. A *kaláka* is a traditional reciprocity-based form of exchange of work, mainly used in harvesting or building family houses. It also has a

community-strengthening function: after finishing the work, *kaláka* members often eat and/or celebrate together (Szabó 2008: 7). Even though *kalákas* are rooted in Hungarian traditions and would have the potential to contribute to the development of a solidarity economy, as a form of “de-politicised” informal work, they are essential for capitalist accumulation processes (Czirfusz *et al.* 2019: 15). Indeed, *kalákas* help capitalist accumulation through keeping the price of labour low by reducing households’ expenditure (*ibid.*). However, if members of *kalákas* or other informal economic initiatives become aware of their political role, they may channel their work to the development of a solidarity economy, instead of channelling it to capitalist accumulation processes.

8. 11th Legislative Decree of 1987.
9. Act II of 1989 on the Right of Association.
10. Act XCII of 1993 amending the Civil Code.
11. Act CXXVI of 1996 on the Use of a Specified Amount of Personal-Income Tax for Public Purposes in Accordance with the Taxpayers’ Instructions; this law allows taxpayers to offer 1% of their personal-income tax every year to civil-society organisations which they would like to support.
12. Act CLVI of 1997 on Public-Benefit Organisations.
13. Act L of 2003 on the National Civil Fund.
14. Act IV of 2006 on Business Associations.
15. Act X of 2006 on Cooperatives.
16. Act CLXXV of 2011 on the Right of Association, Non-profit Status, and Operation and Funding of Civil-Society Organisations.
17. Act XLI of 2013 Amending Various Laws Related to Social Cooperatives and Public Employment.
18. Act CXLV of 2016 on Modifying Certain Employment-related Laws.
19. Act LXXVI of 2017 on the Transparency of Organisations Receiving Support from Abroad.
20. See [www.ksh.hu/business\\_units\\_and\\_nonprofit\\_organisations\\_investments](http://www.ksh.hu/business_units_and_nonprofit_organisations_investments).
21. Non-profit employment programmes of the National Employment Foundation, later Non-profit Ltd. (OFA), and social land programmes.
22. Social cooperatives based on public employment are usually created by local municipalities. There are situations in which local governments that are implementing public-employment projects start a social cooperative and hire in this cooperative the workers that are still or were previously public employees. With a view to easing social tensions around socio-spatial inequalities and rural development, public policies have supported the emergence of such local-government-based social cooperatives and their merger with the public-work programme (Hamza *et al.* 2018). The public-work programme, however, often reproduces patron-client relationships between the local elite (e.g. the mayor) and the marginalised communities (European Commission 2019).
23. For example Civil Support and Badur Foundation.
24. For example the Erste SEED programme, UniCredit bank’s “Social Innovation” competition, KPMG’s (a leading audit, tax and advisory firm in Hungary) Programme for a Responsible Society and MagNet Bank’s programmes.
25. This is the case of the EEA/Norway NGO Fund and the Swiss NGO Block Grant.
26. For example SocialMarie (since 2005) and the Added Local Value Award of the National Employment Public Limited Company (first organised in 2015).
27. For example the National Association of Social Cooperatives and the National Association of Charity Shops.
28. For example the Corvinus University of Budapest, the University of Debrecen, the University of Miskolc and the Eötvös Loránd Science University.

29. Statistics are available for specific legal forms but not for social enterprises in particular.
30. Available data are to be extracted from data on enterprises, cooperatives and non-profit organisations. Regarding the number of social enterprises, due to the overall lack of statistics, only estimates are available, which range between 300 and 600 (Petheő 2009; NESST 2014).

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# 6 Challenges for Social Enterprises in Latvia

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## Introduction

The term “social enterprise” (SE) is not very common in Latvia, be it in academic circles or at the political level. In practice, however, entrepreneurial activity focusing on social objectives is emerging in the country. One of the reasons for this “discrepancy” between the dissemination of the theoretical concept and the actual initiatives it covers is the fact that the Latvian term for “social entrepreneurship” is a direct translation of the same English term, and while the interpretation of the word “entrepreneurship” in Latvian causes no problems, it is more complicated with the term “social”—translated as *sociāls* in Latvian. This term is derived from a term meaning “society”, and it has several meanings: beside the idea of “social”, it can also refer to the concept of “public” (Latvian Association of Local and Regional Governments 2016).

The *Global Entrepreneurship Monitor* report, published in 2009, defined social entrepreneurship as “individuals or organisations engaged in entrepreneurial activities with a social goal” (Rastrigina and Dombrovskis 2009). This definition is in line with the way in which the concept of social enterprise is usually understood: according to various definitions, a social enterprise is an organisation whose mission combines revenue generation and profit-making activities with the need to respect and support its environment and network of stakeholders (Deloitte Global Human Capital Trends 2018).

## 1. The Conceptual Background of Social Enterprise in Latvia

Academic research in economics plays the leading role in the analysis and study of social enterprise in Latvia. In the last years, the interest of junior researchers in social enterprises has grown rapidly. Researchers have generally focused on topics, such as the understanding of social enterprise (Burkāne 2017; Bērziņa and Ķiesnere 2016; Stupena 2015), historical correlations between social enterprises and the social economy (Dobeļe 2013),

analysis of international experiences of social entrepreneurship (Freimanis 2012), possibilities to develop social enterprises in Latvia (Zambergā 2018; Trifane 2015), the social impact of social enterprises (Kumačeva 2018) or support instruments for social enterprises (Veigure and Zorina 2017). There are also research projects carried out jointly by Latvian and foreign researchers. All these studies have been significant in advancing the knowledge and understanding of social enterprise and social entrepreneurship in Latvia.

Analysis of the concept of social entrepreneurship on the basis of various information sources demonstrates that the introduction of this concept in Latvia has been gradual. The first social enterprises in Latvia developed as economic activities performed by NGOs within their regulatory framework, namely the Law on Public Organisations and Associations Thereof of December 15, 1992. This law was replaced on October 30, 2003, by the Law on Associations and Foundations, which divided all NGOs into two categories: associations and foundations. According to the new law, associations and foundations have the right to carry out revenue-generating activities. However, the economic activity may not become the primary goal of the organisation; it must be an auxiliary activity supporting the achievement of the organisation's key public-benefit goals.

NGOs that meet certain criteria may obtain the status of *public-benefit organisation* (Saeima 2004). According to the Law on Public-Benefit Organisations, a public-benefit activity is an activity that generates a significant benefit for society. The term “public benefit” refers to a wide range of activities, and in particular to the fact of increasing the social welfare of society, especially for low-income and socially disadvantaged groups.

The main components of a social enterprise—namely the social goal and not-for-profit character—could, to a certain extent, lead one to consider that there is no significant difference between a social enterprise and a public-benefit organisation. The difference lies in the economic activity. As already mentioned, the law only allows associations and foundations to perform an economic activity as an additional activity; by contrast, the economic activity is a central criterion for identifying a social enterprise, which ensures that socio-economic problems are tackled in a long-term perspective. Besides, public-benefit organisations can use their income only for activities of a non-commercial nature. But public-benefit organisations that develop significant secondary economic activities could be considered as social enterprises from the point of view of the EMES approach—even though they are not considered as such in Latvian law.

Publications and discussions show that the concept of social enterprise is closely related in Latvia to the ideas of “social partnership” (Līcīte 2018a) and “social dialogue”. The concept of social partnership was used in municipalities as a step towards more intense public participation

and the use of direct-democracy tools in the work of the administration (Ozola 2010). Social partnerships frequently involve the implementation of projects that are not directly related to the functions of public administration but are important for community members; and, as underlined by the OECD (2016), the process that results in social partnership is in many cases related to the formation of social enterprises.

Various other concepts are also used in the Latvian context in relation to that of social enterprise:

- The term *social innovation* is often used to explain and characterise the contribution made by social enterprises to new solutions and the role of social entrepreneurs as drivers of change (Laizāns 2018).
- The term *social business* (in Latvian, *sociālais uzņēmums*) is used as a general classifying concept that could contextually also include different types of social enterprise.
- The concept of social enterprise is frequently associated with the concepts of *social entrepreneurship* and *social economy*; they are even used interchangeably by the general public and sometimes also by policymakers.
- At times, social entrepreneurship is confused with *corporate social responsibility*, which is commonly a supplementary corporate activity and not the main objective of the enterprise.
- Finally, there is a misleading opinion that social enterprises are only related to *work-integration* (Lis *et al.* 2017). This opinion is also deeply rooted in EU policies.<sup>1</sup>

The common feature of these various terms is their association with a *social-benefit activity*. In practice, this refers to a focus on solving social problems by creating social services. This general focus can be explained by the fact that Latvia had to deal with the consequences of the economic crisis—poverty, unemployment, high risk of social exclusion. . . . NGOs, associations and foundations mainly target socially vulnerable groups.

Social entrepreneurship and social enterprises in Latvia were analysed by Dobele (2013), who discusses social entrepreneurship as an “inter-sectoral phenomenon”, as it fulfils simultaneously private, governmental and third sector’s functions and combines elements of all three sectors. A social enterprise is defined as “an organisational operating unit created for the purpose of solving topical social or environmental problems by engaging socially sensitive public groups or providing them with services and/or goods” (Dobele 2013).

Various definitions coexist in the country; they complement one another by highlighting the various aspects of social entrepreneurship. Based on different definitions and approaches, an official definition of social enterprise adapted to the Latvian context was developed and introduced in

the country in 2018 by the Social Enterprise Law; it will be presented in Section 2.3. Worth noticing is the fact that this definition does not only cover work-integration social enterprises but a broad range of activities:

*Social enterprise creates a positive social impact (e.g., provision of social services, formation of an inclusive civil society, promotion of education, support for science, protection and preservation of the environment, animal protection, or protection of cultural diversity).*

Saeima (2018)

## **2. Emergence and Development of the SE Legal and Policy Context**

From the legal and policy perspective, the emergence and development of social enterprises in Latvia can be divided into three stages.

### ***2.1. The First Stage (1990–2004): Latvia’s Independence and Accession to the European Union***

The first stage corresponds to the period during which the country regained its independence and joined the European Union. During this stage, there were no social enterprises in Latvia. The terms “third sector” and “non-governmental sector” were first introduced in the country in the early 1990s, when foreign foundations and aid programmes launched operations with the aim of supporting the formation of a democratic and civil society. In official documents of the Republic of Latvia, the term “non-governmental organisation” was first mentioned in 1992 (Latvian Civic Alliance 2015).

The Law on Public Organisations and Associations Thereof (Supreme Council 1992) and other regulations governing the activities of NGOs in Latvia were adopted in 1992 (as explained earlier, this law was replaced in 2003 by the Law on Associations and Foundations).

In 2004, the Law on Public-Benefit Organisations (Saeima 2004) entered into force. This law defines the “social-benefit activity” as an activity that generates considerable benefit to society or a part thereof, especially if it is directed towards charity; protection of public and individual rights; development of civil society; promotion of education, science, culture and health; prevention of illnesses; support to sport; environmental protection; provision of aid in cases of disasters and emergency; improvement of well-being in society in general; and of the situation of socially vulnerable groups in particular (Saeima 2004).

The development of NGOs contributed to the emergence of social enterprises because they pursue the explicit social aim of serving the community or a specific group of people that shares specific needs. However,

the economic activity of associations and foundations is restricted by the Law on Associations and Foundations, which allows these organisations to perform an economic activity only as an auxiliary activity. If the economic activity becomes the main activity of the organisation, the latter can be liquidated based on a court decision. However, the Law on Associations and Foundations has not given a definition of the “main activity”; discussions on the concept and on the criteria to identify it thus remain open, particularly in situations where the main activity of an organisation is based on principles of entrepreneurship. In practice, the boundary between main and auxiliary activities is tackled in relation to the goals set in the statutes of the organisation, unless it clearly appears that the organisation does not work towards its declared goals (Pūķis 2012). After the new Law on Social Enterprise became effective, many associations and foundations continued to identify themselves as social enterprises, as their activity often met the basic criteria defining a social enterprise, yet legally, due to their legal form, they were not entitled to this status.

## ***2.2. The Second Stage (2005–2014): Rapid Growth of the NGO Sector and Financial and Economic Crisis***

The second stage was characterised by two important processes: a rapid growth of the NGO sector and the financial and economic crisis (2008–2011).

After Latvia joined the European Union, in 2004, non-governmental organisations could access more funding from various foundations, including international ones; consequently, the number of registered NGOs (associations and foundations) increased to over 1,000 (Līcīte 2018a). Overall, one could conclude that the development of NGOs contributed to the emergence of social entrepreneurship in Latvia; however, it was not social entrepreneurship in the modern sense of the term, as non-governmental organisations did not necessarily have an economic activity.

The 2008 financial and economic crisis influenced many people in Latvia. Many lost their jobs and were forced to look for alternative ways to survive. Some individuals significantly changed their value system after the crisis, and understanding of the importance of cooperation in creating better conditions for the environment and society grew (Līcīte 2018a). This change in values and way of thinking was an important driver of social entrepreneurship in Latvia.

The emergence of social entrepreneurship and social enterprises opened up new development perspectives for the national economy as the National Development Plan 2014–2020 (Saeima 2012) and regulation No. 618 “On the concept of social-entrepreneurship opportunities

in Latvia in order to implement the new political initiative” came into force (Cabinet of Ministers 2014). The objective was

*to recognise and evaluate the potential of social enterprises, to start forming a comprehensive and efficient system, to set up a legal framework for the development of social entrepreneurship, to offer a definition and eligibility criteria as well as support instruments for social enterprises.*

Ūlande and Līcīte (2018)

In 2014, a research report was published about the “Pilot project for the identification of social enterprises and their economic-impact assessment”. The research outcomes provided the basis for recommendations to policymakers to encourage social entrepreneurship in Latvia, and a definition of social enterprise was developed:

*A social enterprise is a participant in the social economy that is established and managed by an entrepreneur with well-developed social and financial competency (. . .) (producing goods and providing services), and which allocates its income/profit to the pursuit of social goals, with a view to addressing important social issues.*

Latvian Chamber of Commerce  
and Industry (2018)

Comparing this definition with the EMES “ideal-typical” social enterprise (Defourny and Nyssens 2010), it can be concluded that only economic and social criteria were covered (and in a quite superficial way), and that the question of the type of governance was not addressed. However, it should be noted that the definition developed in this pilot project only represented the first step on the way to defining and understanding social entrepreneurship in Latvia.

The Ministry of Welfare of the Republic of Latvia was appointed as the institution responsible for the implementation of the SE concept (Ministry of Welfare 2014).

### ***2.3. The Third Stage (From 2015 Onwards): From the Creation of SEAL to the Adoption of the Social Enterprise Law***

In the autumn of 2015, the Social Entrepreneurship Association of Latvia (SEAL) was created; it gathers organisations, enterprises and individuals willing to promote social entrepreneurship in the country.<sup>2</sup> Research conducted in the previous years as well as contributions made by NGOs with business experience and by existing social enterprises (The Samaritan



Association of Latvia [LSA], Riga Association “Rūpju bērns”, Association “SOS Children’s Village Latvia”) paved the way for the setup of SEAL. These social enterprises’ experience helped to substantiate the arguments brought forward during the discussions with politicians.

In 2016, the Latvian Association of Local and Regional Governments (LALRG) published a study (Latvian Association of Local and Regional Governments 2016) according to which there were still ambiguities in terms of understanding social enterprise and social entrepreneurship; the study underlined that the concept of social entrepreneurship in Latvia was “deformed and narrow”.

Concerning the definition of social enterprise, the study adopted an approach inspired by Yunus and Weber (2007), other researchers (Lešinska *et al.* 2012; Dobele 2013) and the Ministry of Welfare (2014). The definition stated that the main thing that identified a social enterprise was its purpose; the other criteria—production of goods or services, restrictions on the distribution of profits, and representation of the target groups involved in running the company—were secondary (Latvian Association of Local and Regional Governments 2016).

The study outlined a number of recommendations for policymakers, the most important of which were:

- to evaluate the possibility of granting the concerned initiatives the status of “social entrepreneur”, rather than that of “social enterprise”, regardless of whether the organisation was an NGO, a limited company, a municipal institution or a state agency. However, this proposal was not transposed into the Social Enterprise Law;
- pending the adoption of the law, to provide support to social enterprises based on their form and social mission, as this social mission decreases the company’s competitiveness and increases its need for support (Latvian Chamber of Commerce and Industry 2018).

During the discussion of the draft law, the title of the law was adjusted by replacing the term “social entrepreneurship” with “social enterprise”, as the concept of “entrepreneurship” was deemed too broad and was not legally defined; moreover, the law was focusing on the special status of the social enterprise, its rights and obligations rather than on social entrepreneurship (Latvian Association of Local and Regional Governments 2016).

The stakeholders had intense discussions on the right of municipalities to establish social enterprises. Municipalities defended their interest in setting up social enterprises based on the fact that they could, better than other stakeholders, identify social problems in the concerned area/region and promote entrepreneurship. Although Article 88 of the State Administration Structure Law (Saeima 2003) allows public authorities to engage in commercial activities in certain cases, social entrepreneurship being a

private-sector type of activity, municipalities were finally not granted the right to establish social enterprises.

Step by step, these developments led to the adoption of the Social Enterprise Law, which entered into force on April 1, 2018. The adoption of this law was accompanied by intense discussions in the civil and political arenas. According to SEAL data, in 2017, about 60 organisations in Latvia met the criteria defining a social enterprise, and it was estimated, in the explanatory note accompanying the draft law that, once this law was passed, at least 200 social enterprises might be created in the country in the medium term (Saeima 2018). This estimation was based on research on social entrepreneurship in Latvia (Līcīte 2018a), taking into account as well the planned forms of support for social enterprise that could facilitate the creation of such enterprises.

The Social Enterprise Law states that a social enterprise is

*a limited-liability company, to which the status of social enterprise has been granted in accordance with the procedure provided for by the law, and that conducts a business that creates a positive social impact (e.g. provision of social services, formation of an inclusive civil society, promotion of education, support to science, protection and preservation of environment, protection of animals and cultural diversity).*

Social Enterprise Law, 2017, Section 2, Article 1

The Social Enterprise Law is the main law governing social entrepreneurship in Latvia. The objective of the law is to improve the quality of life in Latvian society and to promote the employment of groups at risk of social exclusion by creating a favourable business environment for social entrepreneurs.

Important regulations of the Cabinet of Ministers are associated with this law:

- regulations of the Cabinet of Ministers on groups of people at risk of social exclusion and on the procedure for granting, registering and controlling the status of social enterprise;
- regulations regarding the Commission for Social Enterprises (the Commission for Social Enterprises is a collegiate advisory body that consists of an equal number of authorised officials and of representatives of associations and foundations; it assesses the conformity of the applicant with the status of social enterprise and controls the activities of registered social enterprises);
- regulations on business-support requirements for social enterprises and on the procedure for granting support.

The Social Enterprise Law determines the competence of the Ministry of Welfare in monitoring social enterprises. The Ministry of Welfare

develops policy-planning documents and SE support programmes. It also publishes on its website (Ministry of Welfare 2019):

- information on aid programmes and other support tools available to social enterprises;
- methodological recommendations for the drafting of the activity reports that social enterprises have to submit, according to the law;
- methodological recommendations for the drafting of the necessary documents to apply for the status of social enterprise;
- a summary of good practices in projects implemented by social enterprises, including SE support projects and their outcomes.

In order to evaluate the efficiency of support programmes, the Ministry of Welfare also prepares reports on the activities and development of social enterprises; these reports are submitted every second year to the Cabinet of Ministers (Ministry of Welfare 2019).

### **3. Drivers for SE Development in Latvia**

Various factors have triggered the development of social entrepreneurship in Latvia; they are analysed in this third section.

#### **3.1. Public Policies and Programmes**

There are two main forms of support for social entrepreneurship, namely financial and non-financial support. Public support mainly takes the form of financial support. The largest financial support programme that is designed specifically for social entrepreneurship is the support programme run jointly by the Ministry of Welfare and ALTUM, a state-owned development finance institution. This programme, which was launched in 2016, allocates funds from the European Social Fund to social enterprises. The financial grants range from €5,000 to €200,000, depending on the initiatives' previous business experience and current turnover (for companies that have been operating for more than one year). This is the first and only kind of programme so far whose results and impacts can be considered as significant in the formation of social entrepreneurship in general.<sup>3</sup>

A grant programme to support social enterprises was also implemented in parallel with the introduction of the Social Enterprise Law. Until March 1, 2018, the following entities could apply for a grant:

- limited-liability companies;
- associations and foundations provided their revenue from an economic activity related to the achievement of a social goal represented at least 10% of all their economic activities;
- natural persons launching a business who had taken part in and won one of the idea competitions organised by the Ministry of Welfare.

Since the Social Enterprise Law came into force, only limited-liability companies with the status of social enterprise have been allowed to apply for a grant.

Since the programme started to operate, 129 applications have been submitted. By September 20, 2019, 59 grants had been awarded (for a total of €4 million). The average grant amount was €65,000. At the time of writing of this chapter (December 2019), six business projects had been implemented successfully and three of those social enterprises had received a second grant; other projects were still in preparation.

Social enterprises may also use possibilities offered by the Investment and Development Agency of Latvia (*Latvijas Investīciju un attīstības aģentūra*, or LIAA) and ALTUM, such as participation in one of the fifteen Latvian business incubators (e.g. the Creative Industries Incubator) or in entrepreneurship programmes available for both conventional and social enterprises (start-up programme for new entrepreneurs, micro-credit programme, SME microcredit programme, etc.). One of the largest challenges remains the practical introduction of national programmes at the municipal level; therefore, researchers (Pomykol and Zglinicka 2016) recommend that municipalities in all the states of the Baltic Sea region start with social campaigns and training (Pomykol and Zglinicka 2016).

### 3.2. *EU Policy*

EU policy initiatives were a driving force for Latvia to create an appropriate legal framework for social-entrepreneurship development. The Resolution of the European Parliament on Social Economy (European Parliament 2009); the Opinion of the European Economic and Social Committee “Towards a Single Market Act. For a highly competitive social market economy. Fifty proposals for improving our work, business and exchanges with one another” (European Commission 2012); the European Commission’s Social Business Initiative “Creating a favourable climate for social enterprises, key stakeholders in the social economy and innovation” (European Commission 2011); and the Opinion of the European Economic and Social Committee “Social Entrepreneurship and Social Business” all highlighted social entrepreneurship as an important instrument supporting social integration, employment (especially for socially sensitive groups of people), territorial cohesion and ethical economic growth.

### 3.3. *Civil Society*

Another important driver for the development of social entrepreneurship was civil society. In Latvia, social enterprises have often emerged as initiatives launched by NGOs; this was for example the case of the Samaritan Association of Latvia (LSA), which provides social care at home (Latvian Civic Alliance 2015).

Through their offer of educational and informative resources, NGOs play a significant role in raising awareness about social enterprises, but the main actor in the field of advocacy for social enterprise is the Social Entrepreneurship Association of Latvia (SEAL), which brings together like-minded organisations, companies and people who believe that social entrepreneurship in Latvia has a huge potential and who are ready to participate in the development and strengthening of the sector. SEAL plays a leading role in the development of social entrepreneurship in the country.<sup>4</sup>

SEAL's main areas of activities are the following:

- *protecting social enterprises' interests* at the local, regional and national levels. The Association informs municipalities about the opportunities for social entrepreneurship and participates in the development of the social-entrepreneurship support programme;
- *increasing the capacity of the Association's members*. The Association has set up a platform for experience and knowledge exchange which is the largest information source on social entrepreneurship in Latvia, and it helps its members achieve their goals by organising joint events, promoting fast and effective exchange of information, facilitating access to the latest information regarding financial and cooperation possibilities and providing consultative support;
- *raising public awareness* on social entrepreneurship. The Association participates in events aiming to raise public awareness about the possibilities offered by social entrepreneurship.<sup>5</sup>

The publications and activities of the association “Civic Alliance—Latvia” (CAL) and of the Social Research Centre PROVIDUS, a leading think-tank in Latvia, established in 2002, also play a significant role in the country. The scope of these organisations is wider than social entrepreneurship, but they play an important role in promoting this sector.

CAL is the largest umbrella organisation defending the interests of the non-governmental sector; it aims to strengthen civil society in Latvia, support the common interests of NGOs and create a favourable environment for their activities. CAL brings together 132 members, representing a total of approximately 70,000 individuals in Latvia (which represents 70% of all the persons involved in NGOs in the country) and 27,500 individuals abroad (11% of the Latvian diaspora).<sup>6</sup>

All CAL headquarters are located in Riga, but the organisation's activities cover the whole territory of Latvia. These activities involve *inter alia* projects implemented within the framework of various international programmes, such as Erasmus+, and projects co-financed by the EU or Nordic countries. Examples of projects include the project

implemented by the Social innovation centre “Developing social entrepreneurship in the Baltic Sea region” (co-financed by the Nordic Council of Ministers) or the LEADER cooperation project “A successful social entrepreneur in rural areas”, carried out in cooperation with different organisations.

### 3.4. Other Factors

In some ways, the *economic crisis* also constituted a driving force for the development of social enterprise in Latvia. With a view to overcoming the economic crisis, it was important to find solutions to mitigate social problems, particularly within the framework of active labour-market policies. Until then, social issues had often been addressed by NGOs relying on project funding, but with the crisis, it became more important to search for sustainable solutions to social problems. As a result, social entrepreneurship became more topical. This issue has been repeatedly addressed by the Country-Specific Recommendations for Latvia since 2012.<sup>7</sup>

The *shift in social policy* that Latvia implemented in the 2000s also represented a favourable factor for the development of social enterprise. Indeed, measures aiming to mitigate poverty and risks of social alienation evolved from a focus on aid to the provision of services (Kāle 2006), and the discourse shifted from giving and receiving to action, involvement and activity perspectives. The implementation of these measures increasingly relied on social enterprises. An evolution could also be observed in terms of funding sources; indeed, although these activities remained public, they became funded through a variety of sources, including private funding.

Various events, sometimes organised with international support, also contribute to raising awareness about the SE sector: this is for example the case of the forum “Time to get involved!”, organised by the Soros Foundation—Latvia, in cooperation with the British Council in Latvia, and of various conferences funded through EU sources. It is important to stress that social-entrepreneurship practitioners from Europe and the Baltic States also promote *discussions and debates* about social entrepreneurship through various conferences and seminars (Līcīte 2018a). On the basis of such exchanges, they have identified issues that appear important for the promotion of social entrepreneurship in Latvia:

- defining and implementing a national policy for the development of social entrepreneurship in Latvia;
- as regards the relationship between social entrepreneurship and the state, defining a regulatory framework for social entrepreneurship;

- distinguishing social entrepreneurship from NGOs and traditional businesses, although there are socially responsible enterprises in Latvia that employ representatives of socially vulnerable groups;
- defining a regional policy for and identifying the possibilities to promote the development of social entrepreneurship in each of the country's regions (Līcīte 2018a).

Finally, it is worth mentioning that social enterprises in Latvia may also attract *private investors* ready to invest in the development of social entrepreneurship.

#### **4. Obstacles to the Development of Social Enterprise in Latvia**

As highlighted in Section 3, several factors foster the development of social entrepreneurship in Latvia; but other factors constitute obstacles to such development. In her doctoral thesis, Dobele (2013) highlights several barriers that could hinder the development of social entrepreneurship in Latvia. Along with the vague regulatory environment, the outflow of human resources and non-returning emigrants, social stratification and insufficient financial support for social enterprises are mentioned as threats (Dobele 2013). The development of social enterprise can also be hindered by other economic factors, such as the lack of investment in demand and of social-impact investment. The main obstacles encountered by social enterprises in their search for funding are the lack of understanding of the SE phenomenon; the low capacity of social entrepreneurs in dealing with potential investors; and the lack of knowledge about how to approach investors (Aps *et al.* 2018). Key potential investors are only starting to emerge, and much remains to be done to facilitate actual investments (Veigure and Zorina 2017).

Competition in the market also influences the development of social entrepreneurship. Very often, social enterprises are not competitive, due to the relatively high price of their products or insufficient amount of production for export (Līcīte 2018a).

#### **5. Mapping Social Enterprise in Latvia**

The information on social enterprise and social entrepreneurship is quite broad. The available studies, including master theses (Zamberga 2018; Bērziņa and Ķiesnere 2016; Trifane 2015; Stupeņa 2015; Freimanis 2012; Kumačeva 2018; Veigure and Zorina 2017), scientific articles (Dobele *et al.* 2010; Kalve 2012; Dobele 2012, 2013; Dobele and Dobele 2014; Dobele and Pietere 2015; Bikse *et al.* 2014; Bikse and Linde 2013, 2016; Dehtjare and Riashchenko 2015), reports, interviews, project summaries,

presentations, leaflets, booklets and video materials provide a comprehensive view on the subject.

Social enterprises can be classified on the basis of different criteria: economic performance, social impact, field of activity, target groups, scale of activity, etc. However, the fact that the number of typical social enterprises in Latvia is rather small should be taken into account; this makes it quite difficult to categorise initiatives (Līcīte 2018b). Social enterprise is still developing, and they are in search of their niche of operation, but most of the existing social enterprises are engaged in the production of goods or the provision of services for the local market.

### *5.1. Classification by Areas of Operation*

A study (Lešinska *et al.* 2012) that surveyed social enterprises having chosen the legal form of non-governmental organisation and operating as associations or foundations identified the following main areas of operation/categories of social enterprise:

- social enterprises that coordinate civil-society organisations;
- social enterprises whose activities are targeted at personal development and improved quality of life;
- social enterprises that tackle social and economic issues;
- social enterprises that address environmental issues;
- social enterprises that organise charity campaigns;
- social enterprises that provide social services or social-rehabilitation services;
- social enterprises that are engaged in the preservation of cultural heritage for future generations.

These areas of operation match, to some extent, those that are laid down in the Law on Public-Benefit Organisations:

- charitable activities;
- protection of civil rights and human rights;
- development of civil society;
- education, science and culture;
- promotion of health and disease prophylaxis;
- support to sports;
- environmental protection;
- provision of assistance in cases of disasters and extraordinary situations; and
- improvement of social welfare, especially for low-income and socially disadvantaged groups (Saeima 2004).



## 5.2. Classification by Regions

Despite the adoption, in 2018, of the Social Enterprise Law, social enterprises as a relatively autonomous sector are still in their development stage and, as already underlined, this accounts for certain difficulties in classifying them. However, official statistics provided by the Ministry of Welfare are available; they provide some insight into social entrepreneurship. An analysis of social enterprises in terms of regional distribution reveals that they are present in all the regions of Latvia, but that their distribution is quite unequal (see Figure 6.1).

## 5.3. Classification by Fields of Activity

The EU pilot project for the identification of social enterprises and the assessment of their economic impact in Latvia (Linde 2014) had established that social enterprises had been set up in practically all sectors of the national economy, with the exception of construction. Figure 6.2 shows an analysis of the fields of activity of social enterprises; it reveals that, in 2019, most of the enterprises were engaged in work integration (33%) and in education (23%).

The comparative importance of the work-integration field in the Latvian SE sector can be accounted for, to some extent, by the support that these initiatives receive from the government. Indeed, to promote the integration of the disabled into the labour market, the State Employment Agency offers employers financial support through subsidised jobs. Employers who hire disabled workers are entitled to monthly wage subsidies as well as to subsidies covering social-insurance contributions and the costs linked to the adaptation of workplaces to these workers. It should be stressed, though, that subsidised jobs are available to both social and conventional enterprises employing persons from special target groups.

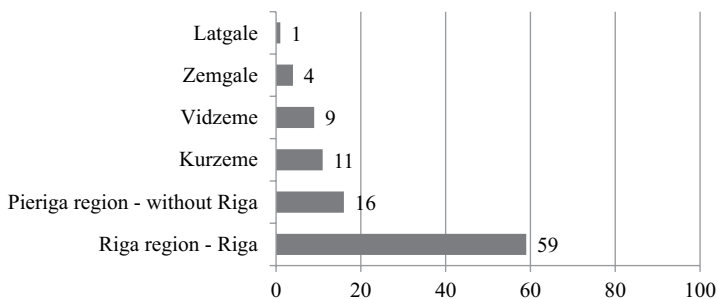


Figure 6.1 Percentage breakdown of social enterprises by region in Latvia (September 26, 2019)

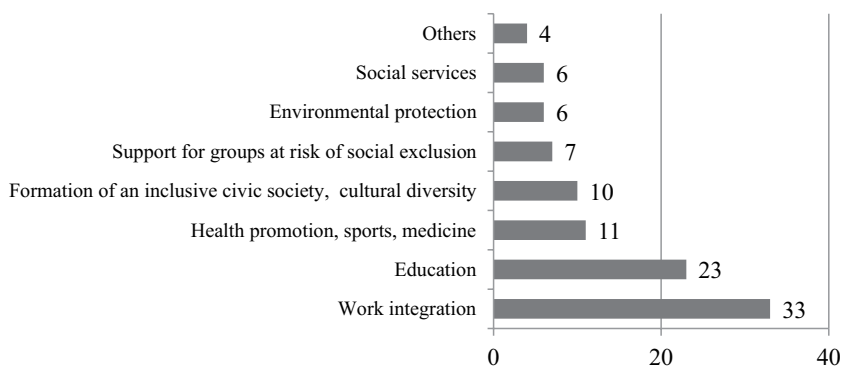


Figure 6.2 Percentage breakdown of social enterprises by field of activity in Latvia (September 26, 2019)

#### 5.4. Classification in Terms of Legal Form

In accordance with the Social Enterprise Law, social enterprises all fall under the concept of “economic project”. The following forms prevail in Latvia:

- social enterprise: business with primarily social objectives. Profit is reinvested in the business or in the community, rather than used to maximise profit for shareholders and owners;
- social firm: business committed to creating employment and training opportunities for the people who are the furthest from the labour market.

Most of the social enterprises in Latvia operate either as a limited-liability company or as an association/foundation. As evidenced by a study carried out in 2014 (European Commission 2014), many new social enterprises tend to choose the legal form of limited-liability company, as it provides a more conducive framework for engaging in entrepreneurial activities, including export.

## Conclusion

The concepts of social enterprise and social entrepreneurship are new in Latvia. The Social Enterprise Law, which came into force in 2018, provides a clear definition of social enterprise: a social enterprise is a limited-liability company conducting an economic activity that creates a positive social impact.

A significant role in raising awareness about social enterprises has been played in Latvia by NGOs and educational institutions, which have

organised several workshops and conferences, implemented cooperation projects, supported publications, etc. Such actions contributed to the public recognition of the concept of social entrepreneurship. On the other hand, the development of social enterprise can be hindered by competition in the market and by lack of investment in demand and of social-impact investment.

Although available data about social enterprises in Latvia allow us to classify them on the basis of different criteria (such as their field of activity or location), the number of social enterprises in the country is still rather small, and this makes it quite difficult to categorise them or identify SE models.

Social enterprises may use national and municipal support tools for entrepreneurship. The Social Enterprise Law allows municipalities to set up various support tools for social enterprises, which is important as it allows municipalities to legally establish their own local social-entrepreneurship support schemes.

The authors forecast that the number of social enterprises in Latvia will slowly increase in the future; however, the increase rate will strongly depend on support instruments available to social enterprises. What will happen in terms of available funding after 2022, when the support programme run jointly by the Ministry of Welfare and ALTUM ends, remains unclear so far.

The recognition of social enterprises in society is slowly increasing, but much still needs to be done to raise awareness about the importance of social enterprises and their social impact.

## Notes

1. EU Regulation No. 1304/2013 of the European Parliament and of the Council of December 17, 2013 on the European Social Fund and Repealing Council Regulation EC No. 1081/2006.
2. See [www.socialauznemejdarbiba.lv/](http://www.socialauznemejdarbiba.lv/).
3. See [www.socialauznemejdarbiba.lv/](http://www.socialauznemejdarbiba.lv/).
4. See [www.socialauznemejdarbiba.lv/](http://www.socialauznemejdarbiba.lv/).
5. See [www.socialauznemejdarbiba.lv/](http://www.socialauznemejdarbiba.lv/).
6. See <https://nvo.lv/lv/news/page/civic-alliance-latvia-cal-125/>.
7. See [http://ec.europa.eu/europe2020/pdf/nd/csr2012\\_latvia\\_en.pdf](http://ec.europa.eu/europe2020/pdf/nd/csr2012_latvia_en.pdf).

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# 7 Social Enterprises in Lithuania

## Historical Roots and Current Trends

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Philipp Erpf and Agota Giedrė Raišienė*

### Introduction

The discourse on social enterprise (SE) in Lithuania emerged at the beginning of the new millennium, together with processes of legal institutionalisation of such types of enterprise. However, until now, the use and understanding of the concept have remained rather limited and fragmented. The coexistence of the conceptually similar—yet different— notions of “social enterprise”, “social company” and “social business” makes it difficult for society and academia to have a clear vision. This chapter presents an overview of the general SE context in the country, analysing factors that shaped SE development, and discusses three main models of social enterprise in Lithuania, namely work-integration social enterprises, social-business organisations and entrepreneurial non-profit organisations, and their links to the EMES indicators.

### 1. The General SE Context in Lithuania

The Lithuanian Law on Social Enterprises was adopted in 2004 and amended in 2011.<sup>1</sup> It provided a rather narrow definition of social enterprises as initiatives aiming

*to employ the persons belonging to the target groups indicated in this Law and who have lost their professional and general capacity for work, are economically inactive and are unable to compete in the labour market under equal conditions; to promote the return of these persons to the labour market and their social integration; and to reduce social exclusion.*

2004 Law on Social Enterprises, Article 2<sup>2</sup>

This law thus promotes initiatives that are usually referred to, at the international level, as work-integration social enterprises (WISEs). Their main goal is to integrate disadvantaged groups back into the



labour market and society. However, there are also in Lithuania organisations that do not meet the criteria linked to the employment and reintegration of disadvantaged people (e.g. the disabled and the long-term unemployed) and are consequently not considered as social enterprises by Lithuanian law, but which might be considered as “*de facto* social enterprises”.

This has led to a situation in which different groups of stakeholders (such as policymakers, civil-society organisations, social entrepreneurs and researchers) have diverse understandings of the notion of social enterprise. As emphasised in a country report about social enterprise in Lithuania,

*[M]ost policy makers interpret social enterprise in a narrow sense (following the legal definition, which narrowly refers to work-integration social enterprises), while social-sector representatives tend to interpret the concept more broadly, referring to the concept of social entrepreneurship.*

Gaušas *et al.* (2014: 1)

The limitations of the legal definition have been recognised by experts as well as by practitioners and social entrepreneurs. As recommended by experts in the same country report,

*[S]ocial enterprise as it is defined legally is a rather limited concept, and therefore, government and public authorities should reform [the law] and lean towards a more liberal and broader definition of social enterprise.*

Gaušas *et al.* (2014: 2)

NGOs that promote ideas of social entrepreneurship in Lithuania (e.g. NGO Avilys<sup>3</sup>) were in favour of the adoption of a broader definition and actively supported the need to amend the legislation.

Such initiatives resulted in the development of a “Conception of Social Entrepreneurship” (hereafter referred to simply as “the Conception”), which was approved by the Minister of Economy on April 3, 2015 (Order 2015, No. 4–207).<sup>4</sup> The Conception presents the general principles of social business; however, it did not completely solve the conceptual problems linked to the notion of social enterprise. This document uses two concepts, namely that of “social business” and that of “social enterprise”, interpreting the latter as a part of the broader notion of social business. The Conception identifies three major tasks that should be accomplished to support the development of social businesses in Lithuania: (1) to create a favourable legal environment for social entrepreneurship; (2) to create a favourable financial and tax support system; and (3) to improve the visibility and raise awareness about the social-business and social-enterprise

phenomena in society. According to Greblikaitė *et al.* (2017c), on a strategic level, the Conception enhances the recognition of the importance of social entrepreneurship; however, in practice, the concept itself remains underdeveloped because of the lack of specific legal acts about social enterprises and the functioning of social business.

In 2019, new initiatives were launched with a view to legally defining and promoting the notions of “social business” and “social enterprise”. New legislative acts were initiated: a new Law on Social Enterprise was adopted on September 19, 2019 (No. XIII-2427)<sup>5</sup> and came into effect in 2020; and a bill on Social Business Development<sup>6</sup> is currently under consideration. The comparison between these two new pieces of legislation is summarised in Table 7.1.

The discussion between stakeholders in the public arena shows that, unfortunately, both the representatives of people with disabilities and social enterprises’ executives are unsatisfied with the changes brought about by the new law. Organisations of disabled people claim that the new law does not ensure that government support actually reaches the disabled employees, as subsidies are granted to companies rather than people. Meanwhile, social enterprises’ executives think that imposing tougher restrictions on the activities that these enterprises can conduct will make the majority of them go bankrupt. Some members of the government have declared that issues related to social enterprise and the disabled will be discussed anew (Adomavičienė 2019; Beniušis 2019; Balčiūnaitė 2019; Zumerytė 2019).

Considering the impact of contextual factors on the early-stage development of social enterprises in Lithuania (Erpf *et al.* 2019), there are several categories of factors that can account for the current state of social enterprise in the country, namely the absence of SE traditions in Soviet history; the weakness of the voluntary and non-profit sector; and an unfavourable legal environment, with a blurry understanding of social enterprise.

As just said, the first category of contextual factors includes historical reasons, and more specifically the *absence of social entrepreneurship and civic traditions during the Soviet period* (Erpf *et al.* 2019). Only from 1990 onwards, when Lithuania regained its independence, did the political system become “favourable [to the] development of private businesses, after a long period of planned economy” (Erpf *et al.* 2019: 1214); however,

*as a legacy of the Soviet occupation, Lithuania inherited an almost completely state-owned agriculture, which was firmly moulded by . . . Soviet orthodoxy, [and where] both nominally collectively-owned kolkhozes and state-owned sovkhoses were operating under a heavy hand of state.*

Samonis (1995: 5)

Table 7.1 Comparison between the new Law on Social Enterprise and the bill on Social Business Development

	<i>Law on Social Enterprise (adopted, came into effect in 2020)</i>	<i>Bill on Social Business Development (under consideration)</i>
<b>Definition</b>	A social enterprise is a legal entity or its subdivision that employs a certain number (defined by law) of workers from a target group.	A social-business entity is a tiny, small or medium-sized enterprise that seeks a social impact, and whose annual income from economic activities represents more than 50% of its total income.
<b>Social-impact aims</b>	In the area of integration of vulnerable people, recruitment is aimed at people who have lost their professional and general capacity to work.	<ol style="list-style-type: none"> <li>(1) Integration of vulnerable persons through the promotion of employment of such persons or groups of persons;</li> <li>(2) efficient use of natural resources and waste management (actions related to climate change);</li> <li>(3) protection of biodiversity and landscape, animal care;</li> <li>(4) cultural activities and support to creativity in society;</li> <li>(5) disease prevention, patient protection and mutual assistance;</li> <li>(6) promotion of public health and healthy lifestyles;</li> <li>(7) defence of human rights and equal opportunities;</li> <li>(8) education in citizenship, patriotism, reduction of emigration, education of the public and information on issues related to state defence;</li> <li>(9) provision of social services as defined in the catalogue of social services approved by the Minister of Social Security and Labour;</li> <li>(10) improvement of the living conditions and/or activities of persons with disabilities and promotion of their freedom of movement and access to services in the community.</li> </ol>
<b>Reinvestment of profits</b>	75% of profit must be allocated to the promotion of social integration and to the reduction of social exclusion.	80% of profits must be devoted to solving social problems.

## Support

A social enterprise may receive wage subsidies and may benefit from reductions on state social-insurance contributions; it may also receive subsidies to create jobs, buy work equipment and adapt workplaces for disabled workers, and subsidies for the training of target group staff.

The following forms of governmental support may be provided to a social business:

- (1) right to use state assets;
- (2) reserved right to participate in public procurement;
- (3) provision of public services for social business in an authorised facility, business incubator, etc.;
- (4) promotion measures provided for in the Law on Small and Medium Business Development of the Republic of Lithuania.

The following forms of municipal support may be provided to a social business:

- (1) exemption from local charges;
- (2) right to use municipal property;
- (3) other forms of promotion established by municipal authorities.

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Source: created by authors based on the new Law on Social Enterprise (adopted on September 19, 2019, No. XIII-2427<sup>7</sup> and the bill on Social Business Development<sup>8</sup>

Thus, at that time, businesses and entrepreneurship that were mostly oriented towards gaining profit as collective forms of economic activities had negative connotations in society and were associated with the soviet period. It took a while to rediscover ideas linked to social entrepreneurship in Lithuania. Although “the formal entrepreneurship environment is [currently] considered to be very developed in the Baltic countries” (Rugina 2019: 58), social entrepreneurship is still in its early stage of development.

The *weakness of the voluntary and non-profit sector* in Lithuania and its lack of sustainability (Dvarionas 2017), despite gradually increasing civil liberties and levels of volunteering (Salamon and Sokolowski 2018), constitute a second category of factors having influenced the development of the SE sector in Lithuania. As emphasised by Nakrošis *et al.* (2018: 35), “Lithuanian society shows only an average interest in public affairs, while the social environment remains unfavourable for civic engagement”. Such situation also affects the development of social entrepreneurship and social enterprises.

Finally, as explained earlier, the *legal environment* does not facilitate the development of socially oriented businesses. Despite all the debates that have taken place at different levels, social enterprises such as they are strictly described in the law remain the only form of SE-like initiatives that receive financial support (subsidies and/or tax benefits) from the state. Many socially oriented companies are still not fully recognised as social enterprises.

## 2. Identification of SE Models

Based on an analysis of current legal regulations, scientific literature and examples of social enterprises, we identified three main models of social enterprise in Lithuania, namely *work-integration social enterprises*, *social-business organisations* and *entrepreneurial non-profit organisations*. In this second section, these types of organisation will be analysed with regard to the social, economic and governance-related indicators of the ideal-typical social enterprise such as they have been identified by the EMES Network (see Table 7.2).

### 2.1. Work-Integration Social Enterprises

The aim of Work-Integration Social Enterprises (WISEs) is the reintegration into work of excluded persons belonging to specific target groups, through production or service-provision activities. The origins of WISEs date back to Soviet times, when Lithuania belonged to the Soviet Union. Around 1960, several production units for the blind and deaf were set up to recruit these people and enable them to work. After Lithuania’s accession to the EU, in 2004, efforts were made to harmonise Lithuania’s policy with EU policy; this led to the adoption, in the same year, of the

Table 7.2 Lithuanian SE models and their links to the EMES indicators

<i>SE models</i>	<i>Work-integration social enterprises</i>	<i>Social-business organisations</i>	<i>Entrepreneurial non-profit organisations</i>
<i>EMES indicators</i>			
<i>A continuous activity producing goods and/or selling services</i>	✓	✓	Not always
<i>A minimum amount of paid work</i>	✓	✓	✓
<i>A significant level of economic risk</i>	✓	✓	Not always
<i>An explicit aim to benefit the community</i>	Economic (and social) aims	✓	✓
<i>A limited profit distribution, reflecting the primacy of the social aim</i>	✓	✓	✓
<i>An initiative launched by a group of citizens or a third-sector organisation</i>	Private investors	Private investors	✓
<i>A high degree of autonomy</i>	State aid for legally recognised enterprises	✓	✓
<i>A participatory nature, which involves various parties affected by the activity</i>	Limited stakeholder involvement	✓	✓
<i>A decision-making power not based on capital ownership</i>	Decision-making power usually held by executives and shareholders	Decision-making power usually held by the director/owner, who makes the key decisions	✓

Source: Created by the authors, based on Defourny and Nyssens (2012, 2017)

Law on Social Enterprises of the Republic of Lithuania. This law encouraged the employment of persons with various disabilities (not only the deaf and blind) and other vulnerable persons; it thus expanded the potential target group by enlarging the list of vulnerable groups concerned. As a result, many social enterprises of this type came into existence after the law was passed.

These enterprises offer professional integration for the most of the vulnerable groups in society, and the state supports their activities with constant subsidies. Between 2014 and 2018, the number of enterprises officially registered as social enterprises according to the 2004 law experienced a continuous increase. At the end of 2018, there were 177 WISEs in Lithuania. They employed about 7,018 employees belonging to their target groups, among which 6,699 persons with disabilities and 319 persons from other target groups.<sup>9</sup> According to Greblikaitė *et al.* (2017b), major fields of activity include activities related to manufacturing (sewing and textile products, furniture, paper products, etc.) (36.7%), cleaning services (25%), consulting (10%), packaging manufacturing (9%), auxiliary construction and finishing (7%) and health (6%). Thanks to state subsidies, the working places can be adapted, so these enterprises can offer work activities for physically or mentally disabled persons. Although work enables these persons to acquire professional experience, there are no data about how many of these employees enter the open labour market after gaining work experience in a WISE. These enterprises, which offer permanent employment contracts, receive long-term state subsidies, which aim to compensate for the gap between the productivity required by the regular labour market and the actual capacity of the disabled persons. The vocational training offered is often on-the-job training. These enterprises usually have only a few volunteers.

According to the Law on Social Enterprises that was adopted in 2004 and amended in 2011, all WISEs had to meet the same prerequisites in order to qualify for the SE status: they had to create employment for people who were severely disadvantaged in the labour market, and they had to conduct activities that were supported by the state. In addition, employees belonging to specified target groups (the disabled, the long-term unemployed, persons for whom no more than five years were left until the pensionable age, single parents, ex-prisoners and drug addicts after rehabilitation) should represent at least 40% of the annual average number of employees, and the number of employees belonging to the target groups should be at least four. WISEs for the disabled were subject to all the requirements applying to social enterprises in general, but they should moreover meet additional criteria: (1) employees belonging to the target group of persons with disabilities had to represent at least 50% of the enterprise's annual average number of employees; (2) persons with a severe to moderate disability or with a working capacity of less than 40% of the average working capacity or with a high or medium level of special needs had to make up at least 40% of the annual average number of employees; and (3) the number of such employees should not be less than four. All these requirements are still present in the new Law on Social Enterprise<sup>10</sup> (adopted on September 19, 2019, No. XIII-2427) that came into effect in 2020.

State aid is provided for legally recognised WISEs. A WISE may be granted state aid of the following types: (1) wage subsidies and subsidies

covering social-insurance contributions; (2) subsidies for the creation or adaptation of workplaces for disabled employees and acquisition or adaptation of working equipment for these employees; and (3) subsidies for the training of employees from the target groups. Social enterprises for the disabled may be granted additional state aid of the following types: (1) subsidies for the adaptation of the work environment, production premises and rest rooms for the disabled employees; (2) subsidies for the reimbursement of additional administrative and transport expenses; and (3) subsidies for the reimbursement of expenses linked to the employment of an assistant (sign-language interpreter). In addition to the aforementioned subsidies, WISEs are entitled to certain privileges in public-procurement procedures. Greblikaitė *et al.* (2017a) point out that over a decade, state subsidies to social enterprises were multiplied by more than 20, from €0.57 million in 2004 to over €11.58 million in 2014. Since 2008, a large share of subsidies has come from EU funds.

WISEs can be classified as hybrid organisations since they pursue both economic goals—earning profit—and social goals—they employ people from the target groups listed earlier, develop these persons' working and social skills, and work towards their social integration (Raišienė and Urmanavičienė 2018). They are governed by both a social-welfare logic and a commercial logic. They do not fully meet all the indicators characterising the ideal-typical social enterprise such as it has been described by the EMES Network. Until recently, their profits were distributed to the shareholders and were not invested in the well-being and vocational development of excluded workers. These companies do not fit either into EMES' conception of the governance-related dimension of social enterprise. This type of social enterprise is not open to multi-stakeholder involvement, and employees and other stakeholders are not involved in decision-making and management processes. The decision-making power rests with the company's executives and shareholders (Gaušas *et al.* 2014).

The leading players promoting WISEs are business-sector companies. Indeed, they see WISEs as beneficial to the business, to the extent that they can be viewed as a tool that allows them to earn as much revenue as possible. Recently it has become clear that there had been cases in which the law had been abused, and some social enterprises had been set up purely because of the support they expected from the state. Disabled people's organisations and other civil-society organisations heavily criticised this WISE model for its lack of real social impact and the disproportionate public support it received. The new Law on Social Enterprise provides for reduced wage subsidies, and the duration of state support is limited to six months. Seventy-five per cent of WISEs' profits must be reinvested for social inclusion and measures aiming to support job-skills development. However, the way in which profit should be reinvested is not defined, and the new Law on Social Enterprise is still heavily criticised by representatives of disability organisations and by some politicians, who believe that



the law does not address the problem in its entirety, to the extent that the state-aid model remains more focused on helping companies than on supporting individuals, thus creating the conditions for abuse and inefficient use of public funds.

## 2.2. *Social-Business Organisations*

Social-business organisations are businesses in which the social mission is the most important mission, and the main aim is to find solutions for social problems in society. Social-business organisations choose and implement their business strategies in a way that is consistent and does not conflict with their social mission (in the best of cases, their business model even strengthens the social mission). For example, the “Mano guru” cafe,<sup>11</sup> which re-integrates former drug addicts, does not sell alcohol, because that would contradict their social mission— that is, integration of and promotion of a healthy lifestyle for former addicts—despite the fact that selling alcohol could increase their income and profit. According to Stevens *et al.* (2015), social enterprises combine social and economic goals, and they have to manage a tension between these two different goals. However, social-business organisations prioritise their social mission and this can entail a risk of mission drift (Battilana and Dorado 2010); indeed, mission drift could occur when the organisation is intensively focused on the social mission, and it does not maintain its economic efficiency<sup>12</sup> (Raišienė and Urmanavičienė 2018).

The aim of social businesses is to pursue a social mission; whether they do so through manufacturing or through the provision of services, the most important aspect is solving social issues in society. Businesses of this kind solve various problems; they empower women, provide transportation for disabled people, fight poverty of elderly people and large families, etc. These businesses are quite sustainable, financially speaking: they are able to survive solely from their economic activity (provision of services or sale of goods), or they strive to diversify their income—at least half or more of their income is generated by their economic activity, while the rest comes from project-related EU funds, private grants, etc. As these companies devote all or part of their profits to the pursuit of social goals, they usually have the legal status of non-governmental, non-profit organisations (such as a public-institution status). According to the laws of Lithuania, organisations that choose the legal status of non-governmental organisation (NGO) cannot distribute any profit to their owners or managers, and their profit must be devoted to the pursuit of their objectives such as they are specified in the articles of association. However, some social businesses use the legal status of private limited-liability company (*uždaroji akcinė bendrovė*, or UAB) or that of small partnership (*mažoji bendrija*, or MB), which are more typical of traditional business organisations, and which do not impose any limitation on the distribution of profits to company managers and shareholders. It

should be noted that social-business enterprises are, in some cases, created by a group of active citizens or a third-sector organisation seeking to solve a particular social problem, but very often, they are created and run by a single person, a social entrepreneur, who leads the organisation forward and makes key decisions.

Social businesses are not legally recognised in Lithuania; they exist *de facto* and, consequently, they do not receive any state support. Thus, in order to ensure the financial stability of their activities or to increase their income, they also seek to take part in various EU-supported projects and programmes. On the other hand, a bill on Social Business Development<sup>13</sup> foresees that these organisations will be eligible for state support in the future, although social-business organisations will not be entitled to the same state support as WISEs (see Table 7.1). Under this bill, it is proposed to define social businesses as organisations engaged in continuous economic activity with the primary goal of achieving a measurable social impact. The bill on Social Business Development is strongly supported by various civil-society organisations active in the field of social entrepreneurship (non-governmental sector) and by the Ministry of Economy and Innovation, which is interested in the development of social innovation and social business in Lithuania. The purpose of this bill is to align the Lithuanian legal framework for social enterprises with the general criteria provided by the European Commission for social businesses and social enterprises, in particular regarding the reinvestment of profits for the development of activities.

It is important to note that, as of yet, there are no official data on the current number of social businesses in Lithuania. Thanks to the programmes developed by several non-governmental organisations, various incubators have been set up and workshops have been organised to promote the establishment of this kind of businesses, and public interest in social businesses is noticeable. Kuklytė and Raišienė (2018) highlighted, through an analysis of Google Trends data from 2016, an increasing interest, among Lithuanian Internet users, for concepts related to the social-business model.

Social businesses are the organisations that, in the Lithuania context, come closest to the ideal-type of social enterprise such as it has been described by the EMES Network. Indeed, the primary mission of this type of business is social; their profits are not distributed to the business' owners, which reflects the primacy of the social goal; they have a steady economic activity (selling goods and services on the market); and they are exposed to economic risks. However, as already mentioned, this type of business is not always created at the initiative of a group of citizens or a third-sector organisation; social businesses are indeed often established and developed by a key leader. Consequently, decisions are sometimes made unilaterally by the head of the organisation, but these organisations are usually open to the participation of and to partnerships with various stakeholders in the development of their activities.

### 2.3. *Entrepreneurial Non-Profit Organisations*

Like social businesses, entrepreneurial non-profit organisations are non-governmental, non-profit organisations that aim to apply various earned-income strategies in their activities. However, unlike social businesses, entrepreneurial non-profit organisations do not have any financially sustainable business model, and they are quite dependent on state support, project-related funds from the European Social Fund, etc.

It should be emphasised that the economic activities implemented by entrepreneurial NPOs usually involve small-scale trade or manufacturing in local communities, among members, sponsors of the organisations, etc. There are no official data on how much income entrepreneurial NPOs earn from their economic activity, and how much income they derive from other sources.

The European Union supports entrepreneurial activities—high amounts of EU funds are dedicated to this, especially in rural areas. For instance, special support now focuses on social entrepreneurship involving local action groups in Lithuanian rural areas. The new rules for the calls for proposals for EU-funded projects that have recently been implemented<sup>14</sup> provide new opportunities for rural areas to develop social enterprise, to reconstruct existing activities in a socially oriented way, creating various products and added value for actors in rural areas (Greblikaitė *et al.* 2017a). But very often, non-profit organisations transform themselves into entrepreneurial NPOs in order to obtain financial support from public institutions, because it gives them better access to distribution channels (Kuklytė and Raišienė 2018); but once this support is terminated, the market activities of these organisations often cease too. As a result, these market activities can be periodical.

The activities of entrepreneurial NPOs involve people belonging to the community or to a group who share common needs or goals. Usually, key decisions are made by the members of the organisation or the community. These enterprises widely use volunteering and create only few paid working positions. It should be noted that there are no official data on the current number of entrepreneurial non-profit organisations in Lithuania.

## Conclusion

Lithuania regained its independence only in 1990. This marked a watershed for entrepreneurial activities and private businesses, which started focusing on making profits. It took a while for the concept of social enterprise to start emerging, though—not least because of the fact that the third sector in Lithuania is historically rather weak. The state is still seen as the first provider of social services.

In 2004, the first “Law on Social Enterprises” was adopted; it defined a social enterprise as any sort of enterprise that is set up to create employment for people that are severely disadvantaged in the labour market

and provided for financial support from the state for organisations that obtained the SE status.

Due to the narrow perspective adopted in this law, a lot of organisations with a clear social aim (and which might be considered as “*de facto* social enterprises”) were not legally considered as social enterprises because they did not meet all the criteria set out in the law.

With a view to overcoming this situation, the new Bill on Social Business Development seeks to legitimise and develop other social-business models. The aim of this bill is to align the legal framework for the activities of social enterprises with the general criteria provided by the European Commission for social businesses and social enterprises, in particular regarding the reinvestment of profits for the further development of social activities.

Currently, three SE models can be distinguished in Lithuania: (1) organisations that operate under the SE status and which are, in fact, work-integration social enterprises (WISEs); (2) social businesses, which apply business strategies to achieve their social mission; and (3) entrepreneurial non-profit organisations, that is, non-governmental organisations that act in an entrepreneurial way, to the extent that they try to implement some earned-income strategies in their activities.

In a forward-looking perspective, some initiatives and efforts aim to further promote Lithuanian social enterprises. The Social Enterprise Summit,<sup>15</sup> for example, is a regularly organised conference that brings together decision-makers, leaders from social enterprises, incubators and EU representatives. The summit addresses topics such as the social-business concept, perspectives for social enterprises, and potential practice transfers inspired by successful cases from other European countries to Lithuania.

Lithuania is still facing challenges regarding the promotion of social enterprise. However, developments point in a positive direction: the improvement of the legal situation of social enterprise leads to better conditions and support, as well as to a higher acceptance and understanding on the part of decision- and policy-makers, and this in turn leads to an increase in the number of organisational entities of the three types identified here and thus to a better understanding and higher awareness of the SE phenomenon in society at large.

## Notes

1. Law on Social Enterprises, June 1, 2004, No. IX-2251 (No. XI-1771, 2011-12-01, Žin., 2011, Nr. 155-7352 (2011-12-20)); amendments Nr. X-293, 2005-06-30, Žin., 2005, Nr. 85-3137 (2005-07-14); Nr. X-872, 2006-10-19, Žin., 2006, Nr. 116-4405 (2006-10-31), Nr. X-1040, 2007-01-18, Žin., 2007, Nr. 17-629 (2007-02-08).
2. *Ibid.*
3. See [www.nvoavilys.lt/?lang=en](http://www.nvoavilys.lt/?lang=en).

4. See [www.ukmin.lt/uploads/documents/Verslo%20aplinka/Smulkus%20verslas/Socialinio\\_verslo\\_koncepcija\\_2015\\_%C4%AF-sakymas.pdf](http://www.ukmin.lt/uploads/documents/Verslo%20aplinka/Smulkus%20verslas/Socialinio_verslo_koncepcija_2015_%C4%AF-sakymas.pdf).
5. See <https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/TAIS.235368/asr>.
6. See <https://e-seimas.lrs.lt/portal/legalAct/lt/TAP/5ea44c40761411e99ceae2890faa4193>.
7. See <https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/TAIS.235368/asr>.
8. See <https://e-seimas.lrs.lt/portal/legalAct/lt/TAP/5ea44c40761411e99ceae2890faa4193>.
9. Užimtumo tarnybos prie Socialinės apsaugos ir darbo ministerijos Socialinių įmonių veiklos ir administravimo analizė; see <https://uzt.lt/wp-content/uploads/2019/09/Socialini%C5%B3-%C4%AFmoni%C5%B3-veiklos-ir-administravimo-analiz%C4%97-2014-2018-m.docx>.
10. See <https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/TAIS.235368/asr>.
11. See [www.manoguru.lt/](http://www.manoguru.lt/).
12. The term “mission drift” usually refers to a situation in which economic goals take precedence over the social mission; however, it can also, though it is much rarer, refer, as it does here, to the opposite situation.
13. See <https://e-seimas.lrs.lt/portal/legalAct/lt/TAP/5ea44c40761411e99ceae2890faa4193>.
14. See [www.nma.lt](http://www.nma.lt).
15. Social Enterprise Summit, 2014–2017 annual reports; see [www.socialinisverlas.lt/en/summit/](http://www.socialinisverlas.lt/en/summit/).

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# 8 Social Enterprise in Poland

## Institutional and Historical Context

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### Introduction<sup>1</sup>

The aim of this chapter is to investigate the main types of social enterprise (SE) in Poland against the background of their history and institutional setting. The content is divided into three parts.

The first part presents a short overview of the history of social enterprise in Poland, from the period preceding World War II to the turbulent period of the communist regime, and finally to the transition period, after 1989. This historical part is followed by an examination of the main types of social enterprise in Poland. Finally, the third section investigates the institutional trajectories of the SE types presented in the previous section. It describes the process of political recognition and institutionalisation of Polish social enterprise by discussing the main legal acts and drafts that regulate social enterprise, either in a direct way (legal frameworks specific to social enterprise) or indirectly (through the legal framework regulating the social economy).

### 1. History of Social Enterprise in Poland: Diversification and Development

It is a common opinion that the emergence of social enterprise in Poland is linked to Poland's accession to the EU, in May 2004. In fact, this is not true, and some types of organisations that are currently considered as social enterprises have long traditions, reaching back to the period before World War II.

Here, we analyse both the different types that may be considered, under certain conditions, as social enterprises (organisations with long traditions in the country and initiatives in the social-economy sector) and the legal types that became recognised with Poland's accession to the EU, and which are perceived as social enterprises *par excellence* (such as social cooperatives).

### 1.1. *Before World War II*

Non-profit organisations and cooperatives are among the organisations with a long history in Poland.

The main role of non-profit organisations, before World War II, was to provide support to disadvantaged groups, such as the young, the poor, the unemployed or the disabled. Due to the particular political situation of Poland at the time, some organisations also conducted pro-independence activities.

As for cooperatives, they experienced their golden time before World War II, in terms of both growth in numbers and expansion in new fields. Thanks to their significant economic potential, cooperatives contributed strongly to the economic development of the country (Leś 2004). It is estimated that one-fifth of adult Poles belonged to a cooperative at the time. In 1938, the annual cooperative share in Poland's overall retail turnover was 4–5%, and in the case of provision of agricultural products, it even reached 12% (Piechowski 2008).

### 1.2. *The Communist Period (1945–1989)*

The situation of non-profit organisations and cooperatives changed dramatically after World War II. Both legal types were strongly influenced by communist authorities, which utilised various kinds of tools to deprive them of their autonomy.

Non-profit organisations experienced their most difficult period in the late 1940s and in the 1950s, when communist authorities decided to formally eliminate foundations from the institutional landscape (in 1952) and took over their assets and properties. Associations, on the other hand, were integrated into state-sponsored mass organisations, fully controlled by the state. They could neither choose their officials nor set their goals without the state's permission. Over the following years, the situation of associations was unstable; it was dependent on the political situation, and seemed to improve once the communist system started to wobble, at the end of the 1970s. During this period, some civil-society groups and grassroots organisations emerged and started to join forces within the opposition camp. This was for example the case of the Workers' Defence Committee (*Komitet Obrony Robotników*), the Movement for the Defence of Human and Civil Rights (*Ruch Obrony Praw Człowieka i Obywatela*) and the Solidarity Movement (*Solidarność*, which later came to be considered as the movement that overthrew socialism). This societal movement did not stop, even when the martial law was imposed, in December 1981, although its development was strongly hindered at that time. In the 1980s, some grassroots initiatives and self-help groups whose aim was to provide mutual help and social services for the community emerged and continued their activities underground, very often



with strong support from the Catholic Church. Once the communist system started to break down, in the 1980s, and communist authorities were pinned down by the economic and political crisis, the first signals of a revival of the non-profit sector emerged. Among other signs of this revival were the fact that foundations were legally restored (in 1984) and the passing of a new law for associations (in 1989).

As far as the evolution of cooperatives after World War II is concerned, one can state that communist authorities exploited their potential through instruments, such as centralisation and staffing policy. Cooperatives were incorporated into the state economy, in accordance with the idea of collectivisation. As a result thereof, cooperatives were given a monopolistic position in some branches of the national economy (Leś 2004), such as agriculture, food supply, processing and the housing industry.

### *1.3. The Transition Period (After 1989)*

The democratisation, decentralisation and transformation of the welfare state implemented in 1989 changed completely the conditions under which the legal forms currently corresponding to social enterprises in Poland were operating. Poland, similarly to other Central and Eastern European countries, witnessed an impressive explosion in the number of associations and foundations in the 1990s: the number of associations grew by 14 times and that of foundations increased by 20 times (Mansfeldová *et al.* 2004: 104). In 1995, there were 47,000 registered non-profit organisations (Piątek 2005), and politicians declared that non-profit organisations were the third pillar of the post-socialist welfare state. In fact, however, due to the adoption of a neoliberal approach that favoured private for-profit initiatives rather than the civic sector, associations and foundations existed only on the periphery of the socio-economic landscape. Their role was limited to offering those public services that were not provided by the public sector.

In the late 1990s, a slow stabilisation of the number of non-profit organisations took place. This period also witnessed the first local attempts aimed at regulating the mutual relations between municipalities and non-profit organisations. Moreover, new types of organisations, aiming at the social and vocational rehabilitation of disabled persons, emerged. Among these were vocational-activity establishments (*zakład aktywności zawodowej*, or ZAZ), which are now one of the types of social enterprise; they were officially recognised in 1997.

The 1990s and 2000s brought about many changes in the cooperative sector. Different internal dynamics resulted in a growth in the number of some types of cooperative and a decrease in others. Strong “traditional” cooperative branches emerged (such as dairy, banking and housing cooperatives), but “new-wave” cooperatives also developed: social cooperatives, agricultural manufacturing cooperatives and credit unions (Leś

2004). At the same time, cooperative banks merged into bigger structures, while large housing cooperatives split into smaller units. Altogether, cooperatives experienced a slow-down in comparison to other organisations (such as non-profits), resulting in job reductions and related social and economic losses.

A process of institutionalisation of social enterprise seemed to speed up at the time of Poland's accession to the EU. This was achieved through the adoption and adaptation, by the Polish administration and policymakers, of new terms and theoretical concepts originating from the EU level. Soon after, legal frameworks aimed at regulating social enterprises—either indirectly (through laws regulating the different legal types that social enterprises can adopt) or directly (through the Social-Cooperative Law)—were introduced.

The institutionalisation of social enterprise has not yet been fully achieved in Poland. Work aiming to design and implement a regulating framework for social enterprise (through the adoption of a widely accepted definition, the introduction of a specific legal framework for social enterprise, and the setting up of financial support for these entities) is still ongoing (for more information, see Section 3).

## 2. SE Models in Poland

Basing our analysis on the social, economic and governance-related indicators put forward in the EMES approach to social enterprise, we distinguish three types of social enterprise in Poland. The first type corresponds to cooperatives—both traditional and social cooperatives. The second type consists of entrepreneurial non-profit organisations, that is, foundations, associations and other social organisations, faith-based charities, and business and professional associations that carry out market activities. The third type refers to vocational-activity establishments (*zakład aktywności zawodowej*, or ZAZ).

### 2.1. Cooperatives

Within this first type of social enterprise, we distinguish between two sub-types of cooperatives: traditional cooperatives, on the one hand, and social cooperatives, on the other hand. The former have a long and complex organisational history in Poland (they have been present in the country for more than two centuries), and they have become a very heterogeneous group. They currently play a rather insignificant role in the SE landscape. By contrast, social cooperatives have appeared only recently in Poland; they have been developing since 2006 as a result of specific legal frameworks providing supportive policy measures for their set-up and operation. What we argue in this chapter is that, despite the long history of the traditional cooperative organisational field, of which we

provide an overview here, the legal form that currently corresponds to a key model of social enterprise in Poland is that of social cooperative.

Cooperatives are registered in Poland as private enterprises.<sup>2</sup> Although the academic and cooperative movement's discourses view them as an important element of civil society and the social economy, government documents and public opinion tend to downplay their role and presence. Moreover, many cooperatives are not included in official statistics as a part of civil society<sup>3</sup> (*Strategia Wspierania 2008*, cited by Piechowski 2013). Cooperative-like activities have in fact traditionally been carried out in Poland under different legal forms and status. Indeed, the bottom-up activity of individuals takes various forms, such as those of association or cooperative; these activities have always been flexible, and they managed to adapt to changing institutional frameworks (Frączak 2011).<sup>4</sup>

As explained earlier, the first sub-type of cooperative refers to traditional cooperatives. Although the cooperative sector in Poland is very heterogeneous (there are 15 branches of cooperatives), the legal framework—namely the “Act on Cooperatives in Poland”—is the same for all cooperatives,<sup>5</sup> including worker cooperatives. What distinguishes worker cooperatives from other traditional cooperatives is the fact that the employment of worker-members is based on a cooperative work contract, and that these cooperatives do not have a non-distribution constraint. The reason why we specifically mention worker cooperatives here is that they share the same main purpose (namely the creation of work places for cooperative members) as the other sub-type of cooperative—namely social cooperatives—but worker cooperatives cannot be treated as an exemplary model of the traditional cooperative model. They are only one among 15 cooperative branches, and their socio-economic role has been diminishing—as has that of other branches—since 1990s.

In the case of the social-cooperative sub-type, the legal framework—that is, the Social-Cooperative Law—was adopted in 2006 by the Polish Parliament. The aim of social cooperatives is the social and work integration of marginalised groups<sup>6</sup> via the creation of jobs. They also pursue this goal through carrying on an economic activity, and they are expected to simultaneously run initiatives that serve the members of the local community. In Poland, the focus on the employment of workers from marginalised groups constitutes the main feature of the social-cooperative model. The Polish law on social cooperatives is similar to laws regulating social cooperatives in other countries, such as Italy.

As mentioned earlier, considering the institutional trajectory of social enterprises in Poland, social cooperatives constitute a relatively new phenomenon in the country's SE landscape. Therefore, many Polish social cooperatives are still in the first stages of their development, striving to secure adequate resources to ensure their economic sustainability and the achievement of their social mission.

Social cooperatives owe their growing popularity to the fact that they are entitled to significant financial support via regional grant opportunities

from the European Social Fund; their development has also been further supported by the need to efficiently distribute EU and domestic public funds to social enterprises by the end of the EU programming period 2007–2013. Many supportive measures have also been implemented, such as tax benefits and reductions on and exemptions from social-security contributions, as a result of the 2006 law on social cooperatives, which aimed at job creation among marginalised groups. In 2007, there were only 70 social cooperatives; in 2017, this number reached approximately 1,600, although only 900 among these social cooperatives can be considered as “active”<sup>7</sup> (Informacja 2012; GUS 2018c, 2019). The social-cooperative model has grown dynamically in terms of numbers in the Polish SE landscape, and it has become institutionalised in the 2010s; it is also commonly referred to by practitioners and academics as an example of social enterprise.

As far as the economic activities of social cooperatives are concerned, one should stress that these organisations operate in many different branches. However, they are most active in accommodation and catering services, administrative and support services, human health and social work, and industrial processing activities: in 2017, 63.9% of social cooperatives were involved in these fields. Considering their public-benefit activities, the four most popular domains in which social cooperatives operated in 2017 were as follows: labour-market and professional activation (25% of entities declared conducting activities in this field); sports, tourism, recreation and hobbies (19.7%); culture and arts (15.4%); and local development (10.9%). Other fields of activity that were mentioned included education (cited by 6.7% of social cooperatives), supporting civic organisations and the social economy (5.3%), health care (1.9%) and human rights and law (1.3%) (GUS 2019: 8–9).

In 2017, the total annual income of all social cooperatives amounted to PLN300 million (about €70 million). Analysis of the sources of income revealed that 72.9% of this budget came from market revenues. Non-market revenues accounted for 25.2% of social cooperatives’ resource mix, while other revenues, including membership fees, did not exceed 2% (GUS 2019: 27).

Social cooperatives demonstrate a strong employment-generating potential: it is estimated that they employ a total of 5,500 workers on the basis of cooperative or regular contracts,<sup>8</sup> and 3,200 workers on the basis of civil-law contracts (GUS 2019: 20, 25). As for their membership, social cooperatives have 4,100 members, 3,300 of whom are natural persons and 800 are legal persons (GUS 2019: 18).

## ***2.2. Entrepreneurial Non-Profit Organisations***

The second type of Polish social enterprise consists of entrepreneurial non-profit organisations (ENPOs); by definition, this group includes foundations, associations and similar social organisations, business and

professional organisations, and faith-based organisations carrying out market activities. It should be stressed that the form of entrepreneurial non-profit organisation is not a distinct legal form in Poland; this SE type is thus only an analytical concept. Polish legal frameworks allow non-profit organisations to carry out economic activities aimed at generating market income under two forms: as standard economic activity<sup>9</sup> or as a paid mission-related activity.<sup>10</sup> The possibility for an NPO to carry out a paid mission-related activity was introduced in 2003; this form of activity is very often regarded as a “softer” and thus more common form of market activity carried out by non-profit organisations. Some consider that the paid mission-related activity may constitute an intermediary step towards the organisation undertaking a “real” economic activity.

Social enterprises belonging to this second type constitute the largest group among the three types of Polish social enterprises described in this chapter. According to data from research conducted on non-profit organisations by the Central Statistical Office of Poland (*Główny Urząd Statystyczny*, or GUS) (GUS 2018a) every second year (in the framework of the so-called “SOF-1” and “SOF-4” surveys), in 2016, about 27,600 Polish non-profit organisations carried out market activities (under one or both of the possible forms), and could thus be classified as entrepreneurial non-profit organisations. They represented 30.1% of the whole non-profit sector in Poland.<sup>11</sup> Most of the ENPOs offered the goods and services they sold in the form of paid mission-related activity (21.1% of all NPOs), some under the form of an economic activity (5.8%), and only a few (3.2%) combined both forms.

In terms of legal forms, in 2016, 56.1% of business and professional associations carried out market activities and could thus be classified as ENPOs; this was also the case of 48.3% of faith-based charities and 45% of foundations. Overall, these forms of organisations are thus much more entrepreneurial than associations and similar social organisations, among which only 25.8% could be considered as ENPOs. In the period between 2010 and 2016, the share of Polish non-profit organisations carrying out market activities did not change significantly; in all the years surveyed by the GUS, the number of ENPOs represented about one-third of the whole non-profit sector; it only raised very slightly (by 2.2 percentage points) between 2010 and 2016 (GUS 2018a). In other words, in 2016, seven out of ten registered non-profit organisations conducted only unpaid mission-related activities; the number of non-profits declaring no market activities exceeded 64,000 (GUS 2018a: 20). Polish non-profit organisations seem not to be very interested in undertaking and carrying out market activities; this might be accounted for by the fact that this kind of activity is perceived by the non-profit sector as generating a high level of risk, and as resulting in too strict formal rules that must be abided by.

Entrepreneurial non-profit organisations are eligible to obtain the status of public-benefit organisations, which entitles them to various benefits, including tax exemptions and privileges, and makes them eligible

for the 1%-of-personal-income-tax funding system.<sup>12</sup> According to data provided by the GUS, in 2016, 13% of ENPOs had obtained the status of public-benefit organisation (GUS 2018a).

Analysis of ENPOs' main field of activity (defined as the type of activity that represents the largest part of their budget) reveals that the four most popular fields of activity in 2016 were: sports, tourism, recreation and hobbies (identified as the main field of activity by 26.4% of ENPOs); education and research (15.4%); culture and arts (13.9%); and social services and public-safety and health services addressing different emergencies (11.6%) (GUS 2018a). These results are similar to those obtained when carrying out a similar analysis for the whole non-profit sector. The importance of sports and tourism can be accounted for, to a large extent, by historical factors: indeed, these organisations—unlike those active in other areas—already existed under the communist regime.

According to the results of the SOF-1 and SOF-4 surveys, when it comes to the income structure of ENPOs, market revenues constitute the largest source of revenue: in 2016, they represented 55.5% of the overall budget of ENPOs. They came from both types of economic activities (50.9% of ENPOs' overall budget), public procurements (no more than 4%), and—for a very small share (less than 1%)—from interest and dividends. ENPOs also received non-market revenues, which amounted to 40.9% of their overall budget. This kind of revenues came mostly from public funds (including funds from local governments, the Polish government and the EU, and the 1%-of-personal-income-tax system); private funds only generated a small share of their budget (9.4%). Membership dues amounted to 0.8% of the overall budget of ENPOs, while other sources represented together 2.8% (GUS 2018a).

Unlike what is the case for non-profit organisations that declare no market activities, employment generation seems to be one of the most important functions for ENPOs. In 2016, only about one-third of ENPOs (31.9%) declared hiring no paid staff, while this share raised to 59.6% in the whole non-profit sector and to 71.5% among those NPOs that declared no market activities. Moreover, 32.5% of ENPOs employed personnel on the basis of employment contracts, which are the most stable contracts; a similar share (35.5%) hired their workers on the basis of the less stable civil-law contracts. Most of the workers (88.7%) hired on the basis of an employment contract declared that the ENPO was their main employer. As of December 31, 2016, it was estimated that ENPOs permanently employed 114,800 persons, while the number of workers hired on the basis of civil-law contract was estimated at 303,700 (GUS 2018a).

### 2.3. Vocational-Activity Establishments

The third SE type identified and described in this chapter is that of vocational-activity establishments (*zakłady aktywności zawodowej*, or

ZAZs). This legal form was created in 1997 by the Act on the Social and Vocational Rehabilitation and Employment of Disabled Persons. ZAZs provide social and professional rehabilitation for the disabled, which leads to a stronger participation of this group in the labour market. In their employment structure, ZAZs are obliged to include at least 70% of disabled workers (with different degrees of disability). Moreover, these organisations' surpluses must be reinvested in their members' rehabilitation process. Regarding the number of organisations, a slow but steady increase in the number of ZAZs can be highlighted: in 2006, there were 40 ZAZs (Nałęcz and Pawlak 2008), while in 2017, this figure reached 116 (GUS 2018b).

Most of the ZAZs are run by non-profit organisations (64.2%) or local authorities (33.9%); only a few (1.8%) are operated by social cooperatives. The State Fund for the Rehabilitation of the Disabled (*Państwowy Fundusz Rehabilitacji Osób Niepełnosprawnych*, or PFRON) is a major funder of ZAZs; it covers about 82% of their expenses. Consequently, ZAZs may not be considered as obviously meeting the indicator about economic risk taking. However, they do sell goods and provide services within a competitive market. By the end of 2017, they employed 6,663 people, 76% of whom had the disability status (GUS 2018b).

### 3. Institutional Trajectories of the Main SE Models

In Poland, the process of comprehensive institutionalisation of social enterprise has not been fully completed yet. No legal definition of social enterprise has been adopted so far, despite the fact that some steps towards introducing such a definition have been taken for more than a decade. Consequently, no specific legal framework exists for social enterprise, and the different types of Polish social enterprise are thus regulated by the legal frameworks specific to each legal form.

As far as the legislative path of institutionalisation of Polish social enterprises is concerned, the most likely scenario for their enhancement today would be the introduction of a specific "SE status", which would cover the different current legal types of social enterprise, regardless of their organisational form, provided they meet a particular set of criteria. Such a scenario is based, among other documents, on the National Programme for Social-Economy Development (*Krajowy Program Rozwoju Ekonomii Społecznej*, or KPRES). The KPRES was adopted by the Polish government in 2014 (MRPiPS 2014); this governmental project, which determined the key directions of public support for the social economy until 2019, defined a social enterprise as an organisation fulfilling pro-employment tasks for groups threatened by social exclusion, operating with limits on the distribution of profits, and demonstrating democratic governance. The KPRES, in its 2014 version, declared social enterprises to be basic pillars of the social-economy sector, and identified particular

groups of entities as social enterprises—notably social cooperatives (considered as a model example of social enterprise), entrepreneurial non-profit organisations (only those, among ENPOs, that carry standard economic activity but not paid mission-related activity) and ZAZs. The KPRES (again in its 2014 version) also announced the adoption of the Act on Social Enterprise and Support to Social-Economy Entities (*Ustawa o przedsiębiorstwie społecznym i wspieraniu ekonomii społecznej*). This Act was to introduce the SE status in Polish law, but despite a seven-year-long preparatory work, it never became anything more than a draft, and in 2015, work on this draft was suspended, on a proposal from third-sector and SE representatives.

On February 28, 2019, the Polish government extended the KPRES for four more years. In its new version, called the “National Programme for Social-Economy Development until 2023. Social Solidarity Economy” (*Krajowy Program Rozwoju Ekonomii Społecznej do 2023 roku. Ekonomia Solidarności Społecznej*) (RM 2019), social enterprise—similarly to what was the case in the 2014 version of the KPRES—is conflated with the concept of work-integration social enterprise (WISE), although this term has not been formally acknowledged in Poland so far. The new KPRES does not make any reference to the adoption of a specific legal framework for social enterprise, despite the fact that, in 2017, a draft Act on the Social and Solidarity Economy (*Ustawa o ekonomii społecznej i solidarnej*), introducing an SE status and regulating social enterprise, was launched by the Ministry of Family, Labour and Social Policy (*Ministerstwo Rodziny, Pracy i Polityki Społecznej*, or MRPiPS) and submitted for public consultation. This draft, if approved in the future, would represent an important step towards a stronger institutionalisation of entrepreneurial non-profit organisations as a type of social enterprise. Indeed, it would broaden the definition of social enterprise, in that it would include in such definition not only NPOs carrying out standard activity (as the 2014 version of the KPRES did) but also NPOs with paid mission-related activity. Nevertheless, having in mind what happened with the previous draft act regulating social enterprise, one may expect a lack of political will to complete the law approval process, whatever the ruling party. It is thus highly probable that the draft Act on the Social and Solidarity Economy, similarly to its predecessor, will be blocked at some point along the legislative path.

In the 2014–2020 period, due to the lack of a formally acknowledged definition, Polish social enterprises were defined according to the “Document regulating social-inclusion activities supported by European funds, i.e. the European Social Fund and the European Regional Development Fund” (MIiR 2019). Since detailed implementation is defined at the regional level, by each of the sixteen voivodships, the Document may be treated as a kind of legislative “crutch”, but not as a real and stable regulation for social enterprises. Beyond regional differences, the Document



aligns with the mainstream general understanding of social enterprise in Poland: a social enterprise should carry out an economic activity; it should focus on (re)integration activity (at least 30% of workers should be hired among the unemployed or other specified groups threatened by social exclusion); it should provide public services; the distribution of profits should be limited; and the enterprise should be governed in a democratic way.

The SE status has not been formally or legally recognised, but it has been introduced in practice. Indeed, in 2018, Social Economy Support Centres (*Ośrodki Wsparcia Ekonomii Społecznej*, or OWES), which are organisations with different legal types (including associations and foundations) providing—with the support of European funds—various tailored services (i.e. financial, legal, fiscal . . . services) to social enterprises and social-economy organisations, were authorised by the Ministry of Family, Labour and Social Policy to grant the SE status to organisations operating under various legal forms but meeting particular criteria. So far, however, this status simply remains a kind of “prestige reward” rather than a real confirmation of the fact that an organisation is a social enterprise. As of July 31, 2019, according to the list of social enterprises published by MRPiPS, about 1,102 organisations, operating under different legal forms, had been granted the SE status. Most of them were social cooperatives and entrepreneurial non-profit organisations (foundations and associations carrying out economic activities), but there were also some non-profit limited companies and a few church-related legal entities and associations’ alliances.

## **Conclusion**

This chapter has expanded on the current discussion on social enterprise in Poland by proposing a typology including three SE types: cooperatives (within which two sub-types can be distinguished, namely traditional cooperatives and social cooperatives), entrepreneurial non-profit organisations, and vocational-activity establishments. Polish social enterprises are rather heterogeneous in terms of legal forms, dynamics, real opportunities for development and political interest they raise; the different SE types have also followed different institutional trajectories since their beginnings.

The process of institutionalisation of social enterprise has not been fully completed yet, although some initial steps towards the legal recognition of social enterprise were undertaken between 2014 and 2019. Generally speaking, it is highly likely that these steps, in the near future, will lead to the legal introduction of an SE status, which should cover different legal and organisational forms meeting a particular set of criteria.

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## Notes

1. This chapter provides an update of the analysis conducted within the framework of the ICSEM Project and presented in an ICSEM Working Paper (Ciepielewska-Kowalik *et al.* 2015). This chapter, compared to the working paper, includes more detailed and direct data regarding the first and second types of social enterprise (social cooperatives and entrepreneurial non-profit organisations). Moreover, the third model such as it is described in the present chapter only includes vocational-activity establishments. Other legal types that were presented as belonging to this category in the working paper (including social-integration centres and clubs, occupational-therapy workshops and supported-employment enterprises) are no longer considered as social enterprises (even though they are still recognised as being part of the social-economy sector).
2. This means that they are entities of the national economy, recorded in the National Official Business Register (REGON). REGON registers legal persons, organisational entities that do not possess legal-entity status and natural persons running an economic activity.
3. For example, the strategic document of the Polish government on civil-society development refers to cooperatives only five times, when talking about social cooperatives and housing cooperatives (Piechowski 2013: 34). Only recently, in the strategic documents discussing the development of the social economy as a whole (MRPiPS 2014), have social cooperatives began to be referred to regularly in the context of the social economy (Piechowski 2013).
4. The first signs of legislation related to social cooperatives appeared in 2003, in legal acts that defined issues of social exclusion and social employment in social-integration centres and clubs. The concept of social cooperative first appeared in the Act on the Promotion of Employment and Institutions on the Labour Market of April 20, 2004. This act significantly modified the 1982 Act on Cooperatives, by defining social cooperatives as a special type of worker cooperatives that were not profit-oriented.
5. Act on Cooperatives, amended on September 16, 1982 (*Journal of Laws*, No. 30, item 210).
6. Regulations clearly define what the marginalised groups are (namely individuals in danger of social exclusion, the unemployed, people with low employability prospects, the physically or mentally disabled and other marginalised groups, such as the homeless, alcohol or drug addicts, ex-prisoners and refugees). Members from marginalised groups must represent at least 30% of all the cooperative's members. The cooperative may also provide educational and cultural activities for its members and for the local community.
7. Because many social cooperatives are formally registered but are not active as organisations or enterprises, the GUS runs regular checks of their activity status; on this basis, it awards them—or not—the label of “active” organisation.
8. Cooperative contracts are specific contracts for the employment of social-cooperative members.

9. Regulated by the Act of April 7, 1989, on Associations (article 34), the Act of April 6, 1984, on Foundations (article 5.1, paragraph 5) and the Act of July 2, 2004, on Freedom of Economic Activity.
10. Regulated by the Act of April 24, 2003, on Public Benefit and Voluntary Work.
11. In Poland, in 2016, according to public statistics, there were around 91,800 registered and active non-profit organisations—13,600 foundations, 73,400 associations and similar social organisations, 2,900 businesses and professional organisations and 1,900 faith-based charities.
12. Polish citizens are allowed to allocate 1% of their annual income tax (in the form of donation) to a public-benefit organisation of their choice.

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# 9 Institutionalisation of Social Enterprise in Romania

## Historical Milestones and SE Models Development

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### Introduction

Social-economy traditions in Romania are deeply connected with the main political, economic and social evolutions that have occurred within the country since 1990. The present chapter aims to present the evolution and current situation of social enterprise (SE) in Romania. The first section analyses the historical background that has influenced the inception and development of social enterprises in the country. We then present the main stages that can be distinguished in the development of social enterprises in Romania, highlighting for each stage important legislative benchmarks. In the third section, we provide a presentation of the different SE models that we have identified. We conclude by analysing current trends and challenges in the Romanian SE field.

### 1. Historical Background of Romanian Social Enterprises

In Romania, the revival of the associative sector and the development of social-economy organisations, including social enterprises, were made possible by the systemic political changes that occurred after 1989.

During the 1990s, market fundamentalism shaped the economic policies of the country and promoted a dichotomous state/market model, in which the state played an increasingly small part in public-service provision, and market exchanges favoured profit-driven economic activities (Stark and Bruszt 1998; Cerami 2006; Cerami and Vanhuysse 2009). This neoliberal model was mainstreamed throughout all former communist countries, leading to drastic decisions related to privatisation, public-service provision and welfare systems. Due to the privatisation and restructuring of the economic system, organisations depending on the communist agro-industrial system experienced a decline, while other types of organisation reconfigured their organisational status and business model. Cooperatives, which had hitherto been part of the mainstream economy, were relegated to the edges of the economic system, and their membership was drastically reduced; they became almost invisible

as economic and social actors. Mutual associations became independent from the party/state and modernised their business model, and their jointly owned property (commons) was restored to them. But the organisations that experienced the most dramatic renaissance and further development after 1989, in both quantitative and qualitative terms, were associations and foundations—a development which in turn played an important role in promoting and shaping an enabling policy framework for social enterprises in Romania.

The development of a policy environment fostering the growth of social enterprises in the country has been strongly influenced by the structural changes that have taken place since the 1990s in two main strategic areas: social-policy reform and public-administration reform. Over the last decades, social-policy reform has followed the international trend towards the development of a “welfare mix”. A marketisation of social services occurred in Romania, as in other countries, but with limited extent and a much-reduced policy toolkit compared with other Western countries. Elements of new public management (NPM) have been introduced across the Romanian public administration, but without a clear understanding of how the new theoretical background may affect the way in which public organisations operate. Elements of incomplete or limited decentralisation and regionalisation hindered the development of strong local/regional actors promoting local-development strategies—in which social enterprises can be integrated. Without significant reforms to modernise public services and open the public market to various categories of contractors, it is difficult to create the right setting for SE development.

## **2. Main Development Stages of Social Enterprises in Romania**

If we take a close look at the evolution of social enterprise in Romania, we can identify four main development stages.

### ***2.1. Rebirth of the Non-Profit Sector and Repositioning of Other Social-Economy Actors (1990–1998)***

In the early 1990s, as briefly sketched earlier, Romania witnessed a significant rebirth of non-profit organisations (associations, foundations and mutual-aid associations) and a collapse of the cooperative sector. The growth of the non-profit sector was both quantitative and qualitative.

The functioning of associations and foundations was regulated by Law 21/1924, which was rediscovered after the fall of the communist regime. Inspired by the French legislation from 1901, the Romanian law was permissive regarding the development, by non-profit organisations, of entrepreneurial/commercial activities with the aim of supporting the organisational mission. Social-entrepreneurship initiatives started to

appear in the early 1990s; they were promoted mainly by associations and foundations, which looked for ways to gain more resources for their operations. These initiatives were small-scale operations, carried out in an environment that did not foster such entrepreneurial endeavours.

Within the complex family of non-profit organisations, a special case was represented by mutual associations. There are two types of mutual-aid associations in Romania: those for retirees and those for employees (both created in order to fight the social and financial exclusion of their members), and the latter's development diverged from that of the rest of the non-profit sector. In the 1990s, indeed, contrasting with the overall rebirth of the non-profit sector, there was a decline in the number of units and membership of employees' mutual-aid associations, due to the closure of big economic units.

Romanian traditional cooperatives were notably absent from the debates and reforms regarding the social economy in general, and social enterprises in particular. In Romania, the communist regime (1948–1989) had brought about a massive change in all societal domains. Under communism, cooperatives' structure and functioning were influenced by communist ideology, which viewed cooperative property as a special type of collective property and a form of transition to state property. Cooperatives were part of the centralised and planned economic system; they were politically controlled and played a major role in reaching the socio-economic objective of full employment targeted by the political regime. Worker cooperatives continued to exist after the fall of communism because, unlike agricultural cooperatives, their membership was not built up “by force” and, according to the law and in opposition to state-run enterprises, they were actually private businesses based on cooperative property. Still, their role in the economy was considerably reduced (Cace *et al.* 2010; Cruceru 2010; Crisan 2010; Lambru and Petrescu 2014). Cooperative enterprises, which were perceived as institutions belonging to the old system, were confronted with the need to find a new identity and to reform the cooperative system in order to meet market imperatives. In the years following the fall of communism, the cooperative sector also had to face major issues linked to property restitution to former owners, decreased production due to the lack of markets for certain products, governance issues, a significant drop in membership numbers and significant communication and public-image issues.

## **2.2. *The Partnership Stage: Paving the Way for SE Institutionalisation (1998–2006)***

The second period that can be distinguished in the development of social enterprise in Romania could be referred to as the “partnership stage”. During this period, Romanian associations and foundations became more and more connected to the policy process through advocacy,

public-participation activities and involvement in decision-making processes, at least at the formal level. Public consultation became a legal requirement for all governmental bodies as a result of a series of procedural reforms in policy making. Two very important laws for good-governance reform in Romania were also adopted during this period: Law 544/2001 on Free Access to Public Information and Law 52/2003 on Transparency of Decision in Public Administration. This stage was dominated by the issue of good governance and the process of integration into the European Union.

Public organisations (at both the central and local levels) as well as associations and foundations matured, allowing for the introduction of public/private-partnership practices and the development of welfare-mix systems. A benchmark for this development stage is the enactment of Law 34/1998 on Subsidies for Private Entities Providing Social Assistance Services. Law 34/1998 was followed by other new laws and government ordinances enabling public/private partnerships and social contracting in various policy areas. However, almost twenty years later, the toolkit used and the management capacity of public authorities remain limited.

Another benchmark was the enactment of the new legislative framework regulating the activity of associations and foundations, namely Government Ordinance (GO) 26/2000 (which replaced Law 21/1924). Expanding and modernising the conditions under which associations and foundations could perform an entrepreneurial activity were very high on the non-profit sector's agenda; under GO No. 26/2000, these organisations are allowed to carry out economic activities, provided these activities are auxiliary in nature; separate accounting records should also be kept. Applicable legislation does not provide for fiscal incentives or exemptions for associations and foundations, unless their business-generated income is under €15,000/year. Any organisation that exceeds this threshold has to pay the same taxes as any SME—without, however, being entitled to the advantages granted to SMEs (access to loans, to various specific funding opportunities, etc.). That is why entrepreneurial associations and foundations that want to carry out an entrepreneurial activity usually prefer to set up a business in which they are the majority shareholder.

At that stage, in Romania, we could talk about the existence of a consolidated associative sector with an active presence in various policy areas. Given the withdrawal of development technical-assistance programmes and of a majority of public and private international donors from Romania because of the country's upcoming accession to the European Union, the concerns of the associative sector about an imminent funding crisis were increasing. Public-policy schemes to support public/private partnerships in social services through domestic sources had only recently been introduced, with a limited budget; corporate-social-responsibility practices were in an early stage; and the possibilities to collect funds from



individuals were poorly regulated by law and therefore hard to implement. Under these circumstances, the adoption of the so-called “2% Law” (Law 571/2003, in its article 57, introduces the possibility for individuals to allocate an amount representing up to 2% of their annual income tax to support to NPOs’ activity) was of particular interest for the development of associations and foundations and generated positive effects in terms of ensuring a direct link between citizens and these organisations.

In this specific context, associations and foundations became gradually increasingly interested in the development of a new policy framework enabling entrepreneurial activities. Romania’s accession to the EU paved the way for a new policy narrative regarding social inclusion through work-integration social enterprises, and for a favourable economic-policy context for social entrepreneurship. Associations and foundations became the strongest advocate for the institutionalisation of social enterprises in Romania.

At the same time, mutual-aid associations continued their development. After the fall of communism, mutual-aid associations were no longer coordinated by state institutions; they regained their legal independence, while maintaining their name and partially their membership structure (their membership could also include other members from the communities, not only retirees or employees). Nevertheless, it was only after the year 2000 that they started to implement major changes in their activities and in the services they provided to their members. Studies conducted in Romania at the time in the field of social economy (Lambru 2013a; Petrescu 2013a; Cace *et al.* 2010; Barna 2014; Lambru and Petrescu 2016) revealed that mutual-aid associations achieved the greatest entrepreneurial success of all social-economy entities.

### **2.3. *The Institutionalisation Stage (2007–2015)***

The third stage, which corresponds to the period of institutionalisation of social enterprises in Romania, started in 2007, at the time of the country’s accession to the EU. We can say that Romanian social enterprises were then at the beginning of the institutionalisation process. This specific phase was characterised not only by a quantitative growth of the third sector in terms of number of associations and foundations and of number of employees; increased diversity of entrepreneurial projects; and improved visibility of social enterprises through research and advocacy actions—but also still by limited public support, lack of recognition and absence of an enabling policy framework for social enterprises.

Interest in the European approach to promoting the social-economy concept and social enterprise as a specific type of organisation also gained ground in Romania during this period. After 2010, strongly influenced by the European social-inclusion agenda and under pressure from

the associative sector, the government set up public consultations on SE legislation. The associative sector and other social and economic actors played a major role in advocating for SE legislation and were deeply involved in shaping the SE law.

In the stage of institutionalisation, a good understanding, on the part of decision-makers and practitioners alike, of the conceptual framework behind the reality of social enterprises is crucial. Concurrently with the increasing interest, on the part of public authorities, to promote and support initiatives aiming at SE development, the interest in related research also grew, and debates about the specificity of this type of organisation, its social utility, its characteristics and the profile of relevant organisational actors intensified. In Romania, the concept of social enterprise was introduced at the same time as the notion of social economy gained renewed interest, and this created confusion among decision-makers, the leaders of “old and new social-economy” organisations and *de facto* social enterprises in search of visibility and legitimacy. Both the concept of social economy and that of social enterprise were poorly understood and, as a result, any attempt to design a good legal framework to foster SE development was problematic. The EMES approach to the concept, with its indicators of the ideal-typical social enterprise, was then disseminated through research and training and debated with various stakeholders (Lambru and Petrescu 2012; Lambru 2013b).

Following the path of other countries in the region and at the European level, in 2011, a draft law on the social economy was submitted for public consultation by the Romanian Ministry of Labour, Family and Social Protection. The main public-consultation events of the SE institutionalisation process were supported through the Sectoral Operational Programme for Human Resources Development (SOP HRD) 2007–2013, financed by the European Social Fund and featuring the Key Area of Intervention 6.1 and Axis 6.2, which aimed at increasing social inclusion through improved access to and participation in the labour market for vulnerable groups. The draft law was vividly debated during the following years; the process involved many stakeholders through different forms of consultation.

#### ***2.4. Building Up a Future for Social Enterprises (Since 2015)***

In Romania, the legal recognition of social enterprise took place within the larger context of designing a general legislative framework for the social economy. Law 219/2015 on the Social Economy was adopted in 2015; it regulates social enterprises, defined as organisations that fulfil specific criteria—priority given to social aims over the maximisation of profit, solidarity and collective responsibility, democratic governance, allocation of at least 90% of the profit to the pursuit of the social aim and the constitution of a statutory reserve. The law also lists the types of organisations

(cooperatives, credit cooperatives, associations, foundations, mutual-aid associations and other entities that fulfil the social-economy principles) that can be recognised as social enterprises, provided they meet the specific criteria included in the law. The law not only creates a legal framework for all existing social enterprises (which were already regulated through pre-existing legal forms), but it also regulates a specific form of work-integration social enterprise (another category of WISE, beside sheltered workshops, which focus exclusively on the work integration of people with disabilities) which was hitherto not recognised by law, namely that of “social-insertion social enterprise”. Social-insertion social enterprises aim to combat the exclusion, discrimination and unemployment of disadvantaged persons through their socio-professional integration. The recognition of social enterprises is achieved, according to the law, through a certification process: certification as social enterprise (art. 9) and registration in the National Register of Social Enterprises (art. 26–27). For social-integration social enterprises, the law also includes a social label (art. 13–15).

Because of the degree of bureaucratisation of the certification process and due to the fact that the fiscal and financial rewards attached to it are limited, *de facto* social enterprises show only limited interest in officially registering as such: by August 2019, only 114 social enterprises had been registered in the National Register of Social Enterprises, of which 12 were work-integration social enterprises.

Another landmark event during this stage, beside the adoption of Law 219/2015, was the reform of procurement legislation. Thereby translating EU procurement rules (2014/24/EU) in Romanian legislation, Law 98/2016 and Law 99/2016 were enacted in 2016. The new legislation offers interesting perspectives to social enterprises aiming to develop general-interest services. Special provisions regarding social clauses and reserved contracts have been introduced, but the implementation remains limited so far.

The development of specific legislation for social enterprises was mainly related to the “Europeanisation” pressure—the existence of an EU policy framework for social enterprise, with related budgets, generates an isomorphic effect in Central and Eastern Europe (CEE). In Romania and, more broadly, in the CEE region, social enterprises are considered by decision-makers to be mainly a public-policy tool, useful for the development of jobs for disadvantaged categories. The policy narrative emphasises almost exclusively the social-inclusion aspects.

### **3. Identification of SE Models**

In Romania, the majority of SE initiatives are launched by associations and foundations, which frequently set up business entities under their own control with a view to running economic activities. Applicable legislation for non-profits prescribes that they may set up business entities

where they are the majority shareholder provided that any dividends thus obtained are not reinvested in the business entity but are used to achieve the goal of the association or foundation.

Statistical data are missing, but qualitative analysis and case studies indicate that most of the Romanian social enterprises are small-sized (Petrescu 2013b, 2013c; Lambru 2013b).

Our research on SE models in Romania, inspired by the EMES approach and EU definition, identified four main types of social enterprise: entrepreneurial non-profit organisations (associations and foundations), mutual-aid associations (mainly retirees' mutual-aid associations), work-integration social enterprises (including two models: sheltered workshops and social-insertion social enterprises), and cooperatives pursuing general-interest goals.

### ***3.1. Entrepreneurial Non-Profit Organisations (Associations and Foundations)***

Associations and foundations carrying out an entrepreneurial activity are the most dynamic actors in the Romanian social-economy sector. They were the main advocates of the institutionalisation of the social economy and the main beneficiaries of ESF funding stimulating the creation of new social enterprises. Associations and foundations are regulated by Government Ordinance 26/2000 (completed by Law 246/2005). Three major sub-groups can be distinguished among entrepreneurial NPOs, depending on their main beneficiaries: general-interest organisations (which constitute the largest group), community-interest organisations and mutual-interest organisations (pursuing their own members' interest).

While, in the 1990s, the Romanian non-profit sector had a relatively small size (Salamon *et al.* 1999, 2000), in the period 2000–2015, the number of associations and foundations was nearly multiplied by four and the number of their employees, almost by five. Data from the National Institute of Statistics indicate that, in 2015, there were 42,707 active associations and foundations in the country, employing 99,774 persons (see Table 9.1). But this overall quantitative growth of the non-profit sector at the national level hides geographical disparities: indeed, associations and foundations' territorial dispersion is uneven, with a concentration in urban areas (where approximately 75% of organisations are located) and in the more developed regions of Romania (55% of associations and foundations are located in the three most developed regions of the country's eight regions) (FDSC 2017). Due to this uneven geographical distribution, the level of service accessibility is uneven across the country; it is particularly low in the areas faced with the most serious social issues—namely rural and poor areas.

In the last 30 years, an important challenge for associations and foundations has been linked to the issue of securing the financial resources necessary for their activity (Lambru and Vamesu 2010; FDSC 2016). In the resource

*Table 9.1 Evolution of Romanian associations and foundations between 2000 and 2015*

<i>Associations and foundations</i>	2000	2010	2011	2012	2013	2014	2015
Active associations and foundations	10,494	26,322	29,656	33,670	37,679	40,838	42,707
Associations and foundations with economic activity	1,219	2,730	3,832	4,058	4,468	4,744	5,302
Total number of employees in active associations and foundations	19,173	60,947	69,907	76,902	83,844	92,430	99,774
Number of employees in associations and foundations with economic activities	1,942	12,561	15,038	16,097	11,272	12,469	13,117

Source: FDSC (2017)

mix of most of the associations and foundations, the major source of funding is grants, followed by sponsorship and donations and, to a lesser extent, contracts with public authorities (FDSC 2017). Another possibility to secure financial resources, apart from the traditional methods (grants, sponsorship, subsidies, donations, membership fees, etc.), is the development of associations and foundations' economic activity, which enables them to independently secure part of their resources in order to be able to fulfil their social goals. As a result of the measures implemented to encourage associations and foundations to carry out economic activities, the number of entrepreneurial NPOs has increased in the last fifteen years, reaching 5,302 organisations in 2015 (which represents 12% of active associations and foundations), while the number of employees in these organisations rose to 13,117 (13% of the total number of employees in associations and foundations).

Social enterprises set up by associations and foundations pursue predominantly social goals, namely reaching out to the community or to specific disadvantaged population groups. With a view to achieving their social goals, these associations and foundations engage in different economic activities, depending on their members' skills and knowledge, and they create various types of social enterprise, such as producer, agricultural or marketing cooperatives, sheltered workshops (work-integration social enterprises), socio-medical units, service-provision businesses (body care, repair shops, tourism, etc.) or farmers' associations.

### *3.2. Mutual-Aid Associations*

In Romania, the majority of mutual-aid associations are employees' mutual-aid associations (EMAAs) and retirees' mutual-aid associations (RMAAs). Each of these two types is covered by specific legislation (Law 122/1996 for EMAAs and Law 540/2002 for RMAAs), which provides the legal framework for the operations of these organisations and describes the types of activities that they can carry out. These organisations have survived the communist period and reinvented themselves and developed after 1990; they appear to respond to a clear need of citizens to cope with risks of financial exclusion.

RMAAs were set up to address seniors' needs—mostly not only financial needs but also social, medical and other kinds of needs. They are registered as associations according to Government Ordinance 26/2000. In the mid-1990s, RMAAs reorganised their operations, diversified their services, increased their membership; these organisations represent today one of the most successful types of bottom-up social enterprise in the country (Lambriu and Petrescu 2016). Older people's access to financial services (such as loans) used to be a major problem because of their "unbankability" (commercial banks do not grant them loans due to their low income and to their age). According to the law, the main activity of an RMAA is the provision of refundable loans under advantageous conditions to seniors who are members of the organisation or who belong to

the community within which it operates. Because of the lack of development of social services for the elderly and of the low incomes of elderly people, RMAAs also carry out other types of complementary activities for their members, such as organising cultural or leisure activities, or providing services using members' labour, funeral services, health services, etc. All those services are set up in order to meet the members' need at a price below the market price. In the past few years, RMAAs have set up social services for the elderly which they deliver at no cost to their members, and some services which they provide in exchange for a small payment to non-members. All the services provided are funded by the interest revenue generated by the lending activity, membership fees and the sale of services to members and the community.

During the 2000–2015 period, Romania witnessed a significant increase in the number of RMAAs and of these organisations' employees, which both almost doubled; and even though a significant decrease can be observed in the number of EMAAs, the number of their employees increased slightly. Data from the National Institute of Statistics indicate that, in 2015, there were in Romania 2,412 active EMAAs, employing 3,498 persons, and 219 RMAAs, employing 2,450 persons (see Table 9.2).

### ***3.3. Work-Integration Social Enterprises (sheltered Workshops and Social-Insertion Social Enterprises)***

WISEs represent an active labour-market instrument, aiming to integrate disadvantaged people in the labour market. In Romania, as already mentioned, there are two forms of WISE: sheltered workshops, which exclusively target people with disabilities (Constantinescu 2013), and social-insertion social enterprises, which aim to integrate vulnerable people (including people with disabilities) in the labour market.

#### *Sheltered Workshops*

Sheltered workshops are a work-integration instrument for people with disabilities. The first initiatives of this kind were established in the first years of the post-communist period. Sheltered workshops can be developed by companies, associations, foundations or public administration and, according to Law 448/2006 on the Protection of People with Disabilities, at least 30% of their employees should be people with disabilities. Like in other European countries, sheltered workshops are considered in Romania to be an occupational solution and an intermediate stage on the path towards employment on the mainstream labour market for people with more severe disabilities. Unfortunately, there are no official data regarding the transition of people with disabilities from sheltered workshops to the mainstream labour market, but different analyses show that the share of workers who achieve such transition is generally very

Table 9.2 Evolution of mutual-aid associations

<i>Mutual-aid associations</i>	2000	2010	2011	2012	2013	2014	2015
<b>Employees' mutual-aid associations</b>	3,685	2,737	2,542	2,569	2,602	2,502	2,412
<b>EMAAs' employees</b>			3,157	3,163	3,315	3,426	3,498
<b>Retirees' mutual-aid associations</b>	133	203	193	198	201	218	219
<b>RMAAs' employees</b>	1,306	1,306	2,176	2,240	2,412	2,544	2,450

Source: FDSC (2017)



low (Romanian Academic Society and Motivation Foundation Romania 2010; Achitei *et al.* 2014; Alexiu *et al.* 2014).

Like other European countries (such as Austria, Denmark, France, Italy, Poland or Spain), Romania has a quota system to encourage employers to hire people with disabilities. The legislation (Law 448/2006) requires that, in private or public institutions with at least 50 employees, at least 4% of the staff be people with disabilities. Any employer who does not meet this requirement has to pay to the state, each month, an amount equal to 100% of the national minimum salary for every position that should be occupied by a person with a disability.

Until 2017, as an alternative mentioned in Law 448/2006, the defaulting company could also buy goods or services, for the same amount, from recognised sheltered workshops. This provision substantially contributed to the development of sheltered workshops through the creation of a special market for their products/services. Such special market was particularly important for sheltered workshop; indeed, due to the fact that at least 30% of their employees should be people with disabilities, their production costs are higher than those of mainstream enterprises, and they cannot be competitive on the market. In 2006, there were 48 sheltered workshops in Romania; following the introduction, in 2006, of the provision that created a specific market for their sales, the number of sheltered workshops increased significantly; by the end of 2007, there were 150 sheltered workshops in the country. This growth continued in the following years: there were 481 sheltered workshops in 2010; 564 in 2012; 667 in 2013; 759 in 2016; and 708 in 2017 (ANPD 2017; Achitei *et al.* 2014; Ministry of Labour, Family and Social Protection 2010).

Since 2017, the requirements have changed (Government Ordinance 60/2017), and the only option for the defaulting company is now the payment to the state. This has led to a dramatic decrease in the activity of sheltered workshops, as the market for their products has been substantially reduced.

Most of the sheltered workshops are managed by companies (68%) or associations and foundations (22%); those managed by cooperatives only represent a small share (3%) of the total. The number of sheltered workshops managed by associations and foundations was multiplied almost by four over a six-year period, from 56 in 2011 to 197 in 2017 (see Table 9.3).

Of all the persons with disabilities employed in 2016, 6% worked in sheltered workshops; this share might appear relatively small, but it should be noted that the people employed by sheltered workshops are often persons with severe disabilities. A decrease in the number of employees with disabilities in sheltered workshops has been recorded lately; at the end of 2017, this number had decreased by 465 persons (from 2,015 in 2016 to 1,550 at the end of 2017), due to the application of the provisions of Government Ordinance 60/2017 and the abolition of the possibility offered to economic agents that did not comply with legal requirements in terms of employment of disabled workers to buy goods/services produced by sheltered workshops instead of paying a fine to the state.

Table 9.3 Evolution of Romanian sheltered workshops between 2008 and 2017

	2008	2010	2011	2012	2013	2016	2017
<b>Sheltered workshops</b>	207	481	330	564	667	759	708
<i>Managed by:</i>							
<b>Limited-liability companies</b>	156	378	245	391	455	495	452
<b>Associations and foundations</b>	24	58	56	109	149	204	197
<b>Cooperatives</b>	22	24	11	20	19	16	15
<b>Other types of private organisations</b>	5	21	18	40	43	43	42
<b>Public institutions</b>	0	0	0	4	1	1	2

Source: ANPD (2017); Achitei *et al.* (2014)

### *Social-Insertion Social Enterprises*

Social-insertion social enterprises constitute a new form of social enterprise, which was created by Framework Law 219/2015 on the Social Economy. Social-insertion social enterprises focus on the social integration of vulnerable groups. In order to make Law 219/2015 fully operational, from 2016 onwards, specific secondary legislation was developed. Furthermore, public-procurement reform (Law 98/2016) introduced specific benefits for social-insertion social enterprises.

Framework Law 219/2015 defines this new form of WISE and specifies that social-insertion social enterprises are to be certified through a social label and should meet some specific criteria, in addition to those imposed on social enterprises: at least 30% of employees must belong to vulnerable groups; the cumulated work time of these employees must represent at least 30% of the total work time of all employees; and the enterprise must aim to combat exclusion, discrimination and unemployment of disadvantaged people through their socio-professional integration.

### *3.4. Cooperatives Pursuing General-Interest Goals*

There are four types of cooperative in Romania: worker cooperatives, consumer cooperatives, credit cooperatives and agricultural cooperatives. These traditional cooperatives are strongly engaged in economic activities; the economic aim is the most important of their goals. The entire cooperative law is built exclusively around the needs and interests of cooperatives' members, and these organisations' activities are carried out for their members and with their members. Even though cooperatives are run democratically and respect the "one person, one vote" principle in the general assembly, regardless of each member's contribution to the capital, they do not have a multi-stakeholder governance, and only their members are involved in the decision-making process. On the basis of these various elements, we consider that Romanian "old-type" cooperatives should not be considered as social enterprises.

In the last years, though, a new generation of cooperatives has been emerging and developing in Romania, most of which display the characteristics of social enterprises. This “re-discovery” of the cooperative sector still suffers the impacts of the communist period; cooperatives nowadays have to deal with psychological barriers linked to the past forced “cooperativisation” in rural areas, and with a negative perception of all cooperatives in the general public. Most of the new cooperatives are established as a result of specific policy measures (in rural areas, cooperatives obtain a better score than agricultural limited-liability companies or individual landowners when they submit a request for funding, and they are entitled to more incentives from public authorities than individual farmers or agricultural limited-liability companies) and to support provided by European funds. Among these new cooperatives, those that do not only aim to promote the interests of their members but also, more broadly, pursue general-interest goals can be considered as social enterprises. Many of them have developed economic activities in areas, such as the environment, culture, fair trade, and rural and sustainable development. Between 2007 and 2016, 82 cooperatives were created thanks to European funds dedicated to the development of the social economy in Romania. Some cooperatives (most of them agricultural cooperatives) were also created thanks to the support provided by private funds.

## Conclusion

The emergence of social enterprise in Romania can be seen mainly as a bottom-up phenomenon. Indeed, the major and most successful social enterprises in the country are grassroots initiatives, set up to respond to the urgent needs of citizens.

This bottom-up dynamic is combined with the isomorphic pressure exerted by the EU and which has resulted in a type of legislation on social enterprise that focuses almost exclusively on work-integration social enterprises and in the development of externally driven initiatives, stimulated by the existence of generous funding for work-integration projects for disadvantaged groups.

Reflecting on the current trends and challenges in the Romanian SE sector, we can identify several issues.

We can first observe a *growing demand for general-interest services*. The Romanian social-services sector currently remains underdeveloped and underfunded, but the demand for social services that better respond to identified social needs is growing fast. Particularly, striking in this regard is the case of services for the elderly. The Romanian “baby boomers” will retire in 10–15 years from now (in 2030–2035). This is the largest demographic group in Romanian society, and a lot of pressure for the modernisation of social services can be expected. Social enterprises such as RMAAs are already involved in providing services for the elderly, and they can offer an interesting business model, effectively complementing governmental action.

An important challenge for Romanian social enterprises lies in the *limited awareness and understanding of the SE concept*. Indeed, the lack of awareness and poor understanding of the identity and social utility of social enterprises by decision-makers and the general public, despite these organisations' legal recognition, represent a barrier for their development and jeopardise their scaling-up process. The term “social” is usually associated with the activities carried out by charities or with the work integration of vulnerable groups, not with entrepreneurship. SE success stories are hardly known and understood by public administration and the general public. Also, in the current ideological climate, which is unfavourable to civil-society organisations in general, it is necessary for all types of social enterprise to increase their capacity to educate and mobilise members and clients, to better explain the principles underlying their very functioning, and to stress out their specificity.

Finally, *public support for SE development remains limited*, and this also represents an important challenge for Romanian social enterprises. EU funding played a very important role in boosting the legislative reform and in supporting a new type of social enterprise, focusing on the work integration of disadvantaged groups. This type of funding encouraged not only the development of many valuable SE initiatives but also a lot of opportunistic behaviours. But beside the support for work-integration social enterprises, public resources to support bottom-up active social enterprises are very scarce, the entrepreneurial activities of associations and foundations are not encouraged or supported by public authorities, and mutual-aid organisations are poorly understood by and almost invisible to policymakers. In this context, a better use of the opportunities generated by new public-procurement legislation appears necessary.

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# 10 Social Enterprise in Russia

## Developing Social Entrepreneurship Models in the Russian Legal and Socio-economic Context

*Yury Blagov and Yulia Aray*

### Introduction

The purpose of this chapter is to identify the social-entrepreneurship models and the main drivers and features of their development in the legal and socio-economic context of the Russian Federation. Due to the peculiarities of the transition period, the country underwent from the early 1990s onwards, the way in which social entrepreneurship has been and is still being implemented in Russia is complex and rather unique but has not been investigated specifically as yet.

According to an early approach by Kerlin, social enterprises in East-Central Europe are located between the market, international aid and civil society (Kerlin 2009). Nevertheless, such a pattern is not relevant in the Russian Federation, where the role of international aid is steadily shrinking and civil-society institutions are just emerging. According to the typology subsequently developed by Kerlin (Kerlin 2013, 2017), social enterprise (SE) in Russia appears to be very close to the so-called “enmeshed-focused” model, with state subsidies for implementation, and few and little diversified kinds of social enterprise. This model should theoretically be connected with an “innovative-driven” economy (*ibid.*), but the modern Russian economy is rather “efficiency-driven”, or even “factor-driven”, taking into consideration the importance of oil/gas-extracting industries in the GDP (GEM 2017).

Contemporary Russian scholars began to demonstrate interest in social-entrepreneurship issues less than fifteen years ago. Early publications in this field appeared in 2008–2010 (Batalina *et al.* 2008; Blagov and Aray 2010; Zelenova 2010) and were mostly descriptive; they focused not only on presenting foreign theoretical approaches and practical experiences but also on analysing the nature of social entrepreneurship in Russia. The analyses of social entrepreneurship happened to be quite different depending on the authors’ background and affiliations, and they covered a broad spectrum, from a “new kind of charity” and “changing social policy” to “particular business activity”. Since 2011–2012, publications

have tended to focus on case mapping and analysis of exemplary initiatives, as well as on attempts to create empirically tested typologies and classifications (Moskovskaya 2011; Aray and Burmistrova 2014; Vetrova 2015; Moskovskaya and Soboleva 2016; Vayner and Bolshakova 2015; Vayner *et al.* 2016, 2017). Following the academic community's request, some works combine empirical evidence with teaching materials (Zvereva 2015; Blagov 2017). Nevertheless, empirical publications are still limited to qualitative studies, while quantitative analyses continue to be hindered by the underdevelopment and ambiguity of the phenomenon itself.

This chapter consists of four parts. In Section 1, the historical premises of social-entrepreneurship development in Russia are presented and analysed. In Section 2, the role of the state and large corporations as the main drivers of social-entrepreneurship development in Russia is explored. The purpose of Section 3 is to describe the typology of social-entrepreneurship models in the Russian Federation. The conclusion summarises the chapter and presents key findings.

## 1. Historical Premises of Social-Entrepreneurship Development in Russia

A rapid development of social entrepreneurship has only been observed in Russia during the last decade, but some premises of entrepreneurial approaches to social problem-solving are deeply rooted in the past. On the one hand, a tradition of *institutional charity* was implanted in Kievan Rus<sup>1</sup> as soon as in the 10th century. On the other hand, *cooperative associations*, as a historical feature of civil society, started to appear in Russia from the end of the 19th century onwards. In spite of dramatic socio-economic shifts in the 20th century, such embedded peculiarities have created an important path-dependency effect. Historically, this path-dependency can be traced through three major periods: the period before the October 1917 revolution (pre-Soviet period); the period of communist-ideology dominance, until the Soviet Union's collapse in 1991 (Soviet period); and the period of market-economy formation, from 1992 to the present (modern period).

### 1.1. The Pre-Soviet Period (Until October 1917)

After the adoption of Christianity in Kievan Rus', in 988, churches and monasteries became centres that provided social help to the most vulnerable segments of society. Moreover, rules that made it obligatory for beggars to live in monasteries were introduced by the "Code of Law" (*Sudebnik*) of Tsar Ivan IV ("The Terrible") in 1550. Later, in the Russian Empire, a lot of special orders were issued by the state to set up and financially support orphanages as well as special medical institutions for the disabled and people with mental disorders. Considering the subordinate

role of the Orthodox Church as a particular “governmental office” and the late industrialisation (the Russian Empire’s industrialisation took place in the 19th century, which determined a relatively low level of entrepreneurial activity in general), it was the state (or/and the imperial family) that took the main responsibility for charity development and for creating the predecessors of social enterprises, such as “workhouses” and “houses of diligence” (see later). Private benefactors—rich merchants and industrialists—were involved not only in taking paternalistic care of their employees’ living conditions but also in patronising arts, theatres, library funds, scientific research and other activities not always directly related to the struggle against poverty. This patronage was usually treated by benefactors as pure charity, guided by Christian morality.

The system of state-funded workhouses was initially created by Russian Empress Catherine II “the Great” in 1775, with the purpose of “forcing beggars to work”. Later, these institutions were transformed into houses of diligence, that is, donation-based organisations of work assistance and social adaptation. The founder of the first “true” house of diligence was a priest, Saint John of Kronstadt, who started this project in 1881 with charity funds, including donations from the imperial family. In 1896, the initiative provided work to 21,876 people in need (Gatilova 2008). In 1895, Russian Empress Alexandra Fedorovna created a particular office—the “Guardianship for workhouses and houses of diligence”—to unify the rules governing these initiatives and share best practices. By the beginning of the 20th century, there were about 130 large houses of diligence throughout the Russian Empire (Kazakova-Apkarimova 2010). Despite the fact that houses of diligence were unprofitable and could not survive without continuous donations, they became prototypes of modern social enterprises, carrying out their activities based on social and economic adaptation and work integration of particular groups of people.

As far as cooperatives are concerned, in pre-Soviet Russia, for a long time (since the 13th or 14th century), there have been different forms of socio-economic associations of people aiming to achieve specific social and economic purposes, such as *artels* and peasants’ communities. However, the creation of the first “modern” cooperative establishment only dates back to 1885: it was a mutual-aid fund for peasants, founded by the Louchinin brothers, from the Kostroma province, under the form of a savings and loan association. By 1916, there were more than 14,000 such associations, with a total number of shareholders of around 8 million people, and it was the leading form of cooperative in Russia, which was mostly an agrarian country. By the beginning of the 20th century, Russia had become the global leader in terms of the number of cooperatives and membership: by the end of 1916, there were about 50,000 cooperatives in the country, involving more than 14 million people (Elyutin 2003).



### 1.2. *The Soviet Period (From October 1917 to 1991)*

The October revolution of 1917 constituted a turning point in Russian history, which transformed the very approach to social problem-solving.

First, the tradition of charity was completely reoriented to state support and control. All the resources of private and public charity foundations were nationalised, and the responsibility for social obligations was fully imposed on the socialist “state of workers and peasants”. All houses of diligence and similar “quasi-entrepreneurial” entities were gradually closed, in line with private-property dissolution. However, the existence of a multitude of critical social problems in society, such as child neglect, forced the state to create new or transform the traditional organised forms of mercy and charity. In general, almost all attempts at renewal of charity initiatives were reduced to money collection for different needs through membership fees in respective organisations rather than through true donations. This concerned not only the newly created bodies, such as the “Child Fund named after V.I. Lenin” (*Detskiy Fond imeni Vladimira Il’icha Lenina*), but also the Red Cross and Red Crescent Societies, both operated in the Soviet Union on “obligatory donations” from all able-bodied citizens and on state subsidies (Utkin 2014).

Secondly, the so-called “socialist enterprises” were *de jure* and *de facto* appointed to take care of the local communities in the territories where they operated. Such evolution was typical in particular of large enterprises in the extracting and heavy industries, which officially had to finance the social infrastructure of the cities and regions where they were present from their own resources, in addition to the local and federal state budgets expenditures. This obligatory support had nothing in common with voluntary charity donations. Not being, by definition, business entities, these “socialist enterprises” did not fully act as social entrepreneurs, but they had to plan and calculate their social expenditures.

Thirdly, the field of cooperative associations was gradually reduced to include only consumer cooperatives and folk crafts *artels*. These cooperatives were almost completely organised by and for the agricultural population, with the aim of retailing consumer goods; procuring mushrooms, berries and medicinal herbs; and producing foodstuff from local raw materials. In 1990, these entities, with more than 30 million member-villagers, served about 40% of Soviet citizens (Elyutin 2003). In a general sense, they can be considered as constituting a form of social entrepreneurship, due to their real positive impact on the low living standards of peasants. The collective farms, as the main organisational form of Soviet agriculture, were officially proclaimed to constitute the “top of the cooperative pyramid”, but in practice, they had nothing in common with entrepreneurial activity as such.

### 1.3. *The Modern Period (From 1992 Onwards)*

Market-economy formation in Russia after the Soviet Union's collapse happened gradually, and old traditions of charity and mutual aid, as well as entrepreneurship development in the social sphere, were revived step by step. In fact, some pre-Soviet approaches to solving social problems started a "second life". For example, the house of diligence "Noah", in the Moscow region, was created by the Orthodox Church for people who, for some reasons, had become homeless but were ready to work. Today, there are about 1,050 people living in this house of diligence, 45% of whom are able-bodied men, and 55% are disabled persons, women with children and elderly people. All of them are working as non-qualified staff. Sixteen branches of the house of diligence "Noah" have been created in Moscow and in the Moscow and Vladimir areas.<sup>2</sup>

In general, the old traditions are re-appearing with the re-introduction of the state and corporations as leading actors.

State social programmes are maintained but their budget is shrinking, so corporate philanthropy programmes are being actively developed in the Russian Federation (Blagov and Petrova-Savchenko 2012). The share of corporate giving in comparison to private giving remains very high in Russia (corporate giving currently represents about 90% of total giving). Such a situation seems to be part of an implicit social contract established in the mid-1990s between the state and big businesses, after the controversial process of privatisation in favour of the new rich. In accordance with this implicit contract, the Russian state and Russian society view corporate giving as "redemptive" financial support complementing—or even as a substitution for—the state's social expenditures. In turn, this approach provides businesses with a "license to operate".

On the other hand, cooperative private initiatives aimed at the enhancement of living and working conditions have just started to emerge. The Civil Code of the Russian Federation stipulates that there are two types of cooperatives: industrial (commercial) cooperatives and consumer (non-profit) cooperatives. The current revival of cooperatives is mainly linked to consumer cooperatives in agriculture. It is revealing that the 2017 edition of the "Social Entrepreneurship in Russia" catalogue<sup>3</sup> contains only one example of a cooperative, namely the *LavkaLavka* cooperative, which has been created by farmers, consumers, stores, restaurants, hotels and foodstuff suppliers with the purpose of satisfying consumer needs through environmentally friendly products (Vayner *et al.* 2017).

## 2. Major Drivers of Social-Entrepreneurship Development in Russia

The peculiarities of social entrepreneurship in Russia are to a large extent determined by the fact that its major drivers are the state and

large corporations, which consider social entrepreneurship through the prism of fulfilling their own tasks. This means that social-entrepreneurship development mainly occurs through the stimulation of such activity “from the top”, rather than being a natural process of “bottom-up” development of initiatives aiming to make up for government and market failure. Other drivers of social-entrepreneurship development, such as international foundations (Ashoka, Reach for Change, etc.), civil-society initiatives (Russian Micro-Financial Centre, among others) and universities (St. Petersburg State University, National Research University—Higher School of Economics, etc.) play a minor role and try to connect and correlate their activities with the efforts of the state and corporations.

### 2.1. *The State*

The state is interested in developing social entrepreneurship as an alternative tool for solving social problems. It is important to emphasise that social entrepreneurship is usually seen in the Russian Federation as a special case of entrepreneurial activity of small and medium enterprises (SMEs). Since 2012, the Ministry for Economic Development of the Russian Federation has managed the annual programmes offering financial and institutional support to SMEs, including “social entrepreneurship”, defined as SMEs’ socially oriented activities. In accordance with these programmes, social entrepreneurs are supported through regional governments, mainly represented by the so-called “Centres of Innovation in the Social Sphere” (CISS).<sup>4</sup> On June 2, 2016, the federal government introduced the Strategy for the Development of Small and Medium Business in the Russian Federation until 2030, with a precise “roadmap” for social-entrepreneurship improvements.<sup>5</sup>

Finally, on July 26, 2019, the federal government approved the “Amendments to the Law on the Development of Small and Medium Enterprises”, which include legal regulations directly connected to social entrepreneurship.<sup>6</sup> These amendments define social entrepreneurship as “an entrepreneurial activity aimed at achieving socially useful goals, contributing to the solution of social problems of citizens and society” and social enterprise as “a subject of small or medium-sized businesses engaged in activities in the field of social entrepreneurship”. They also clearly distinguish social enterprises from other kinds of SMEs in the social sphere by providing a list of four formal criteria, one of which at least has to be met for an enterprise to qualify as a social enterprise:

1. A social enterprise provides employment to people belonging to any of the categories defined as vulnerable. The average number of persons belonging to any of these categories must represent at least 50% of the SME’s employees, and the labour costs of persons belonging to

- any of these categories must represent at least 25% of the enterprise's total labour costs.
2. A social enterprise ensures the sale of goods or services by citizens belonging to any of the categories defined as vulnerable. The share of income generated by such activities must represent at least 50% of the total income of the SME, and the share of net profit linked to these activities should account for at least 50% of the total net profit reported by the enterprise.
  3. A social enterprise carries out the production of goods or the provision of services intended for citizens belonging to any of the categories defined as vulnerable, in order to create for these citizens conditions that will enable them to overcome or make up for the limitations they face in their activities, as well as opportunities for these citizens to participate in society on an equal footing with other citizens. The share of income from such activity should represent at least 50% of the total income of the SME, and the share of net profit linked to these activities should account for at least 50% of the total net profit reported by the enterprise.
  4. A social enterprise carries out activities aimed at achieving socially useful goals and contributing to the solution of social problems. The share of income generated by such activities should represent at least 50% of the total revenue of the SME, and the share of net profit linked to these activities should account for at least 50% of the total net profit reported by the enterprise.

The first three criteria are all related to socially vulnerable groups—*qua* workers, producers and consumers, respectively. The “Amendments to the Law on the Development of Small and Medium Enterprises” do not only provide important definitions; they also determine the framework for possible SE business models. Theoretically, a social entrepreneur creates value in favour of a beneficiary who is the enterprise's main stakeholder. Business models could be defined depending on the position of the beneficiary in the value chain: (1) at the beginning of the value chain; (2) inside the value chain; or (3) at the end of the value chain (Aray 2014). Obviously, the first three criteria are directly correlated with these business models. The fourth criterion is associated with a type of activity that goes beyond supporting well-defined vulnerable groups, but which, in the opinion of the state, has significant social value. Such activities include, among others, the provision of psychological, pedagogical and other services aimed at strengthening the family; the organisation of recreation and rehabilitation services for children; the provision of services in the field of preschool, general and additional education of children; psychological, pedagogical, medical and social assistance to schoolchildren; training activities for workers and volunteers of socially oriented non-profit organisations; cultural and educational activities.

Enterprises that meet one of these criteria acquire the status of social enterprise and are recorded in the corresponding list in the Unified Register of SMEs. Federal and regional governments can provide such enterprises with financial, infrastructural, property, information, consulting, educational and other support. The list of social enterprises is subject to annual review and, accordingly, the status of social enterprise only reflects the current characteristics of a SME. According to the Agency for Social Initiatives, by the end of 2019, about 70,000 Russian SMEs potentially met the requirements to be considered as social enterprises and could thus qualify for inclusion in the list of social enterprises (Lavrova 2019).

## *2.2. Large Corporations*

Leading Russian corporations, such as Severstal, RUSAL, LUKOIL, SUEK, Metalloinvest and Norilsk Nickel have, since the beginning of the 2010s, started to reorient their participation in solving social problems towards support to social entrepreneurship. The aforementioned “social contract” between the state and large enterprises is not being violated; rather, it is developing towards more rational business choices. Corporations consider support for social entrepreneurship—such as training, consulting, mentoring, project support and grants—as an effective, responsible form of innovation, partly replacing traditional corporate giving and acts of private charity by corporations’ largest shareholders. It is significant, in this regard, that the leading non-governmental centre for social entrepreneurship development in Russia is the Fund of Regional Social Programmes “Our Future”,<sup>7</sup> a family charity foundation created by Vagit Alekperov, who is the president and a leading shareholder of LUKOIL. This fund identifies, trains and supports (through loans and grants) social entrepreneurs. By the beginning of 2020, the “Our Future” Fund had provided, since its creation in 2007, interest-free loan support to 255 social entrepreneurial projects from 58 regions of the Russian Federation. The definition of social entrepreneurship most commonly used in the country until the adoption of the aforementioned amendments, in July 2019, was also the one adopted by the “Our Future” Fund: “Social entrepreneurship is an entrepreneurial activity aimed at mitigating or solving social problems, which is characterised by the following major features: social impact, innovation, self-sufficiency and financial stability, scalability and replicability, entrepreneurial approach” (Zvereva 2015).

Corporations put special emphasis on targeted support to social entrepreneurship in the territories where they are present, focusing on the social problems of the local communities. Besides, as a rule, corporations actively cooperate with regional administrations. For example, in 1999, Severstal created the “Urban Development Agency” for the development of SMEs in collaboration with the City Council of Cherepovets,

the location of its largest steel plant. In 2013, this “Urban Development Agency” launched a programme of support for social entrepreneurs.<sup>8</sup> During its first year of existence, the Agency identified social problems in the city, set up the “Bank of Social-Business Ideas”, consulted 850 social entrepreneurs, provided financial support to seventeen enterprises and property support to six others, developed cooperation with the “Our Future” and “Reach for Change” Funds, and established the CISS of the Vologda region. Another example is that of RUSAL, which, in 2013, created a network of CISSs in six cities on the territory where it is present; this network focuses on the centralisation of government and business efforts. By the beginning of 2020, there were 2,853 social entrepreneurs, implementing 142 social-business projects, trained in RUSAL’s network of CISSs; the total volume of corporate investment in the development of social entrepreneurship accounted for more than RUB20 million (about €280,000), and the network partnered with more than 50 organisations, including economic departments of city and regional administrations, centres for the development of and support to entrepreneurship, the Union of Industrialists and Entrepreneurs, Chambers of Commerce, SBERBANK offices and urban centres of employment.<sup>9</sup>

### 3. Typology of Social Entrepreneurship in Modern Russia

The most important feature of social entrepreneurship in the Russian Federation is the “semi-official” nature of its development. On the one hand, since July 26, 2019, as already underlined, social entrepreneurship has had a specific legal status, that is, it does exist *de jure*. On the other hand, *de facto* social entrepreneurship is developing as a specific type of activity supported by the state and corporations. Actual “social enterprises” are not only the SMEs (both individual entrepreneurs and commercial organisations) meeting the requirements defined in the aforementioned Amendments of July 2019, but also NPOs which are not covered by this particular piece of legislation but correspond to the concept of social enterprise, such as it is generally understood at the international level.

Observation of actual practices dispels stereotypes existing among the general public in Russia, according to which NPOs could not be engaged in business activities.<sup>10</sup> However, NPOs’ business activities are possible only insofar as they serve the purposes for which the NPO was created. Among these activities, a distinction is made between “pure” entrepreneurship, without any social objective and simply aimed at ensuring the financial sustainability of the NPO, and social entrepreneurship, which pursues a social objective in itself. Moreover, the law specifically identifies “socially oriented non-profit organisations” (SONPOs) (Art. 2, § 2.1), which carry out activities aimed at solving social problems and developing civil society in the Russian Federation. The same law provides

for financial, property, information, consulting and educational support for SONPOs by state authorities and local self-government.

Social entrepreneurship in the Russian Federation is focused on creating shared value. It addresses the way of conducting operations, with a view to increasing the company's competitiveness while improving economic and social conditions in the communities in which it operates. Moreover, "real social entrepreneurship should be measured by its ability to create shared value, not just social benefit" (Porter and Kramer 2011). Accordingly, the most important criterion of social entrepreneurship *de facto* becomes not simply the pursuit of a social mission but of a socio-entrepreneurial one (to which we will refer, in the following, as to an "SE mission"). This mission aims to form a kind of system that enables the creation of shared value in a sustainable way, solving—or at least participating in solving—a specific social problem. Obviously, the "vision" of the social entrepreneur, in this case, should reflect the ideal picture of mitigating or solving a particular social problem. At first glance, it might appear to contradict the important conclusion that "for all schools of thought, the explicit aim to benefit the community or the creation of social value is the core mission of social entrepreneurship and social enterprise" (Defourny and Nyssens 2010). Nevertheless, being based on the changing "semi-official" nature of SE development, this contradiction is more a dialectic one than a formal one.

On the other hand, all the legal forms that are available to *de facto* social enterprises—individual enterprises and commercial organisations as well as NPOs—have their own advantages and disadvantages for the development of social entrepreneurship. The choice of a legal form is important for both existing entrepreneurs and start-ups. The following typology of *de facto* social-entrepreneurship models in the Russian Federation can be proposed:

- individual enterprises operating on the basis of the SE mission—*IE-SE model*;
- commercial organisations operating on the basis of the SE mission—*CO-SE model*;
- NPOs/SONPOs implementing certain SE-mission-driven project(s)—*NPO-SE model* (Blagov and Aray 2019).

The analysis of the way in which 140 graduates from the Executive Education Programme "Project Development for Social Entrepreneurs" (conducted at the St. Petersburg University Graduate School of Management in 2012–2015) implemented their business plans provides some indications about the comparative popularity of each of these three models (Blagov and Aray 2019). The first model (IE-SE model) was used by 15 respondents (10.7%); the second model (CO-SE model), by 36 respondents (25.7%); and the third model (NPO-SE model), by

86 respondents (61.5%). Three social entrepreneurs (2.1%) used more than one model simultaneously. These data are closely connected to the personal history of the graduates' entrepreneurial activities: the third model was used only by pre-existing NPOs; the first model was mainly used by business start-ups; and the second model was used both by existing NPOs and by individual entrepreneurs for obtaining additional opportunities for growth.

In the following paragraphs, typical examples of these three models are presented (Blagov and Aray 2019).

### ***3.1. IE-SE Model: The Example of the Individual Enterprise A. V. Tikhomirova***

The Children's Book Bus "Bumper"<sup>11</sup> project was created by the individual enterprise A. V. Tikhomirova in response to an acute social problem in Russian society—a sharp drop in interest in reading among children and adolescents. This problem is particularly clearly felt in remote areas, where there are no well-stocked libraries, and modern bookstores cannot be opened due to low profitability. The Book Bus visits remote villages and towns, delivers free master classes, organises literary meetings, offers psychological training for children and adults, and sells carefully selected children's literature. The main source of income is the beneficiaries themselves, who are willing to pay for the goods in exchange for the services provided.

As many other organisations using this model, Bumper integrates donations into its core activities. For example, a buyer can purchase a book in Bumper for charitable purposes; the acquired book is then given to consumers who cannot afford to buy it themselves. Volunteering, as a rule, is non-systemic but rather appears under the form of spontaneous initiatives by consumers and other stakeholders. Many events are held at the initiative of children and their parents, who are loyal customers of the organisation, or with their participation or financial support.

### ***3.2. CO-SE Model: The Example of "Liberty" LLC***

The travel company for wheelchair users "Liberty" LLC<sup>12</sup> has been working in the areas of both domestic and international tourism, providing specialised "invatours" (i.e. tours for disabled persons) for foreigners in St. Petersburg and Moscow, as well as specialised "invatours" for Russians abroad and throughout Russia. The financial stability of the project is secured through the provision of travel services to foreign tourists with disabilities at world-market prices. Revenue from this service not only allows to cover the costs of the project but also serves to provide services to Russian people with disabilities at prices commensurate with the level of costs but below the market price.



This model allows the enterprise to more effectively attract both non-repayable funds for specific purposes (grants and donations) and repayable funds from loans. For example, in 2010, Liberty LLC received interest-free loans for a period of four years from the “Our Future” Fund. By contrast, voluntary work is not widely used, mainly due to the high level of specificity of services for wheelchair users, which requires specialised training.

### 3.3. NPO-SE Model: The Example of “Safe Home” CF

The “Safe Home” Charity Foundation (CF)<sup>13</sup> was established in 2009. The Foundation implements programmes in the field of provision of comprehensive care for people of any age and sex who find themselves in difficult situations, who are victims of human trafficking or who are faced with various forms of violence.

“Safe Home” CF attracts donations from individuals and legal entities, receives grants and conducts fundraising activities. “Safe Home” CF also systematically attracts volunteers, who represent a significant part of the organisation’s workforce. In addition, the Foundation earns income from its social entrepreneurship activities: “Jewellery Girls” is a project of art therapy for children, adolescents and young adults (from 5 to 24 years old) faced with the problem of human trafficking or who are at risk in this regard; jewellery made in the classroom is sold through various promotional channels by the organisation, and most of the project’s expenditure is covered by income from jewellery sales. In fact, the “Jewellery Girls” project implements its own SE mission within the general “social” mission of “Safe Home” CF, ensuring the development of a sustainable system focused on shared value creation.

Obviously, in accordance with the “Amendments to the Law on the Development of Small and Medium Enterprises”, only the first two models can claim the status of social enterprise *de jure*. Socially entrepreneurial projects of NPOs corresponding to the third model can apply for this status when they create a separate commercial entity—an individual enterprise or commercial organisation—for the implementation of this project. However, many social entrepreneurs began to combine all three models long before the adoption of the amendments to the law; this allows them to find a balance in an immature institutional context, to get access to different resources and to receive support from heterogeneous stakeholders.

## Conclusion

The development of social entrepreneurship in modern Russia is a very complex and controversial process. The state is currently playing the role of the main driver of social-entrepreneurship development, in cooperation with leading corporations. As a result, social entrepreneurship in

modern Russia is developing in a “semi-official” way. On the one hand, social enterprises exist *de jure* as a particular kind of SMEs. The status of social enterprise is temporary and is granted on an annual basis, and the right to related support is conditional on strict compliance with certain criteria of activity. On the other hand, the “socio-entrepreneurial” mission can be pursued *de facto* by organisations operating under different organisational/legal forms, as individual enterprises, commercial organisations or NPOs involved in particular socio-entrepreneurial projects.

Despite support from the state and leading corporations, the level of socially entrepreneurial activity in Russia remains quite low, with only an estimated 1.2% of the adult population involved in social enterprises (Khaleeva 2014). There are several reasons for this.

First of all, the Russian Federation is characterised by a low level of entrepreneurial activity in general. According to the 2017 Global Entrepreneurial Monitor report, which examined the situation in 65 countries, Russia was ranked last in terms of level of entrepreneurial intentions (GEM 2017). The slow development of entrepreneurship is embedded, in turn, in underdeveloped civil-society institutions.

In addition, the driving role of the state and corporations, with their particular goals and approaches, creates certain limitations to social-entrepreneurship development. Some important social problems—like alcoholism, drug addiction, corruption and bureaucracy—are not included in the officially acknowledged list of social problems, which hinders the development of social entrepreneurial initiatives in these areas. Also, being directly connected to relatively strong financial support, the social-entrepreneurship “movement” can attract more money-seekers, “experts” and related bureaucrats than socially responsible entrepreneurs.

Finally, the whole Russian socio-economic system, including social entrepreneurship, is still going through a transition. It takes time for the “Amendments to the Law on the Development of Small and Medium Enterprises”, which govern social entrepreneurship, to actually take effect—not only in providing targeted support to specific social enterprises but also in contributing to the consolidated development of the entire ecosystem of social entrepreneurship in Russia.

## Notes

1. Kievan Rus’ was a loose federation of East Slavic tribes that existed in Europe from the late 9th to the mid-13th century. The modern nations of Russia, Ukraine and Belarus all claim Kievan Rus’ as their cultural ancestors.
2. See <http://dom-noi.ru/>.
3. This annual catalogue contains a brief description of each of the most famous social enterprises in Russia.
4. Orders of the Ministry for Economic Development No. 223 of 23.04.2012, Art.5.19; No. 167 of 25.03.2015, Art.7.4.

5. Regulation of the Government of the Russian Federation No. 1083-p of 2.06.2016, p. 11.
6. Federal Law No. 245-FZ of 26.07.2019.
7. See [www.nb-fund.ru](http://www.nb-fund.ru).
8. See [www.agr-city.ru](http://www.agr-city.ru).
9. See [https://fcsp.ru/program/business\\_people/](https://fcsp.ru/program/business_people/).
10. Federal Law dd. 12.01.1996 of No. 7-FZ “On Non-Profit Organisations”, Ch. I, Art. 24, §2.
11. See [www.bumperbooks.ru](http://www.bumperbooks.ru).
12. See <http://accessiblerussia.com/>.
13. See [www.safehouse.rawdelicious.se/ru](http://www.safehouse.rawdelicious.se/ru).

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# 11 The Landscape of Social Enterprise in the Slovak Republic

*Zuzana Polačková*

## Introduction

Although the term “social enterprise” emerged in Slovakia only a few years ago, the concept of social entrepreneurship has a long tradition in the country, anchored in the 19th-century cooperative movement. The first legal definition of social enterprise was adopted in 2008 as part of the employment policy; it is one of the reasons why social enterprises in Slovakia are often narrowly associated with work integration. This narrow understanding is also one of the biggest challenges social enterprises are facing today. A gradually emerging ecosystem supporting the operation of social enterprises and the new legal framework on the social economy and social enterprises, adopted in 2018,<sup>1</sup> are currently contributing to an evolution of the perception of social enterprise towards its acknowledgement as a fully fledged component of the social economy and of the private sector.

## 1. Historical Overview

Unlike other countries from the region of Central Europe, Slovakia has a long tradition of civic engagement, mutual self-help and voluntarism whose roots go back to the 18th century. In the 19th century, alongside a variety of associations focused on a wide range of issues, the cooperative movement emerged and became an important economic actor. Later on, in the second half of the 19th century and by the turn of the 20th century, cooperatives played a central role in stimulating economic development and a self-governance model in the rural areas of Slovakia (Brozmanová-Gregorová *et al.* 2009). After World War I, under the First Czechoslovakian Republic (1918–1938), not only did production and agricultural cooperatives, operating primarily in the rural areas of Slovakia, become increasingly popular; this period was also marked by the emergence of credit unions and cultural and housing cooperatives (Stefancic *et al.* 2016).

The growing recognition of the cooperative movement was interrupted by political changes in 1948, when a brutal and massive nationalisation

process was launched. The cooperative idea was co-opted for the purposes of the ideological advocacy of socialism, and cooperatives were incorporated into the state-controlled planned economic system. Although the principles and ethos of the cooperative movement were drastically misused, some cooperatives resisted and maintained their social role, primarily in regard to the employment of people with disabilities. During the 1980s, the Slovak Union of Producer Cooperatives, which was comprised of 17 cooperatives employing in total 7,000 disabled workers, was considered to be the main employer of people with disabilities in the country (DUSR 2018).

The Revolution of November 1989 introduced new socio-political conditions in the country, and a strong antagonism emerged against the cooperative concept, which was considered at the time as a synonym for socialism. On the other hand, the post-revolution period brought about an outburst of civic engagement, voluntarism and associations addressing a variety of issues that had been abandoned during the previous years.

In those days, discussions about social entrepreneurship had not occurred yet. The civic sector at that time received generous donations from international donors, which allowed for the construction of a lively ecosystem of non-governmental organisations (NGOs). However, after a decade of strong presence in the country, aiming towards democratisation and socio-economic transformation, international donors started to redirect their focus onto other regions, and the structure of resources available for the NGO sector changed significantly. A rapid decrease in accessible financial resources at the end of the 1990s triggered a discussion about alternative financial resources—which included, *inter alia*, resources generated by means of social entrepreneurship. At that time, social entrepreneurship was perceived as a means to support the multiple-source financing of NGOs, so the debate focused solely on the topic of entrepreneurship of NGOs as an instrument for co-financing their operations and core activities. The discussion was very much inspired by good practice from abroad, and stimulated by initiatives or international organisations, such as the Non-profit Enterprise and Self-sustainability Team (NESsT) or Ashoka, which were also active in Slovakia. But despite the emergence, in the late 1990s, of several initiatives among Slovak NGOs that can be considered as having pioneered social entrepreneurship in the country in today's sense of the word, social entrepreneurship was still an unknown concept at that time, and social enterprises (SEs) were carried out as separate business initiatives established by NGOs and conducted in a regular business setting—which, in practice, created complications in establishing organisations.

An important role in promoting social entrepreneurship in Slovakia was also played by the European EQUAL Community Initiative, which Slovakia implemented from 2004 onwards, after its accession to the European Union (EU). As part of the priority axis “Encouraging Inclusive

Entrepreneurship”, a number of projects set up initiatives similar to current work-integration social enterprises (WISEs). For most of the Slovak organisations involved, this was their first ever contact with social entrepreneurship and with the creation of job opportunities for vulnerable groups. At the time, social entrepreneurship was still an unclear concept in the country; it was usually associated with the non-profit sector and often lacked an entrepreneurial element. Many of the supported projects lacked a viable business plan, and their activities were not financially sustainable without the project-based financing stemming from EQUAL or other external donor support. Once the financial support came to an end, the organisations could not usually sustain their SE initiatives.

This period was also crucial for the development of social enterprise in Slovakia for another reason. Indeed, several local municipalities<sup>2</sup> entered one of the EQUAL-funded projects implemented in Slovakia and became an alternative to NGOs in supporting and implementing the idea of social entrepreneurship, and particularly WISEs (which still operated then without any regulatory framework).

## 2. Legal Definition

From the legal point of view, three major milestones can be distinguished in the history of Slovak social enterprises.

### 2.1. *The 2008 Definition of the “Work-Integration Social Enterprise”*

The first major milestone for Slovak social enterprises dates back to 2008. In response to the global economic crisis and to a sharp increase in unemployment rates, the Ministry of Labour, Social Affairs and Family amended Act No. 5/2004 on Employment Services, regarding *inter alia* the integration of disadvantaged employment applicants in WISEs. For the purposes of this law, a WISE is defined as

(. . .) *a legal or physical entity that:*

- a) *hires employees who, prior to their engagement, had been disadvantaged employment applicants, in an amount of at least 30% of the total number of employees;*
- b) *provides support and assistance in connection with finding employment on the open labour market to employees who, prior to their engagement, had been disadvantaged employment applicants;*
- c) *annually uses at least 30% of its financial resources, acquired in the form of the income from its commercial activities that remains after the payment of all expenditures for maintaining*

*said activities in a given tax period, for creating new work positions or improving working conditions;*

- d) *is registered with the Register of Work-Integration Social Enterprises.*

2008 Amendment of Act No. 5/2004 on  
Employment Services, §50b

By means of this amendment,<sup>3</sup> the government gave a legal entrenchment to WISEs and created a grant scheme intended for creating and sustaining jobs for vulnerable employees in these enterprises. The amendment did not differentiate between the concept of WISE and other types of social entrepreneurship; the downside of this form of inclusion of the concept of social entrepreneurship in Slovak law was a narrow definition of the concept of social enterprise, limiting it to work-integration initiatives. This gave rise to a limited perception of social entrepreneurship and an inadequate association of the concept of social enterprise with the purpose of creating job opportunities for disadvantaged groups, primarily people from marginalised Roma communities. Social enterprises in Slovakia still struggle nowadays with the heritage of this legal circumscription.

On the basis of the aforementioned 2008 amendment, a Register of WISEs was founded; it was administered by the Central Office of Labour, Social Affairs and Family. Any entity that wished to receive job subsidies administered under the active labour-market policy measures intended to create/sustain jobs for vulnerable employees was required to sign up in the Register and fulfil the conditions determined by the legislation on employment services, which defined social entrepreneurship.

Provisions related to wage subsidies for SE employees were cancelled in 2011. The support scheme was phased out mainly as a result of a scandal related to the misuse of some funds, which were allocated to eight entities that had falsely declared themselves as social enterprises. This created a situation in which a legal definition of social enterprise existed, but social enterprises did not have access to any support or any other type of recognition.

In such context, where being officially registered as a social enterprise provided no benefits whatsoever, the organisations quite naturally stopped paying attention to the fulfilment of their obligations and lost their registered status. As of the January 1, 2018, only ten social enterprises were still listed in the Register,<sup>4</sup> while 89 entities had been removed from it as they had failed to fulfil their obligation to deliver an annual report. Thus, despite the existence of the 2008 legal framework, social enterprises in the period of 2010–2018 worked rather “organically”, without any registration or systematic support targeted exclusively at them.

What is more, during the 2010s, the term “social enterprise” had a negative connotation in Slovakia, caused by the misuse of European funds in



the period of 2008–2010, as mentioned earlier. The terms “social entrepreneurship” or “social enterprise” were categorically rejected by policymakers for a number of years. To mitigate this problem, during that period, social entrepreneurship was relabelled with alternative terms, such as “interim labour market”, “inclusive labour market” and so on.

## *2.2. The 2015 Definition of the “Social-Economy Subject”*

In 2015, Act No. 5/2004 on Employment Services was amended again, and the term “social-economy subject” was introduced and defined:

1. *[A social-economy subject is a] legal or physical entity that*
  - a. *sets the achievement of measurable positive social effects as its primary social objective within its statutes, other rules or founding documents, and*
    - i. *provides products or services to vulnerable, marginalised, disadvantaged or excluded persons, or*
    - ii. *employs a method of production or service provision that reflects its primary social objective;*
  - b. *allots at least 50 % of its annual financial resources acquired in the form of the income from its commercial activities that remains after the payment of all expenditures for maintaining said activities in a given tax period for the achievement of its primary social objective;*
  - c. *is responsibly and transparently administered, especially in terms of involving employees, customers and interested parties whom its activities concern.*
2. *A legal or physical entity that sets the achievement of measurable positive social effects as its primary social objective within its statutes, other rules or founding documents, fulfils the conditions of sections 1b) and 1c) and provides financial support to a social-economy subject according to section 1 is also considered as a social-economy subject.*

2015 Amendment of Act No. 5/2004 on  
Employment Services, §50a

This amendment broadened to some extent the concept and perception of social entrepreneurship, since it dropped the strict connection with labour integration. However, it did not produce any change in the existing support structures, and the amendment remained almost unnoticed. Indeed, despite this new amendment, no financial or non-financial support scheme was created by the state specifically for social enterprises.

### 2.3. *The Adoption of Act No. 112/2018 on the Social Economy and Social Enterprises*

The recognition of social entrepreneurship among the general public was gradually growing, though. An important role in the rehabilitation of the social-entrepreneurship ethos was played by municipal social enterprises, which in general were considered as a promising example of good practice, both by politicians and by the general public. One of the results of such a good reputation was an entrenchment of social entrepreneurship in the government's National Employment Strategy and National Roma Integration Strategy up to 2020.

In 2016, this increased attention resulted in a governmental initiative aiming at the adoption of a comprehensive legislative framework for social entrepreneurship. The initiative was driven by the Ministry of Labour, Social Affairs and Family. After approximately two years of consultations involving a wide range of stakeholders (including social entrepreneurs, academia, municipality representatives and policymakers), in May 2018, Act No. 112/2018 on the Social Economy and Social Enterprises<sup>5</sup> (hereinafter referred to as Act No. 112/2018) came into force. The new legislation brought about a change in terms of defining social entrepreneurship and created a supporting ecosystem, offering a spectrum of financial as well as non-financial assistance designed exclusively for social enterprises, funded by public resources or supported by the institutional framework of the SE sector.

According to Act No. 112/2018, a social enterprise is defined by following criteria:

- a) *it performs an economic activity in a systematic and independent way, in its own name and under its own responsibility;*
- b) *its main objective is to achieve a measurable positive social impact;*
- c) *it achieves a positive social impact through the production [or distribution] of goods or the provision of services (. . .);*
- d) *it*
  - I) *creates a profit from its activities and uses more than 50% of the profits after taxation for achieving its main objective as referred to in point b);*
  - II) *distributes part of the profits under the Commercial Code, and divides it according to procedures and rules that do not disrupt the main objective as defined in point b);*
- e) *it involves stakeholders in the management of its economic activities.*

Act No. 112/2018 on the Social Economy and  
Social Entrepreneurship, §5

At the time of its adoption, the bill was criticised for its complexity and overemphasis on the implementation of control mechanisms aiming to

limit the possibilities of misuse of the SE legal form. Many social entrepreneurs considered the degree of emphasis on control mechanisms as a sign of distrust for their activity. However, the bill submitter (the Ministry of Labour, Social Affairs and Family) argued that a strong emphasis on control was rational and would contribute to a rehabilitation of social entrepreneurship in the eyes of the general public, who often regarded “social entrepreneurship” as a profane term associated with various media-based scandals about the massive misuse of public resources in the past. Despite the initial criticism, one may indeed argue that, one year after its adoption, the act had become widely accepted and valued.

### 3. Size of the SE Sector

Unfortunately, relevant statistical research in the area of the SE sector that would assess its scale and capacities does not exist in Slovakia yet. For this reason, it is difficult to produce relevant arguments based on quantitative data.

Act No. 112/2018 on the Social Economy and Social Enterprises, adopted in 2018, embeds social enterprises in the context of the social economy, which it defines as “the sum of production, distribution or consumer activities carried out by means of economic activity or non-economic activity independently from state authorities, and whose main objective is to achieve a positive social impact”. The social economy is thus defined as a set of activities that may be carried out by any entity from the business or non-governmental sector. It has to be underlined that a particular entity performing activities in the social economy is not necessarily a registered social enterprise but it is a so-called “social-economy subject”.

Act No. 112/2018 considers as “social-economy subjects” the associations, foundations, non-investment funds and non-profit organisations providing public-interest services, religious associations, trade companies, cooperatives or individual entrepreneurs who (1) are not mostly or fully financed and managed by the state; (2) perform activities pertaining to an area of the social economy (i.e. their main objective is to achieve a positive social impact); (3) are not-for-profit, or use their profit to achieve a positive social impact. Social-economy subjects are established and managed under the specific legislation related to their legal form (e.g. civic associations are managed under the Associations Act). Act No. 112/2018 tried to preserve, to the largest possible extent, the pluralism of the social-entrepreneurship sector in terms of legal forms.

Thirty months after the adoption of Act No. 112/2018, 230 entities had successfully applied for the status of registered social enterprise according to the Act and were listed in the Register.<sup>6</sup> Among the approximately 54,000 civic associations and 3,400 non-profit organisations providing public-interest services, as well as among the 1,100 foundations or

760 non-investment funds existing in Slovakia, many entities could also present all the characteristics of social enterprise such as they are defined by law, but for a variety of reasons, these entities never applied (and may never do so) for registration according to Act No. 112/2018. The Slovak SE sector thus largely extends beyond the boundaries of the existing Register of Social Enterprises.

The adoption of Act No. 112/2018 also brought about a significant change in that, it expanded the definition of entrepreneurship in the Commercial Code<sup>7</sup> (Act No. 513/1991) to businesses aiming to achieve “measurable positive social impacts”. Thus, a business entity recognised by the Commercial Code may now undertake economic activity to achieve a positive social impact without fulfilling the traditional purpose of business entities, which is to make profit. This change has opened up opportunities for entities that are traditionally regarded as businesses and primarily established for a profit purpose to join the group of social-economy subjects (Mészáros 2019). This evolution, though undoubtedly positive, makes the assessment of the size of the SE sector even more difficult.

All, but two, of the 230 currently registered social enterprises are work-integration-based organisations. However, the family of WISEs is surely wider, as a significant share of the approximately 1,200 sheltered workshops employing people with disabilities may be considered as social enterprises, even though they are not registered as such. Not all sheltered workshops, whose main characteristic is the employment of people with disabilities, can be considered as social enterprises, though; there is a large number of sheltered workshops that behave as traditional, profit-oriented enterprises, with no interest in allocating their possible profit to the pursuit of a social goal or in establishing a model of participatory governance.

Although the Register of Social Enterprises offers precise data about the number of social enterprises in Slovakia, considering such data as relevant information about the size of the social-entrepreneurship sector would be a mistake. Indeed, as already underlined, the Register of Social Enterprises only refers to a narrow category of social enterprises, namely those that are registered according to Act No. 112/2018. A significant number of social enterprises, operating under a wide variety of legal forms, are left out of the analysis, and no relevant data about their number or scale exist.

#### **4. The Specific Case of Municipal Social Enterprises**

A specific segment of the SE sector in Slovakia, which deserves special attention, is that of “municipal social enterprises”. The only difference between municipal social enterprises and other social enterprises is the fact that municipal social enterprises are initiated by the local government

and their operation is monitored by the municipal council. These entities can be registered under various legal forms (they are usually limited companies), but they all share one characteristic—namely the fact that their founders and owners (or majority owners) are municipalities or regional governments.

From a social-economy and social-entrepreneurship theory perspective, it can be discussed whether municipal social enterprises, which are anchored in public administration, can be considered as “true” social enterprises or whether they are rather an expression of social innovation in public administration.

Critics argue that municipal social enterprises may have an advantage over other social enterprises in the area of public procurement, and that such advantage may distort economic competition.<sup>8</sup> Regardless of the outcome of the debate about this specific point, it should be noted that municipal social enterprises cannot be considered as a universal solution; they are rather a “good model” for areas in which institutions other than local governments often do not exist. In such areas, where no business entities or NGOs operate, local government is often the only institution able to offer the human, social or financial resources necessary to implement any development initiative. Indeed, Slovakia has a high level of territorial administrative decentralisation, with 2,927 local authorities (for a population of approximately 5.5 million), and the local government often substitutes the sectors that are absent in the area.

The development of municipal social enterprises in Slovakia started in 2005 in the context of the EQUAL initiative, which supported SE projects. Initially, the projects’ administrators planned to cooperate with NGOs, which traditionally deal with SE activities. This, however, proved difficult to achieve in the Slovak context, where the non-profit sector is primarily characterised by significant financial instability. Given the absence of strong NGOs in the SE field, the administrators of one of the projects supported under EQUAL decided to shift their attention towards the local government, implementing a joint action to support job creation for those furthest away from the labour market (mainly people from the Roma communities).

The current number of existing municipal social enterprises is not clear, as most of them are not registered under Act No. 112/2018 and are thus not included in the Register of Social Enterprises. This number cannot be deduced either from an analysis tracking the “social” attribute, as some of these enterprises deliberately avoid including the word “social” in their name. Indeed, as the public perception is that municipal social entrepreneurship is mainly associated with employment of people from Roma communities, some municipal enterprises that display all the characteristics of a social enterprise worry that their reputation may suffer from prejudices in society against these communities if they present themselves as social enterprises—hence their choice not to include the

term “social” in their names. The number of municipal social enterprises cannot be identified based on their ownership structure either, as not every entity fully owned by a municipality can be considered as a social enterprise.

What is clear is that the interest in establishing municipal social enterprises is high. Based on research carried out in 2017 (Škobla *et al.* 2018), from a total of 528 local governments that participated in the research,<sup>9</sup> 23% declared a high interest in establishing a municipal enterprise (122 municipalities), 22% declared that they would categorically refuse to do so and the rest were open to considering the possibility of establishing such an enterprise. Based on the same research, 6% of the municipalities (32 municipalities) declared that they ran a municipal social enterprise and 11% (58 municipalities) indicated that they had a past experience in managing a municipal social enterprise. Experts estimate the number of active and fully fledged municipal social enterprises with stable long-term operation across Slovakia to be around 25 to 30.

Despite their relatively small number, municipal social enterprises play a crucial role in the discussion about the SE sector in Slovakia. Examples of good practice are widely communicated in the media and offer a strong argument for the support of social entrepreneurship en bloc. Their recognition among the general public is just as great as it is among politicians.

## **5. Ecosystem Supporting Social Enterprises**

The discussion that preceded the introduction of Act No. 112/2018, and the adoption of this specific piece of legislation significantly expanded the debate on the nature of social entrepreneurship. The whole process that led to the adoption of this Act was rather participatory and involved a wide spectrum of stakeholders, and it attracted the interest of new actors in the arena of social entrepreneurship in Slovakia—in particular, financial institutions and a variety of other organisations that considered becoming social enterprises or incorporating social enterprises into their core business operation. Social entrepreneurship has also gradually started to appear in the portfolio of new governmental departments,<sup>10</sup> which have started to experiment with social enterprises and accommodate them into the context of a variety of sectoral policies.

Nevertheless, despite these recent trends pointing to increasing support for social enterprise and the emergence of a variety of initiatives, the whole ecosystem supporting social entrepreneurship is still in its nascent stage. The key component of the existing ecosystem is Act No. 112/2018, and a crucial role is played by the Ministry of Labour, Social Affairs and Family of the Slovak Republic.

The implementation of Act No. 112/2018 is managed by the Department for Social Economy, which is part of the Ministry of Labour, Social

Affairs and Family. This department was established in accordance with the provisions of Act No. 112/2018 and consists of five full-time employees.<sup>11</sup> The department's main role is to grant and repeal the status of registered social enterprise, to maintain the Register of Social Enterprises and to provide free consultations on the application process for obtaining the status of registered social enterprise.

With the objective of facilitating information about Act No. 112/2018 and positively promoting the operation of the SE sector, the Ministry of Labour, Social Affairs and Family established the Institute of Social Economy. This institute is not a legal entity; it is rather a large-scale project, financed by the European Social Fund, and it is gradually setting up and running a network of eight regional branches. These regional branches' main task is to provide free-of-charge information on social entrepreneurship and on Act No. 112/2018, as well as to assist with establishing new and supporting emerging social enterprises in their respective regions.

As of today, Act No. 112/2018 also offers a spectrum of financial and non-financial support; however, most of this support is accessible exclusively for registered social enterprises.

Within the category of financial support, the Act distinguishes two types of support: (1) investment aid and (2) compensatory aid.

*Investment aid* is based on a system combining a loan and a grant: the social enterprise may apply for a non-repayable grant, but at least 20% of the total budget of the investment plan must come from a loan. The quality of the investment plan is assessed by the financial institution to which the social enterprise applies for the loan. Once the financial institution agrees to provide the loan (repayable component of the investment), obtaining the grant (non-repayable component) is normally a mere formality.

In the case of *compensatory aid*, the focus is primarily (but not exclusively) on wage subsidies for disadvantaged employees in WISEs. The aid is distributed through the local labour offices, and any WISE that is registered and meets the conditions is entitled to it.

The financial assistance provided by the Ministry of Labour, Social Affairs and Family in accordance to Act No. 112/2018 is currently the key source of existing financial support for social enterprises. Activities of other departments in the field of SE support are unsubstantial.

Within the category of *non-financial aid*, support is provided primarily via the promotion of socially responsible public procurement and the introduction of service vouchers. Among other forms of non-financial aid offered by Act No. 112/2018, we may specifically mention the possibility to reduce the value added tax rate to 10% for goods and services provided by a registered social enterprise that uses 100% of its profit after taxation to achieve its primary objective.

The expectations of policymakers are to move towards a wider implementation of socially responsible public procurement, which is considered to be an effective tool to support social enterprise. Sheltered workshops or “entities employing disadvantaged people” already enjoyed opportunities to conclude direct contracts with public authorities by virtue of the transposed Directive 2014/24/EU on Public Procurement, even before the adoption of Act No. 112/2018, but this Act has significantly extended the legal possibilities for the application of socially responsible public-procurement procedures. A quota system, effective from January 1, 2020, provides that each contracting authority that issues more than ten calls for tenders annually has to apply social criteria for at least 6% of all its issued tenders.<sup>12</sup>

## **6. SE Developmental Challenges**

The main stereotype that affects the perception of social enterprises in Slovakia is their unavoidable connection with the work integration of the hard-to-place unemployed, and particularly of people from marginalised Roma communities or people with disabilities. Because of such limited perception, a number of organisations that display all the characteristics of a social enterprise but do not employ people who are distant from the labour market, do not consider themselves to be social enterprises. It can be argued that this process of coupling social entrepreneurship with employment issues and work integration is a legacy of the first legal framework on social entrepreneurship, enacted in 2008. This limited perception of social entrepreneurship is also nourished by the fact that Act No. 112/2018 was initiated and drafted by the Ministry of Labour, Social Affairs and Family. This ministry is also the main technical secretariat for all matters related to Act No. 112/2018, and communication about this Act primarily takes place via the representatives of this ministry.

The strong orientation towards creating job opportunities for the hard-to-place unemployed is also one of the reasons why social enterprises are often conflated with local initiatives that aim to create job opportunities in general. It is usual for a municipality or an NGO to create a number of job positions, fully subsidised through public employment services, and to call such an initiative a (municipal) social enterprise. However, these initiatives, in most cases, do not exhibit one of the primary characteristics of social entrepreneurship—namely the fact of supplying goods or services on the market or, in other words, of engaging in commercial activity; the jobs created within such initiatives are fully dependent on external financial subsidies.

Other stereotypes often link social enterprises with endeavours focused on the social integration of people from marginalised Roma communities. Given the high level of social exclusion suffered by marginalised



Roma communities in Slovakia, the involvement of social enterprises in this area is natural but not a matter of course. The attitude of local actors that claim not to need a social enterprise “because there are no Roma in their locality” is, of course, entirely unsound but not unusual. It can be argued that the perception of social enterprises through the lens of the social inclusion of people from marginalised Roma communities is a legacy of actual facts, to the extent that the most successful and visible social enterprises, be they established by municipalities or non-governmental organisations, are largely involved in issues concerning the social inclusion of Roma people.

One peculiar feature of social entrepreneurship in Slovakia is the fact that Slovak social enterprises are usually founded in a “top-down” way, on the initiative of an organisation, spurred by the presence of a certain social problem. Social enterprises founded on the initiative of those who are personally touched by a social problem—that is to say, through a “bottom-up” process—are rare. Research (Bútorová 2017) argues that individuals willing to participate in designing and implementing solutions to societal challenges are usually those with a higher education and higher income, while people facing the worst economic conditions—who are also often, regardless of their ethnic background, those facing a variety of challenges—are often more passive and appear more likely to be waiting for help from authorities. Individuals’ socio-economic stability and social capital are seen as one of the key conditions defining their readiness to participate in public life. For this reason, having local governments initiate social enterprises is not unusual in the Slovak environment, and it is the reason why municipal social enterprises—and specifically those focused on the improvement of the life conditions in the marginalised Roma communities—are highly accepted by the public.

Among the other challenges that Slovak social enterprises face, we could also highlight the lack of entrepreneurial skills among potential social entrepreneurs; this is particularly true in social enterprises initiated by NGOs. The NGO sector in Slovakia offers a number of great examples with high entrepreneurial potential, which could be easily converted into social enterprises. The main obstacle is usually a lack of entrepreneurial skills and a culture of strong dependency on external donations and financing, which is a characteristic of the non-profit sector in Slovakia. Potential social enterprises often invest significant energy into application processes for funding from external donors, instead of being focused on the cultivation of their own entrepreneurial potential. This focus on external grants rather than on income generation often leads to the disqualification of social enterprises in the eyes of traditional business-sector entities, which only rarely respect social enterprises as full and equal business partners.

## **Conclusion**

The SE sector in Slovakia has recently experienced a dynamic development. Among other factors, such development is surely nourished by the international context, in which social enterprises are seen as an innovative and effective answer to a variety of societal challenges. However, the growing scope and increasing quality of the discussion about the nature and role of social enterprises in Slovakia are certainly also influenced by the adoption, in May 2008, of a comprehensive legislative framework on the social economy and social enterprises. Although it is undeniable that the existence of even the best-quality law is not a guarantee of a fully functional and supportive ecosystem, recent experience shows that the adoption of adequate legislation may highly stimulate the interest of a variety of actors, who may in turn contribute to the overall success of the sector. Despite the challenges identified earlier, recent trends in SE development thus give us cause for optimism about the future of the SE sector in Slovakia.

## **Disclaimer**

The author of this chapter is a member of the taskforce that formulated and drafted Act No. 112/2018 Coll. on the Social Economy and Social Enterprises.

## **Notes**

1. Act No. 112/2018. Explanatory report is accessible at [www.epi.sk/dovoda-sprava/dovodova-sprava-k-zakonu-c-112-2018-z-z.htm](http://www.epi.sk/dovoda-sprava/dovodova-sprava-k-zakonu-c-112-2018-z-z.htm).
2. For more information about the concept of municipal social enterprises, see Section 4.
3. Act No. 5/2004 Coll. on Employment Services, accessible on [www.slov-lex.sk/pravne-predpisy/SK/ZZ/2004/5/20180401.html](http://www.slov-lex.sk/pravne-predpisy/SK/ZZ/2004/5/20180401.html).
4. Social enterprises registered in accordance with Act No. 5/2004 on employment services, that is, under the 2008 legal definition of social entrepreneurship. The Register was cancelled by the adoption of a new law in May 2018.
5. Act No. 112/2018 Coll. on Social Economy and Social Enterprises, accessible on [www.slov-lex.sk/pravne-predpisy/SK/ZZ/2018/112/](http://www.slov-lex.sk/pravne-predpisy/SK/ZZ/2018/112/).
6. The Social Enterprises Register, administered by Central Office of Labour, Social Affairs and Family, is accessible on [www.employment.gov.sk/sk/pracazamestnanost/socialna-ekonomika/](http://www.employment.gov.sk/sk/pracazamestnanost/socialna-ekonomika/).
7. Act No. 513/1991 Coll. Business Code, accessible on [www.slov-lex.sk/pravne-predpisy/SK/ZZ/1991/513/20160701](http://www.slov-lex.sk/pravne-predpisy/SK/ZZ/1991/513/20160701).
8. The business activities of many municipal social enterprises are related to the administration and maintenance of municipal property.
9. The research was carried out, using a questionnaire, on a sample of municipalities from the three regions (namely Košice, Prešov and Banská Bystrica) where the socio-economic situation is considered to be the most complicated in the country. Out of the 1,621 local governments that were invited to take

part in the survey, 528 municipalities answered the questionnaire (i.e. the response rate was 33%).

10. For example, the Ministry of Economy of the Slovak Republic or the Ministry of Culture of the Slovak Republic.
11. As of September 2020.
12. Act No. 343/2015 Coll. on Public Procurement, accessible on [www.slov-lex.sk/pravne-predpisy/SK/ZZ/2015/343/20160418.html](http://www.slov-lex.sk/pravne-predpisy/SK/ZZ/2015/343/20160418.html).

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Part II

# Comparative Analyses and Perspectives



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# 12 The Influence of Historical and Institutional Legacies on Present-Day Social Enterprises in CEE Countries

Lessons From Poland, Hungary, the Czech Republic and Croatia

*Anna Ciepielewska-Kowalik, Davorka Vidović, Julianna Kiss, László Hubai, Kateřina Legnerová and Marie Dohnalová*

## Introduction

In Poland, Hungary, the Czech Republic and Croatia, social enterprises are not simply a result of the socio-political transformation that took place in the 1990s and 2000s; or has their emergence been influenced only by EU integration. Current social enterprises are, in fact, products of a history of these countries dating back to the 19th century, when cooperatives, foundations and associations tried to meet social needs linked to the industrialisation process. This historical background is presented in the first section of this chapter. The following sections discuss the current situation of social enterprise (SE) in the four countries under consideration: Section 2 analyses the institutional background within which social enterprises emerged and operate, while Section 3 focuses on their ecosystem. A mapping of the SE phenomenon is then provided in Section 4, before comparative findings are presented in Section 5.

## 1. Historical Background: Pre-Socialist and Socialist Period

Some traditions that have shaped social enterprises derived from voluntary organisations have existed in Poland, Hungary, the Czech Republic and Croatia since the Middle Ages. Reference can be made to a tradition of charity and philanthropy fostered by the Catholic Church and which is shared by all four countries (Leś *et al.* 1999; Frič *et al.* 1999; Bartal 2005; Zrinščak 2008). Other traditions are those linked to foundations established by rich individuals (Poland, Croatia, Hungary); to programmes implemented by some municipalities and urban communities (Poland,

Czech Republic); to mutual-aid associations and guilds (Hungary, Croatia); and finally, to the cooperative sector, which emerged in these countries in the context of an early industrialisation, in the second half of the 19th century.

In the four countries under consideration, in the interwar period, a turbulent political environment determined the role of the non-profit sector (i.e. foundations, associations and similar social organisations) (Leš 2001; Bartal 2005): the number of associations increased, and they strongly supplemented public authorities in providing social services for vulnerable groups. They were connected to cultural, political and economic issues, mutual assistance and professional-interest representation. In the same period, the cooperative movement also experienced an impressive growth, both in terms of expanding into new fields and in terms of number of newly created entities. As a result, the interwar period is referred to as the “golden years” of cooperatives in the Czech Republic (Hunčová 2004; Dohnalová *et al.* 2016), and this could also very well apply to Poland, Hungary and Croatia. According to some records (Vidović 2012; based on Žimbrek 2008), right before World War II, there were around 2,500 cooperatives in Croatia, totalling 460,000 members.

After World War II and the related turmoil, the political orders that were established in the four countries dramatically changed the situation of the non-profit and cooperative sectors for more than 40 years. However, these four decades were not homogenous in terms of real possibilities for associations and foundations. The most severe period was the time directly after the establishment of the communist order, in the late 1940s and the 1950s. In Poland, Hungary and the Czech Republic (Czechoslovakia at that time), the communist authorities undertook various actions to deprive associations and foundations of their autonomy, one of which was the institutional elimination of particular legal types, such as foundations, which become prohibited in Poland in 1952, and seven years later in Hungary. In Croatia (which was part of Yugoslavia at the time), where communist authorities declared all types of civic organisations to be “bourgeois entities”, both foundations and citizens’ associations were abolished. In Hungary, Poland and Czechoslovakia, communist authorities created state-sponsored and state-controlled organisations, referred to as “(mass) social organisations”. These were born from the amalgamation of previously independent foundations and associations and were controlled by the Communist Party.

Over the following years, the situation of existing grassroots initiatives was volatile; it depended on the political situation. The political opening in the Czechoslovak Republic (in the late 1960s), Poland (in the late 1970s) and Hungary (in the 1980s), as well as the introduction of the “socialist self-management” model in Croatia (starting in the 1950s, and subsequently followed by the creation of particular legal frameworks by the Constitution of 1974), brought about a slight liberalisation. In

Poland and Hungary, the partial toleration of grassroots initiatives was also a kind of “bargaining chip” used by communist authorities to ease possible social resistance. As a result, many organisations meeting social needs and engaged in human rights activities emerged. On the other hand, drastic political events, such as the declaration of martial law in Poland (1981) or the military invasion of the Czechoslovak Republic by the Warsaw Pact countries (1968) de-legalised most of the civic organisations and forced them to go underground. One should also remember that, at that time, in Poland and Croatia, the Church (mainly through Caritas) was an active social-service provider.

The first legal recognition of the non-profit sector, which resulted in its revival, took place in the 1980s and early 1990s in all of the countries analysed. In Croatia, the Act on Social Organisations and Citizens’ Associations was adopted in 1982. Later, this legislation enabled the emergence of associations and political parties—a development which, in turn, constituted an entrance into a multiparty democratic system. In Poland, such a transition to the democratic system was achieved by bringing back foundations into the institutional map, in 1984, and introducing a new legal framework for associations, in 1989. In Hungary, the Civil Code restored the legal form of foundation in 1987, while the new law on associations was adopted in 1989, after the regime change. The Czech Republic introduced a new legal framework for associations just after the collapse of communism, in 1990.

As for cooperatives, they remained fundamental economic institutions throughout the communist period, and they even monopolised some branches under centrally planned economies. But they also became instruments of the communist regime; membership in cooperatives was compulsory, and they were entities controlled by the state.

## **2. Institutional Background for SE Emergence in Post-Socialist Regimes After 1989–1990**

As regards Poland, Hungary and the Czech Republic, some initial steps towards a gradual recognition of present-day social enterprises had been taken by the mid-1990s. Not only as a result of regime changes that resulted in democratisation and a rise of freedom, but also brought about growing social needs, an unprecedented rise in the number of civil-society/non-profit organisations was observed. By the mid-1990s, there were 47,000 non-profit organisations in Poland (Mansfeldová *et al.* 2004), 40,000 in Hungary (Bényei *et al.* 2007) and 26,814 in the Czech Republic (Nadace Neziskovky.cz 2018). In Croatia, though, democratisation was delayed through the 1990s, due to the specificities of the transition in this country (violent breakup of Yugoslavia, war for independence and nation-state building process). Associations, for example, were regulated until 1997 by the aforementioned Act on Social Organisations



and Citizens' Associations, adopted in 1982, during socialism, which was not in line with democratic principles; this is revealing of how non-supportive and suspicious the regime remained towards civil society during the 1990s.

The period of the 1990s was marked by the significant role played by foreign funding in all the countries analysed. Analysis of available data reveals that international donor support represented between 4.1% and 8.4% of the total budget of non-profit organisations in Hungary (Nagy and Nizák 2009); this figure even reached 16% in the case of Poland (CIVICUS 1997). Besides monetary assistance, foreign donors also provided know-how support through numerous Western-based organisations.

In Poland, the Czech Republic and Hungary, the second half of the 1990s and the early 2000s were characterised by further institutionalisation of non-profit organisations. This was achieved by the introduction of different mechanisms, including the creation of new statuses (public-benefit organisations) for organisations entitled to public funding (Poland and Hungary); legal frameworks regulating mutual relations between public authorities and non-profit organisations; and new legal forms, such as those of public-benefit company (later transformed to non-profit company) in Hungary and of social and professional (re-)integration organisations for different categories of socially disadvantaged groups (usually regulated by labour and/or social employment acts) in Poland.

As for Croatia, things changed and accelerated from 2000 onwards, with the change to a more democratic regime. With the new 2001 Association Act, non-profit organisations started receiving more supportive treatment. The government also established a set of institutions to cooperate with civil society, and in 2005, it adopted the first "National strategy for the creation of an enabling environment for civil society development 2006–2011" (Government of the Republic of Croatia 2006), which was the first document mentioning social entrepreneurship.

In 2004, Poland, Hungary and the Czech Republic became members of the EU; this year should be regarded as the beginning, in these countries, of the policy recognition of social enterprise *per se*. This was done through the formal introduction of new legal forms (such as that of social cooperative in Poland and Hungary, in 2006), on the one hand, and by favouring the evolution of traditional non-profit organisations towards a more entrepreneurial position, supporting their transformation into the so-called "entrepreneurial non-profit organisations", on the other hand. The EU-funded projects carried out in the framework of the European Social Fund (ESF) and the European Regional Development Fund (ERDF) created an unprecedented flow of funds, which stimulated the growth and a greater recognition of social enterprises.

Unlike non-profit organisations, after 1989, traditional cooperatives experienced a sharp decrease in terms of numbers in all the countries

under consideration, and they received almost no recognition by political elites and societies. They were regarded as relicts of the communist regime, and thus seen as neither autonomous nor effective entities (Leś 2004; Hunčová 2004; Dohnalová 2013; Kovách 2012; G. Fekete *et al.* 2017; Ciepielewska-Kowalik 2015; European Commission 2016; European Commission 2020; Vidović 2012; Pejnović *et al.* 2016). Moreover, in Poland, the Czech Republic and Croatia, this negative trend was reinforced by unfavourable legal frameworks (adopted, respectively, in 1990, 1992 and 1995). For instance, in Poland, according to the 1990 Act on Cooperatives, all cooperatives' alliances, as relicts of the previous system, were closed down by the end of 1990. Those that were re-established under the new legal framework were never returned the estate of their predecessors. Other regulations deprived cooperatives of their social character, either by treating cooperatives' estate as private estate of their members, or by making these organisations give up the pursuit of social aims by pushing them into sharp competition with private for-profit companies (Cioch 2011). Only recently have traditional cooperatives started regaining more political and social interest in the countries studied.

Social cooperatives, which have been self-recognised as social enterprises *per se* in Poland and legally recognised in Hungary since 2006, and in Croatia since 2011, are experiencing a different path of development. In Poland and Hungary, they are receiving more political interest, and they benefit from wider acceptance from the general public than traditional cooperatives. Qua new-wave social enterprises addressing welfare-state challenges, particularly in the field of social and professional (re-) integration of disadvantaged groups, they are entitled to strong financial support from public authorities, including EU funds. This has resulted in a very dynamic growth of social cooperatives, in particular in Poland and Hungary. In Croatia, by contrast, these organisations were not particularly valued by the political actors, or were they granted particular incentives, and as a result their growth was more limited (Vidović and Rakin 2017).

Finally, market liberalisation and the introduction of private ownership have also resulted in a significant growth of small and medium-sized enterprises: by the beginning of the 2000s, SMEs represented an overwhelming majority of registered enterprises in all the countries studied (for example, in Croatia, in 2001, 99% of enterprises were SMEs, and employment in small enterprises, which accounted only for 9% of total employment in 1990, reached 34% in 2001, according to Singer and Lauc 2004). Given the constraints that drive NPOs to carry out business activities, it can reasonably be considered that some of these SMEs might be social enterprises. It is also often the case that social enterprises operate as a hybrid form of two or more legal entities (for instance, a non-profit can establish a trade-arm company; see G. Fekete *et al.* 2017 and European Commission 2019b). By resorting to such legal arrangements,

these organisations try to overcome some disadvantages of the existing legislation, connected to the various legal forms available to them. And even though these social enterprises are not legally obliged to comply with the non-distribution constraint, they often do so on a voluntary basis.

### **3. Current SE Ecosystem**

In recent years, the ecosystem of social enterprises has developed significantly in all the countries studied. This development can be examined at several levels: legal and policy reforms recognising the sector, changing relationships with the public-welfare system, as well as fiscal and financial mechanisms supporting social enterprises.

#### ***3.1. Legal and Political Recognition***

In the countries studied, different approaches can be distinguished regarding the legal recognition of social enterprises. Some approaches or instruments are common to the four countries, while others exist only in some of them.

Common instruments include the adoption of specific policy strategies recognising social enterprises in the broader context of the social economy or social entrepreneurship; the delegation of responsibility for issues linked to the social economy/social enterprises among central or regional/local structures;<sup>1</sup> and the legal introduction of particular types of social enterprise (mainly social cooperatives).

Another feature that is common to all the countries under consideration is the fact that none of them has yet introduced a legal framework specific to social enterprise. As a result, social enterprises operate under various legal forms, and they are regulated by different legal frameworks, specific to these different legal forms. This situation may be explained by the fact that a common legal definition of social enterprise has not yet been agreed upon in these countries.

Other approaches and instruments, as just mentioned, exist only in some of the countries under consideration.

An example of an instrument used only in some countries is provided by the specific governmental structures/units focused on promoting the social economy/social enterprises that have been created in Poland and Croatia.

Secondly, in some countries, social enterprises can be officially recognised as such by applying for an “SE status”; all entities complying with a defined set of criteria can obtain this status; regardless of their legal and organisational form. Enterprises with this special status become eligible for state funding. This approach has already been proposed in Croatia (in the Strategy for the Development of Social Entrepreneurship, in

2015), and in Hungary (from 2017 onwards), where an SE status functions as a “label” for organisations. Compliance with the set of criteria provides certain advantages, such as extra points in ongoing funding programmes (European Commission 2019b). Poland (in 2014 and 2018) and the Czech Republic (in 2017) have prepared draft acts with such an approach, thus moving towards the adoption of a similar solution.

Two of the four countries have designed a specific legal framework for activities with a social focus, carried out by organisations with different legal forms: such an approach was implemented by public authorities through the introduction of the public-benefit status for organisations providing public-benefit services in Hungary (in the late 1990s) and Poland (in the early 2000s).

Some of these four countries also decided to regulate only particular types of social enterprise. This is for example the case for social cooperatives: Poland and Hungary adopted regulations for social cooperatives in 2006, and the Czech Republic did so in 2014. Croatian legislation, by contrast, recognised the social cooperative as a specific type of cooperative in 2011 but without introducing any particular regulation or incentive.

Finally, a fifth approach that has been implemented only in some countries corresponds to the formal recognition of work-integration social enterprises (WISEs). This is what happened in the Czech Republic. In Croatia, the model of sheltered workshops had been formally recognised since the era of socialism, but only recently have other social enterprises started to self-recognise themselves as WISEs too.

### ***3.2. Relations Between Social Enterprises and Public-Welfare Systems***

None of the analysed country has yet defined the role of social enterprises in its public-welfare system. However, comparative analyses have revealed that different types of relations between social enterprises and public-welfare systems co-exist.

The first type of relations corresponds to the conflation of social enterprises with WISEs; in such perspective, social enterprises exist as entities taking part in the implementation of active social policy rather than as autonomous market players. The existence of relations of this type can be accounted for by the activities undertaken by pioneering social enterprises, which provided work-integration services to groups threatened by social exclusion. This happened with a strong support by EU funds but with no clear vision of social enterprises’ role at the country level. This approach has been maintained over the years and is now reflected in some countries’ embryonic legal frameworks for social enterprises. National legislations are conflating the notion of social enterprise with that of WISE either in a direct way, by defining social enterprise through

the prism of the provision of reintegration/pro-employment services (in Poland and the Czech Republic), or indirectly, by relating state funding to various forms of employment of vulnerable groups (in Croatia and Hungary). Worth noting is the fact that, despite a strong tendency to conflate social enterprises with WISEs, the latter have been formally recognised only in the Czech Republic.

In the countries studied, a second type of relations that was identified acknowledges the role of social enterprises in undertaking activities that are complementary to the ones carried out by the public sector, such as social services provision. It means that social enterprises are perceived as a kind of “supplementary entities” rather than as fully autonomous and equal partners, providing different kinds of services. This type of relation appears to be linked to the fact that the concerned social enterprises have only limited economic potential, and suffer from a lack of political recognition and public support. In the Croatian case, these limiting factors were moreover accompanied by an ambiguity towards civil society and a lack of trust—or, in other words, by a low level of social capital, which was inherited from the 1990s and continued to persist in the general public (Štulhofer 2004).

Social cooperatives, which have awakened much political interest since the EU integration, seem to be in a better position and are now expanding into new domains, including child care, community services/development, building and reconstruction, sport and tourism. This is clearly visible in Poland, but not as apparent in the other three countries under consideration, where the role of social enterprises in public-welfare systems is not yet well developed.

### ***3.3. Financing and Fiscal Frameworks***

A comprehensive public financial support system, which could effectively foster social enterprise, has not yet been developed in any of the four countries studied. In terms of fiscal benefits, some social enterprises benefit from different types of incentives related to their legal type, including tax privileges and exemptions, and reduced social-security contributions. In Poland and the Czech Republic, support measures recognise social enterprises within the broader context of the social economy, while Hungary and Croatia recently adopted funding programmes, mostly within the framework of EU-funded programmes, that target social enterprise specifically.

In all the countries studied, support measures target organisations providing specific types of services, particularly in the field of professional and social integration of disabled persons. All types of enterprises employing persons from specified disadvantaged groups, in particular persons with disabilities, benefit from public subsidies, reimbursements and reduced social-security contributions.

Hungary (in 1997) and Poland (in 2003) introduced a system of financial support for initiatives with different legal types having the status of public-benefit organisations (mostly associations, foundations and social cooperatives), allowing these organisations to benefit from tax exemptions. Certain legal forms performing public-benefit activities can also receive funds from taxpayers in the form of a percentage of their taxes which they allocate to the organisation of their choice (this system is referred to as the “1% scheme”). In Croatia, natural or legal persons donating to non-profits also benefit from a tax reduction, up to 2% of their annual income; however, associations involved in an economic activity become obliged to pay taxes as regular companies.

In all the countries studied, social enterprises’ access to finance offered by banks is limited. Traditional banks are not interested in supporting social enterprise, as the latter is perceived as a low-profit and high-risk sector. In Hungary and Croatia, some commercial banks, such as Erste Bank and Zaba, sporadically fund some small-scale projects with a “social impact”. Only recently did Erste Bank introduce its social banking programme for Southern and Eastern European countries, which aims to support both unemployed individuals in becoming entrepreneurs and social enterprises. Socially oriented banks or ethical banks have not yet been established in Poland and the Czech Republic, while in the other two countries studied, such banks’ activity is still in an embryonic stage: in Hungary, MagNet Bank has developed initiatives and programmes specifically tailored for civil-society organisations, while in Croatia, the Cooperative for Ethical Financing, established in 2014, unsuccessfully tried to establish the first ethical bank (the project was rejected by the Croatian National Bank in 2018).

#### **4. Mapping Social Enterprises**

Analysing the size of the SE sector from a comparative perspective is a very challenging exercise, as formal recognition of social enterprises is still *in statu nascendi* in the countries studied. Moreover, the SE sector is not homogeneous in terms of the legal forms under which social enterprises operate in the four countries. Social enterprises can operate as associations, foundations or cooperatives (including as social cooperatives) in all the countries studied. The legal form of non-profit company is recognised in three of the four countries (namely Poland, the Czech Republic and Hungary). Other legal forms exist only in one of the four countries: this is the case of professional-activity establishments (*zakłady aktywności zawodowej*) in Poland, institutions (*ustanova*) in Croatia and institutes (*ústav*) in the Czech Republic. Another reason which makes it difficult to provide precise numbers about the SE sector is linked to the poor quality of data-collection mechanisms about social enterprise at country level.

For these reasons, any estimate of SE-related figures across the countries studied should be treated as preliminary; however, despite these limitations, our analysis provides some overall overview of the most important trends in the SE sector in Poland, Hungary, the Czech Republic and Croatia.

Analysis reveals that the most common form for social enterprises across the four countries studied is that of entrepreneurial non-profit organisation (ENPO).<sup>2</sup> There were 27,600 ENPOs registered in Poland in 2016 (European Commission 2020); in Hungary, in the same year, 12,875 non-profit organisations had a significant level of business revenue (European Commission 2019b). This strong representation of ENPOs can be accounted for by the historical development of the non-profit sector, and especially by its long-standing tradition, whose roots can be traced back to the period before World War II (even though this sector's development was discontinued by the communist regime), and by the incredible increase in the number of NPOs that has occurred following the democratic changes, from the late 1980s onwards in Poland, Hungary and the Czech Republic, and since 1990 in Croatia.

Interestingly, in Croatia, the establishment of companies or cooperatives by associations is also common. The main reasons for this are the legal requirements that make it complicated for associations not only to carry out economic activities, but also, to an even larger extent, the predominant mindset in the country, and in particular among public administration, according to which non-profits cannot generate income in the market (European Commission 2019a). Also noteworthy is the fact that, in Hungary, unlike in the other three countries studied, non-profit companies are important in terms of both numbers and economic weight, despite the absence of a favourable legal framework; this can be accounted for by the close historical connection of many Hungarian non-profit companies to the public sector, which has given them priority over grassroots associations and foundations in the allocation of public funds (Bocz 2009). Poland, unlike Hungary, enacted some favourable legislative frameworks for non-profit companies.

Cooperatives are less numerous among social enterprises. However, the introduction of the legal form of social cooperative and the funding opportunities targeting them strengthen the role of cooperatives in the SE sector. Over the last years, a gradual and steady increase in the number of social cooperatives has taken place; this evolution is clearly visible in Poland and Hungary,<sup>3</sup> although much less significant in Croatia.

## 5. Comparative Findings

When comparing the four post-socialist countries included in this study, some notably important trends should be highlighted. Indeed, all the countries considered have followed very similar paths of SE development,

although with some time lag, with the post-Soviet countries somewhat “preceding” the post-Yugoslav societies. In this section, we analyse both elements of discontinuity and elements of continuity across the pre-socialist, socialist and post-socialist periods, and convergences and divergences among the analysed countries.

### *5.1. Continuity and Discontinuity*

There are a few practices and values that may be identified as important elements of continuity of SE-related traditions.

This particularly includes a wide spectrum of bottom-up civic activities that existed throughout each of the mentioned periods, even during socialism, even though voluntary foundations and associations established by citizens were then abolished or controlled by the state. These activities are also linked to a strong history of volunteering and solidarity movements, which had the power to encourage citizens to help others and devote time to contribute to society. Those practices reflect that fact that social entrepreneurship, as a practice and as a mind-set, is deeply rooted in tradition and historical forms, values, organisations and activities of post-socialist European societies. Furthermore, it reveals that social entrepreneurship and social enterprise did not emerge only with the democratic transition or EU integration, but also have their own inherited origins, which go further back in the history of the considered countries.

Social enterprises’ development path is also marked by some striking discontinuities between the various periods of these countries’ history.

The first type of major discontinuities relates to church-based and other religious organisations. These were among the most important actors in the field of social services provision during the pre-socialist period. Under the socialist regime, those organisations were abandoned. Overall, the role of the church was revitalised with the transition, and these organisations became again very influential in most of the countries analysed, but their role in social services provision and in the SE sector has not bloomed proportionally to their regained influence in society in most of the countries analysed. As a result, only a small share of social enterprises can be identified today as religious/churched-based organisations in the four countries analysed.

The second most striking discontinuity relates to the role and treatment of cooperatives. In the pre-socialist period, they were quite developed in the four countries considered, and they played a key role in the socio-economic development of local communities. The misuse and instrumentalisation of cooperatives that occurred under the socialist regime represented a strong disruption for the cooperative movement in all four countries. As a result, negative social connotations are still associated with cooperatives in the general public, and they hinder the revitalisation of the cooperative sector.



## 5.2. *Convergences and Divergences*

The most striking convergences among the four studied countries relate to exogenous factors, primarily linked to EU integration processes. There is no doubt that accession to the EU was a key stimulus that has shaped social enterprises' development path in all the countries considered. In particular, EU policies constitute key factors that have fostered—and continue doing so—SE institutionalisation by supporting these enterprises' recognition and the development of their ecosystem. The impact of the EU is particularly obvious in increasing recognition of and political attention for social enterprise, as clearly appears from the analysis of all the countries studied. This is seen in the intensive production of strategies, legislation and policies that has been occurring during the last decade and a half. Furthermore, in all four countries considered, social cooperatives emerged as a new legal type whose evolution is particularly influenced by EU policies.

Other convergences among the four countries are rather linked to internal factors. First, the SE sector in these countries is still in a very early stage of development, partly because the “birth place” of social enterprises in these countries is in most cases the non-profit sector, which is traditionally not particularly focused on economic performance. However, in all post-transition societies, structural reforms have not been fully completed yet, and there are still gaps in state provision of welfare programmes and unaddressed social needs; as a result, there is a space and need for social enterprises to get involved.

A second point of convergence lies in the fact that the introduction of SE policy frameworks in all the countries analysed was shaped by a top-down approach, which often resulted in a serious gap between the criteria put forward to define social enterprise at the administrative (and political) level(s), on the one hand, and actual practices, on the other hand. This is particularly visible in the cases of Poland and Croatia, where the requirements defined in policy documents have proven unrealistic, and their application impossible. There are many examples hereof, such as the legal act regulating social cooperatives in Poland. According to its first version, enacted in 2006, all persons who planned to establish a social cooperative had to belong to one of the vulnerable groups identified in other legal acts. This made the process of establishing and running a social cooperative almost impossible if the founders were not supported by external actors. This unfavourable regulation was gradually changed in the years 2007–2018, though, by widening the list of vulnerable groups and permitting persons who are not threatened by social exclusion to establish a social cooperative (provided the persons who are not at risk of social exclusion do not represent more than 50% of the founders). Still, overall, it can be considered that policy frameworks did not manage to create a fully supportive environment for SE development.

The four countries analysed also converge on another aspect—namely the fact that there is still confusion about the concept of social enterprise. One of the main topics of the policy discourse on social enterprise is employment (of vulnerable social groups); as a result, the role of social enterprise in job creation is becoming notably more visible and gaining importance, but such development also threatens to narrow the understanding of social enterprise and to exclude all the social enterprises that do not have employment as their main purpose. This situation often results in the exclusion of some organisations from mapping and registration and/or from access to public funds.

Finally, the SE sector operates, in the four countries under consideration, in a strongly isomorphic manner, as the situation in the sector is impacted by pressures from the state and other funding entities. This is due to the fact that most of the social enterprises operate mainly within project-oriented schemes and largely rely on public—often EU-co-financed—funds. This results in turn in a certain weakness of the sector, which is characterised by unsustainability and serious fluctuations of SE actors.

Beside these convergences, there are also important differences between the countries that belonged to the Eastern, or post-Soviet bloc (Poland, Hungary and the Czech Republic), on the one side, and the country that was part of Yugoslavia (Croatia), on the other side. We may assume that the main line of divergence can be related to the different types of socialism that existed in these two blocs, and which created quite different conditions for the democratic transition.

“Soviet-type” socialism, known as state socialism (or ideologically marked as “real” socialism), more severely curtailed human rights and freedoms. During decades, this created accumulated dissatisfaction and resistance, which were finally articulated in the democratic transitions that started in the late 1980s. These bottom-up movements of people led to the collapse of the communist regime, and at least partly enabled a change of political elites.

On the other side, “Yugoslavian-type” socialism was based on self-management and was largely marked by more liberal tendencies. This somehow “softer” socialist regime gave more freedom to people and can be assumed to have resulted in less intensive resistance. Also, the national issues, in the multi-ethnic context of Yugoslavia, intensified in the early 1980s and shifted the main conflict line from anti-communism to nationalism. The “democratic” transition in post-Yugoslavia was led by parts of the former (communist) political elite and was accompanied by the breakdown of the Yugoslavian federation, a process of nation-state building and ethnical conflicts and wars. This top-down transition (Kasapović 1996) did not lead to a factual change of political elites, and democratic tendencies were put aside for a decade.

Stronger democratic tendencies only emerged, in a majority of countries from the former Yugoslavia, from the beginning of the 2000s onwards;

they were then followed by the EU integration processes. This decade of “delay”, as compared to the countries of the former Eastern Bloc, can best be observed in the dynamics of EU membership: EU accession processes began, for countries from the former Yugoslavia (apart from Slovenia), almost a decade later than in post-Soviet countries—Poland, the Czech Republic and Hungary became EU members in 2004; Croatia, in 2013. This late democratisation of countries of the former Yugoslavia has influenced the current state of the SE field and caused delayed processes of SE development in those countries. However, both types of societies still experience a “democratic deficit” and are still characterised by strong authoritarian tendencies, which are a constant threat to democracy and consequently to the development of social enterprise.

## Conclusion

Though initially a Western concept, the emerging SE sector has in recent years attracted increasing attention from policymakers, development experts and researchers in CEE countries as well. However, as our analysis shows, the SE sector has important characteristics specific to this region, which stem from its historical development and current circumstances. Thus, when discussing the state of SE development in post-socialist countries, a look back at the historical background gives some valuable insights into current trends and influences. In our analysis, we refused snap interpretations that see the (democratic) transition as a clear cut from the “socialist darkness”, as we find it more useful and accurate to recognise and emphasise all the elements that are relevant for a better understanding of SE development—that is, not only the elements of discontinuity but also the main elements of continuity between the pre-socialist, socialist and post-socialist periods.

The analysis in this chapter opens the field for future research on social enterprises in post-socialist societies that would consider the specificities of these societies and accordingly better understand the different paths of SE development.

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## Notes

1. Namely the Ministry of Family, Labour and Social Policy, and in particular the Department of Public Benefit in Poland; the Government Council for

- Non-Governmental Organisations in the Czech Republic; the Ministry for National Economy, the Ministry of Finance and the Ministry of Interior in Hungary; the Ministry of Labour and the Pension System, the Ministry of Economy and Sustainable Development, the Ministry for Demography, Family, Youth and Social Policy, and the National Foundation for Civil-Society Development in Croatia.
2. “Entrepreneurial non-profit organisation” (ENPO) is not a legal form but an analytical term, which we use for foundations, associations and similar social organisations carrying out economic activities.
  3. In Hungary, the number of social cooperatives rose from 349 in 2012 to 2,980 in 2016 (see European Commission 2019b).

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# 13 The Role of External Financing in the Development of Social Entrepreneurship in CEE Countries

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## Introduction

The forms and methods of financing are, in general, crucial for the development of social-enterprise (SE) initiatives. Social entrepreneurship is characterised by hybridity, which means that it relies on a resource mix including different types of financing (Di Domenico *et al.* 2010; Austin *et al.* 2006): beyond market-based income, public funding stemming from international, national and/or local levels and different types of investments and donations are also important.

In Central and Eastern Europe (CEE),<sup>1</sup> at the beginning of the political and economic transition period, there were no public-support policies (Galera 2016) or funding schemes designed for social enterprise (ICF 2014). Therefore, one of the key nudges for the emerging initiatives came from external financial sources,<sup>2</sup> such as international development organisations and the EU. Third-sector organisations in CEE also made use of funding available from various international donors to participate in development projects (Kral 2013).

In this chapter, we are interested in the ways in which “external” financing influenced the development of the social-entrepreneurship field in CEE. In order to gain a better understanding of this issue, we compared supra-national financial sources available for SE development in six selected CEE countries—namely Albania, Croatia, Hungary, North Macedonia, Poland and Serbia. The countries we selected were at different levels of EU integration, which also enabled us to better understand the role of the EU in shaping the SE field in CEE.

Beyond the role of the EU, we identified two other external funding sources, namely SE development agencies and other international development agencies (such as the World Bank, UNDP and USAID). Through

comparing these different external financing sources in the six countries under consideration, we aimed to spot tendencies or overarching mechanisms in the development of the SE field in and beyond CEE.

## 1. Methodological Approach

After the collapse of state socialism, international development<sup>3</sup> aid started to arrive in CEE. Donor policies in “early-transition” countries played a particularly significant role because the national contexts were marked by a lack of government capacity (OECD 2006). A large part of private funding came from private foundations based mainly in Western Europe, the US or other rich countries (Spurga 2007). The European Union (EU) and other donors, such as the United Nations (UN) and the United States Agency for International Development (USAID) (European Movement 2015) were also recognised as a factor that shaped the development of CEE after the collapse of state socialism.

International aid supported the re-emergence of civil society, which had been oppressed during state socialism. At the beginning of the political and economic transition period, international aid mainly funded organisations dealing with democratisation, human rights and community building. Today, it can be argued that donors’ perspective subsequently shifted from democratisation to introducing support mechanisms oriented towards active social policies and sustainable development, in which social enterprises fit well. The emergence of social entrepreneurship can mainly be linked to international funding sources.

The SE field in CEE is considered to be “less developed” than its Western European counterpart (Galera 2016; ICF 2014; Borzaga *et al.* 2008). Questioning the linear historical approach and in an attempt to avoid “self-colonisation”, we—CEE researchers—aimed to understand the emergence of the SE field in CEE through shedding light on the major funding bodies and their agenda in SE development (their SE narratives). Therefore, our guiding research question was the following: “In which ways has external financial support (in the form of grants, subsidies, direct donations, seed funding) influenced the development of social entrepreneurship in CEE?”

Beside other international development agencies, the EU is highly influential in the region; we purposefully selected CEE countries that were at different levels in terms of EU integration. Poland and Hungary had become EU members already in 2004; Croatia joined the EU in 2013; and Albania, North Macedonia and Serbia are currently candidates for EU membership.

The methodological approach used in this study relied on desk research and country summaries. Desk research included a collection of secondary data based on available documents, reports, studies, strategies and other relevant documents regarding social entrepreneurship in the researched



countries. Country summaries<sup>4</sup> were mostly fed by contributions to the ICSEM project, which focused *inter alia* on the historical trajectories of social enterprises, as well as by reports prepared for the European Commission Report on Social Enterprises and their Ecosystems,<sup>5</sup> which also paid attention to social enterprises' financing mix.

## 2. Comparative Analysis of Six CEE Countries

Our comparative analysis focuses on two broad issues. First, we briefly introduce the contexts wherein social enterprises emerge, develop and operate. Secondly, we aim to better understand how international actors influenced the development of the SE field in the six countries studied. As financial sources represent power, we attempt to outline, in this section, how international actors define social enterprise in their project of developing the field in CEE.

### 2.1. National Contexts for Social Enterprise

Although most of the countries analysed had a rich cooperative history before World War II, state socialism had a negative impact on civil-society initiatives and cooperatives. The concept of social enterprise only gained recognition in this region after the collapse of state socialism, when international development agencies stepped in to initiate and influence the development of the SE field. The concept emerged around 1995 in Hungary and Poland; in Albania, Croatia and North Macedonia, social entrepreneurship only started receiving attention in the new millennium.

EU funds became available to develop the SE field earlier in those countries that accessed the EU sooner (Hungary and Poland)<sup>6</sup> than in the other four countries studied. In Albania, SE activities emerged shyly before 2000 as part of the activities of civil-society organisations (CSOs), but the real development only started around the year 2010 (Partners Albania 2013). In Croatia, the discourse on social entrepreneurship emerged around 2005 and became more pronounced from about 2013–2014 onwards (Šimleša *et al.* 2016; Vidović 2012). The discourse on social enterprise emerged in Serbia in the early 2000s, and it was partly driven by the influence of foreign donors (European Commission 2018). The concept of social enterprise emerged in the third-sector discourse in North Macedonia around 2008–2009, and social entrepreneurship is still considered as a relatively new phenomenon there (Srbijanko *et al.* 2016; Ilijevski and Iloska 2018).

The fields of SE activities range across a wide spectrum: agricultural production, education, social services to people in need, vocational training (Partners Albania 2016), access to employment (Republički zavod za statistiku 2014), training and information and communication services (Ilijevski *et al.* 2016).

Most of the social enterprises are legally registered as associations, foundations and cooperatives (especially social cooperatives in Croatia, Hungary, Poland and, to a lesser extent, Serbia). Some social enterprises also operate under the legal form of (non-profit) limited-liability company (Ltd). With a view to overcoming taxation challenges, there are also cases where social enterprises exist under more than one legal form (for Hungary, for example, see G. Fekete *et al.* 2017).

Although the reliability of statistics on social enterprise is limited in CEE countries, some estimates of the size of the sector in the countries under consideration have been provided; they range from some 30 social enterprises (in North Macedonia)<sup>7</sup> to a few thousand initiatives (in Poland).<sup>8</sup> The definition of a social enterprise may vary across countries or from one funding body to the other. This also influences statistics and makes comparing numbers on social enterprises challenging. In this chapter, we do not use a unique definition,<sup>9</sup> but we consider national (and donors') perspectives on social enterprise as relevant.

There is no specific law on social enterprise in any of the analysed countries, except in Albania, where a rather restrictive law was approved in 2016. As for the fiscal framework in the studied CEE countries, it is either scarce or fragmented and not favourable to social enterprises. Social enterprises operate under different laws connected to their legal forms. Social entrepreneurship is not identified in bottom-up dynamics; SE initiatives are rather shaped, in most of these countries, by various strategies or government calls/tenders. Beyond SE development agencies, the definition of “social enterprise” and “social entrepreneurship” in CEE countries has been strongly influenced by the European Commission (in almost all countries), as a high ratio of state-funded SE activities have been financed from the European Structural and Investment Funds (ESIF) in EU member states and from the Instrument for Pre-accession Assistance (IPA) for EU candidate countries and potential EU candidate countries in the Western Balkans.<sup>10</sup> Among the CEE countries studied, Croatia has a distinct “Strategy for the development of social entrepreneurship”. Poland has a specific governmental structure and a “Programme for social-economy development” (Ministerstwo Pracy/Polityki Społecznej 2014). In Hungary, support to social enterprises is provided under the Economic Development and Innovation Operational Programme (EDIOP) and the Rural Development Programme (RDP), co-financed by the EU (G. Fekete *et al.* 2017). In other CEE countries, “social entrepreneurship” is mentioned in various government strategies, or in documents related to employment, development of small and medium enterprises, alleviation of poverty, or cooperation between the government and civil society. In these documents, by contrast, the terms “social economy” and “social enterprise” are rarely mentioned.

## 2.2. *External Financing and Its Effects on Social Entrepreneurship*

In most of the countries studied, the first “footprints” of social enterprise can be found in state socialism, in the form of cooperatives (as for example in Albania, North Macedonia and Serbia), or even long before that, during World War II (as in Poland), in the form of voluntary engagement and cooperatives. However, under state socialism, cooperatives were not autonomous initiatives set up by a group of citizens; they were controlled by the state.<sup>11</sup> Such origins contrast with those of recent social enterprises, which emerged during the last two decades as part of the activities of non-profit projects, and which were often funded by supra-national organisations (Partners Albania 2013; Vidović 2012). Table 13.1 summarises the key aspects of external financing related to the development of social entrepreneurship in a comparative perspective.

On the basis of our country summaries, we consider external financing as significant, but concrete numbers are often missing or are difficult to obtain in official documents and statistics. Nevertheless, it is possible to outline the major funding bodies that influenced SE development in the analysed CEE countries. In terms of external financing, the role of SE development agencies, the EU and other international development agencies can be highlighted.

### *SE Development Agencies*

SE development agencies preceded EU institutions and proved to be highly influential in the development of the SE field in CEE. The introduction of the concepts of “social entrepreneur” or “social enterprise” can be linked to these agencies’ activities.

NESsT, a US-based SE development agency, was present in Croatia between 2005 and 2017 (Kadunc *et al.* 2014; Vidović 2019) and has also been present in Hungary since 2001 (G. Fekete *et al.* 2017). Financial sustainability and innovation are emphasised in the definition put forward by NESsT, which describes social enterprises as organisations consciously organising and operating entrepreneurial activity in order to solve societal challenges in an innovative way (Tóth *et al.* 2011: 5). NESsT has always put a strong emphasis on earned-income strategies of non-profit organisations; this approach could thus be considered to represent the SE “earned-income school of thought” (Defourny and Nyssens 2014). NESsT provides both capacity-building services and investment for potential social enterprises.

Ashoka, another international SE development agency, has been shaping the SE field in Poland since 1994 and in Hungary since 1995. Ashoka focuses on social entrepreneurs, that is, individuals who implement solutions that are changing systems, putting forward solutions to the world’s

*Table 13.1* Key characteristics of external financing for social enterprise in a comparative perspective

<i>Relevant aspects</i>	<i>Comparative perspective—key characteristics</i>
Periods of SE recognition	<ul style="list-style-type: none"> <li>• Specific historical experiences related to the cooperative sector under Soviet-type socialist regimes and to workers’ self-management under Yugoslav socialism as backgrounds influencing behaviours in post-socialist countries</li> <li>• Some recognition in the mid-1990s in Poland and Hungary (connected to SE development agencies and later to the EU)</li> <li>• Recognition of social enterprise approximately in the last decade for non-EU countries (and Croatia)</li> </ul>
External financing for social enterprises	<ul style="list-style-type: none"> <li>• No specific data about the share of external funding in the overall funding available to social enterprises</li> <li>• SE development is often only one goal in multiple-goal tenders</li> <li>• SE activities are eligible for financing in the tenders oriented towards other entities, like CSOs</li> </ul>
Main donors	<ul style="list-style-type: none"> <li>• EU (funds and pre-accession programmes)</li> <li>• SE development agencies, such as NESsT, Ashoka and Yunus Social Business</li> <li>• Other international actors: foreign embassies, foundations and development organisations, such as UN, USAID and World Bank</li> </ul>
Main type of activities funded <sup>12</sup>	<ul style="list-style-type: none"> <li>• Work integration (or employment of marginalised people)</li> <li>• Social services and social inclusion of marginalised people</li> <li>• Rural development (mostly related to cooperatives)</li> </ul>
Perception by the general public and by the government	<ul style="list-style-type: none"> <li>• Reservations due to the legacy of “images” related to socialism</li> <li>• New area that remains relatively unrecognised</li> <li>• Social enterprise as a concept coming from foreign development aid (especially in post-Yugoslavian countries)</li> <li>• In some countries, stigmatisation of those CSOs that accept funding from international donors (other than the EU)</li> </ul>

Source: Adapted by the authors, based on the different country contributions

most urgent social problems (Ashoka 2015). Ashoka represents the “social-innovation school of thought” (Defourny and Nyssens 2014) and supports “social entrepreneurs” through financial and professional means.

Ashoka and NESsT cooperate with other funding bodies, such as banks (Bank Pekao SA) or foundations, which are often connected to banks (UniCredit Foundation, Erste Foundation).

Yunus Social Business has been carrying out projects in the Balkans since mid-2012. It was formally established in Albania in 2013, and since 2015, it has expanded its activities towards other non-EU Western Balkan countries, under the name “Yunus Social Business Balkans”. Yunus Social Business Balkans also represents the “earned-income school of thought” in the region (Defourny and Nyssens 2014), as “it aims to address social issues through supporting the creation of start-ups/businesses that have potential to create social impact for the society”.<sup>13</sup> The organisation runs entrepreneurship inspiration/awareness campaigns, implements incubation/acceleration and investment-readiness programmes, facilitates access to financing and supports the development of an enabling entrepreneurship ecosystem in the region.<sup>14</sup>

### *EU Funds and Pre-Accession Programmes*

Since the 1990s, “social enterprise” and “social innovation” have become increasingly characteristic of EU policies (Fougère *et al.* 2017). Social enterprise indeed fits the EU’s ideals of “inclusive growth”, “full employment” and “competitive market economy”. On a discursive level, social enterprise is considered as both a vehicle of economic growth and a solution to social challenges (Fougère *et al.* 2017). Our analysis has revealed that the main sources of external financing in CEE are closely related to the EU.<sup>15</sup> Hungary (Szabó and Márkus 2015) and Poland greatly benefited from pre-accession funds, and EU funds available after the accession boosted the SE field. Right after the accession of ten new EU member states,<sup>16</sup> in 2004, SE initiatives were rapidly integrated into the ongoing EQUAL Community Initiative (2002–2008). EQUAL had a €3-billion EU budget, and it recognised the potential of the social economy and social enterprises to promote employment and social inclusion as well as to reduce inequalities in the labour market. The social economy was one of EQUAL’s nine themes, with a focus on the creation of social businesses and the promotion of the entrepreneurial spirit (Ferreira *et al.* 2019). In Poland and Hungary, many social enterprises emerged in this period. These social enterprises operated mainly in the field of professional reintegration of disadvantaged groups.

As a result of Hungary and Poland’s accession to the EU, in 2004, the concept of social economy gained importance in these countries’ public policies; the legal form of social cooperative was introduced in both countries in 2006 (European Commission 2019). Due to a strong political recognition, social cooperatives, which were often municipality-based rather than civilian-based, had good access to EU funds. These initiatives were expected to fulfil work-integration functions, and they received wide support via regional grant opportunities in Operational Programmes from the European Social Fund (Ciepielewska-Kowalik *et al.* 2015; G. Fekete *et al.* 2017).

Hungarian social cooperatives are concentrated in peripheral rural areas, which are particularly affected by long-term unemployment. These organisations often rely dominantly on project-based funding, and they are expected to tackle the complex challenges of long-term unemployment (G. Fekete *et al.* 2014) and social exclusion. Due to generous—but project-based—EU support schemes, the number of social cooperatives in Hungary increased rapidly, from one in 2007 to 2,490 in 2015 (Havas and Molnár 2017). However, despite this tremendous growth in numbers, social cooperatives' size and contribution to employment remain relatively insignificant.<sup>17</sup> Moreover, the latest pieces of legislation further limit the autonomy of these initiatives in Hungary (European Commission 2019).

In Croatia, although the first impetus for the creation of a social-entrepreneurship sector came from SE development agencies (Kadunc *et al.* 2014; Ivanković-Knežević *et al.* 2013), the sector is now mainly shaped by EU funds. For example, all the funding related to the first strategy for social-entrepreneurship development in the country relies on financial sources stemming from the EU (Baturina 2018). The social inclusion of marginalised groups and the field of WISEs are also highlighted in different strategies as areas in which social enterprise could be specifically developed and financed on a project basis through EU funds (Baturina 2018).

In non-EU countries (Albania,<sup>18</sup> Macedonia [Ilijevski and Iloska 2018] and Serbia), the Instrument for Pre-accession Assistance (IPA) is open for financing a wide range of socially entrepreneurial activities, mostly through tenders that are oriented towards civil society.<sup>19</sup> In Albania, EU funding is seen as an instrument to support wider social and economic development (also in civil-society and social-entrepreneurship areas).

In summary, the EU is highly influential in the studied CEE countries. Social enterprises are seen in EU-funded projects as having the potential to ease social tensions through fulfilling work-integration functions. However, project-based funding is not sufficient for these organisations to stay alive. Indeed, even though EU programmes provide a considerable amount of funds for developing the SE field, civilian-based organisations (especially smaller social enterprises) encounter challenges in accessing these funds. Tenders are written in a way that benefits large organisations, which are politically less autonomous (see, for example, European Commission [2019] for an analysis of this issue in the Hungarian context, or Baturina [2016] for a similar analysis about Croatia).

### *Other International Actors*

In the six CEE countries studied, we identified a variety of other international actors that had an impact in shaping the SE field. Foreign embassies, international foundations (such as the ERSTE Foundation and the

Open Society Foundation) and development organisations (such as UN programmes, USAID, Partners Albania,<sup>20</sup> the World Bank, the British Council and the Swiss Agency for Development and Cooperation) are some of them.

The British Council shaped the conceptualisation of “social entrepreneurship” in Croatia and Serbia through its training programmes for social entrepreneurs titled “Skills for Social Entrepreneurs” (Kadunc *et al.* 2014). As the British Council defines social enterprise as “a business with primarily social objectives where surpluses are reinvested either in the business or in the community”,<sup>21</sup> its approach fits the “earned-income school of thought” (Defourny and Nyssens 2014). In Croatia, the Council also helped to form a pool of trainers that became part of the Social Entrepreneurship Forum (SEFOR) network (Kadunc *et al.* 2014).

Some international development organisations (such as USAID or the Swiss Agency for Development and Cooperation/Transition Assistance<sup>22</sup>) focused dominantly on the Western Balkans, which experienced high levels of unemployment and where many people remained on the margins of society due to the war in Yugoslavia. Both USAID and the Swiss Agency for Development played a role in financing enterprising civil-society organisations.

The EEA/Norway NGO Fund and Swiss-Hungarian NGO Grant and Scholarship Fund proved to be particularly important for civilian-based social enterprises in Hungary and Poland. As members of the European Economic Area (EEA) or the European Free Trade Association (EFTA), Iceland, Lichtenstein, Norway and Switzerland<sup>23</sup> provided grants for the ten countries that joined the EU in 2004, with the aim of reducing social and economic disparities. But after 2014, politically autonomous civilian organisations (i.e. organisations that were independent from party politics) were openly attacked by the government in Hungary. The diplomacy conflict that has been escalating since 2014 between Norway and Hungary over the EEA/Norway NGO Fund and Swiss-Hungarian NGO Grant and Scholarship Fund (Kelemen-Varga *et al.* 2017) is very revealing of the attempt, on the part of the Hungarian government, to extend its control over funding sources dedicated to civilian organisations. Funding sources that are independent from the Hungarian government are increasingly being stigmatised.<sup>24</sup> Similar processes, though on a lesser scale, can also be observed in Croatia, where the government is trying to put under tighter control funds for the civil society (Baturina 2016).

### **3. Lessons From the Comparative Analysis**

There are a couple of lessons that can be drawn from this transversal analysis. First, although it can be argued that external financing was generally not crucial for the development of social enterprise throughout Western Europe (ICF 2014), it was clearly important for the development

and the shaping of social entrepreneurship in CEE countries,<sup>25</sup> which are situated on the semi-periphery of the global economy. The SE field did not receive enough public support, or had it developed sufficient self-financing mechanisms or markets.<sup>26</sup> External financing or donors are often seen in post-socialist countries as a “magic bullet”, capable of solving all types of problems. In the countries we studied, however, we would rather conclude that it was more of a “trigger”, in that it opened a path towards the recognition of social entrepreneurship as a new trend that can be beneficial to address some social challenges. Meanwhile, it is also important to emphasise that SE policy narratives may legitimise the welfare state’s withdrawal from funding civil-society organisations that used to provide public services.

The second lesson is that different donors shape the SE field in different ways. SE development agencies, which preceded EU funds in Croatia, Hungary and Poland, have different approaches: while NESsT mainly focuses on strengthening the business approach of non-profit organisations, Ashoka is oriented towards strengthening the entrepreneurial and other skills of social entrepreneurs (through education or competitions). SE development agencies dominantly rely on US-based SE narratives (“earned income school of thought”), and they do not reflect on the socio-economic context for social enterprise in CEE. EU funding caused social entrepreneurship to develop more in areas, such as work integration (or employment of marginalised people), social services or rural development than in other areas, that were not targeted by EU funds. The EU’s discourse on social enterprise fits into the EU’s strategy, which focuses on inclusive growth, full employment and a competitive social market economy and in which territorial cohesion and social integration are priority areas. The other international actors (USAID, Open Society Foundation) sometimes focus on developing civilian-based social enterprises. As civilian-based initiatives are harder to control and may express criticisms about social policies, certain CEE governments may try, as we underlined earlier, to gain control over or cut their funding sources.

Among the different donors, the EU is the actor with the highest influence in shaping the SE field in the CEE countries that are at different levels of EU integration; this is our third lesson. Indeed, CEE countries have used EU funds to support the development of social entrepreneurship, both directly and indirectly. These sources significantly influenced the direction in which the SE sector has developed in the countries in our study that have joined the EU (Croatia, Hungary and Poland), but paradoxically, the EU’s transformative potential is still higher in countries that have not joined it yet (Vandor *et al.* 2017). Analysis indeed shows that IPA greatly influences the development of social entrepreneurship in non-EU member states. Due to the availability of EU-based funding specifically intended for social enterprises, social enterprise appears in the strategic documents and social policy of the CEE member states of



the EU. In some cases, a new legal form (social cooperative in Croatia, Hungary, Poland and Serbia) is even created. On a discursive level, social enterprises with a work-integration function are expected to contribute to economic growth and the easing of social challenges (Fougère *et al.* 2017). As a result, social enterprises are faced with challenges in trying to meet the expectations of EU tenders. For example, social enterprises are expected to solve long-lasting social issues rooted in structural inequalities (such as long-term unemployment or social exclusion), but they only have access to project-based funding—which, by nature, is limited in time.

The fourth lesson is that, in all the studied countries, third-sector organisations consider the social entrepreneurial activity as having a self-financing potential. The increased reliance on market-based income could possibly be interpreted as a survival strategy of third-sector organisations in times of crisis (characterised by neoliberal policies of austerity and the shrinking role of the welfare state).<sup>27</sup> Similar developments can be observed in the third sector in wider European contexts (Pape *et al.* 2016). In this respect, social entrepreneurship can be seen in CEE as part of a resilience strategy of the third sector, a widening of the scope of activities of third-sector organisations towards the market with a view to using all available resources to survive. Such a shift was supported by international actors providing knowledge and (external) financial resources to third-sector organisations.

## Conclusion

Our analysis shows that external financing of social entrepreneurship, by introducing the SE concept in areas, such as employment, social inclusion and sustainable development, is seen as an investment in social development. However, such an approach towards social enterprise can also legitimise neoliberal policies and a further withdrawal of the national states from social service provision, and it can place too high expectations on the civil society, without providing it with appropriate funding to meet such expectations. Third-sector organisations in CEE clearly behave as rational actors when they adapt their activities to available financial sources.

Limitations of this study on the impact of external financing on social enterprise in CEE were related to the lack of available data. Therefore, we consider this analysis to be partly exploratory, and it should hopefully be followed by further research, looking into and deepening insight into external financing—which, as our analysis has shown, had and still has a significant impact on the development of social entrepreneurship in CEE. Our analysis confirmed that SE researchers need to reflect on how donors' priorities and narratives shape the SE field in CEE and beyond.

Finally, reliance on external funding in CEE can be better apprehended when understanding that states in semi-peripheral countries tend to fund less welfare-related services delivered by third-sector organisations than what is the case in core countries (such as Western European ones). In addition, in CEE, the relationships between the state and civil society are characterised by democratic deficits and a lack of partnerships, and civilian-based social enterprises are hindered from fulfilling welfare functions due to their having only limited access to public funds. In short, there is still a long way to go to provide enabling ecosystems for social enterprises in CEE.

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## Notes

1. The term “Central and Eastern Europe” is meant to include those countries that experienced state socialism in recent history.
2. Leś and Kolin (2009) observe that foreign aid, which provided technical assistance, know-how and financial backing to third-sector organisations, was one of the factors that contributed to the emergence of social enterprise in CEE.
3. For 50 years, “development” has provided a remarkably stable framework, within which the relationship between the “developer” (the affluent West) and the “developed” (the “others”) has been understood (Mosse 2005). However, in current debates, “development” is subjected to critical scrutiny (Fischer-Tahir and Naumann 2013; Pike *et al.* 2006; Eversole 2014; Evans and Syrett 2007). While radicals question the relations of global inequality and cultural dominance implied in the idea of development itself, international development agencies devote their policy processes to constantly revising and re-framing development so as to shore up their legitimacy in a fast-changing political environment (Mosse 2005: 1).
4. The country summaries were written by Eriela Haska and Ariola Agolli for Albania, Danijel Baturina for Croatia, Julianna Kiss and Melinda Mihaly for Hungary, Marija Bashevaska and Jana Korunovska Srbijanko for North Macedonia, Anna Ciepielewska-Kowalik for Poland and Dina Rakin and Vladimir Radojičić for Serbia.
5. For more information, see European Commission (2020).
6. See Chapters 5 and 8 in the present volume.
7. The last “country fiche” about social enterprises and their ecosystem in Europe estimated, though, on the basis of a wider definition, that there were a few hundred social enterprises in North Macedonia (Ilijevski and Iloska 2018).

8. The number of social enterprises is also obviously linked to the size of the country, but in any case, numbers must be considered as mere estimates, due to the fact that the definition of social enterprise varies from one country to the other and to the lack of official statistics.
9. Nor do we analyse different definitions in detail, as other studies do (see for example European Commission 2020).
10. In the countries studied, the use of the terms “social entrepreneurship” and “social enterprise” varies according to the country considered. In some countries, such as Poland, the notion of “social enterprise” has dominated the debate and it is the term that is most broadly recognised among the general public. In other countries, like Croatia, it is the notion of “social entrepreneurship” that dominates. Both concepts have been used in the public debate and at institutional level, though, so we analyse both while taking into account country-specific approaches.
11. See Chapter 12 for an analysis of this socialist legacy.
12. Estimated from available data, literature and country summaries.
13. Yunus Social Business Balkans: [www.balkanimpact.com/about-us](http://www.balkanimpact.com/about-us) (accessed on May 29, 2019).
14. Yunus Social Business Balkans: [www.balkanimpact.com/about-us](http://www.balkanimpact.com/about-us) (accessed on May 29, 2019).
15. Although such funds are not external *per se* for EU member states, they are often perceived in that way. Such perception is usually observed in particular during the accession period and the first years of membership, when the process of “Europeanisation” (Radaelli 2004) and “internalisation” of membership is not completed yet. A good example is provided by Croatia: after five years of membership, the general public still perceived European funds as external financing, although they were officially considered as public sources, like in other EU member countries (such as Hungary and Poland).
16. Among these ten countries (Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia), two—namely Hungary and Poland—were part of our analysis.
17. Most of the social cooperatives were created thanks to the availability of EU funding, and the project’s initiators were unable to sustain the social cooperatives when such funding came to an end. After 2010, social cooperatives became increasingly linked to the public-work programme funded by the government and linked to local municipalities.
18. In Albania, the IPA CSF 2016–2017 programme focused to a large extent on the development of civil society’s capacities and on support to social-economy initiatives for inclusive development.
19. The IPA was also important, in the countries that joined the EU (Croatia, Hungary and Poland), before their accession.
20. Partners Albania is an NGO established in Albania in 2001. The organisation is a member of Partners Network, a partnership of 22 independent, local organisations in Europe, the Americas, Africa and the Middle East, working for peaceful and democratic change. Partners Albania is working to encourage the development of social entrepreneurship in Albania through seed funding, know-how and networking support for start-ups; it also works in evidence-based advocacy for an enabling institutional and financial environment for social enterprises (<http://partnersalbania.org/>).
21. British Council; see [www.britishcouncil.vn/en/programmes/society/skills-social-entrepreneurs](http://www.britishcouncil.vn/en/programmes/society/skills-social-entrepreneurs) (accessed on May 29, 2019).
22. Swiss cooperation with Eastern Europe; see [www.eda.admin.ch/deza/en/home/activities-projects/activities/cooperation-eastern-europe.html](http://www.eda.admin.ch/deza/en/home/activities-projects/activities/cooperation-eastern-europe.html)

23. Switzerland is only member of the EFTA.
24. For a detailed overview of how civilian-based initiatives have become increasingly marginalised in Hungary in recent years, see Mihály (2019) and European Commission (2019).
25. A recent regional study (Varga 2017) also estimates that donors supporting social enterprises in CEE are mostly foreign. On the other hand, data from the ICSEM survey, which cover a sample of 105 social enterprises across CEE countries (Brolis 2019), suggest that SE income mostly comes from sales to private or public customers and public grants/subsidies.
26. In addition, social entrepreneurship is still relatively unknown to the general public in all the countries under consideration. The general public also has some reservations towards social enterprise due to the legacy of the “collective image” related to socialism (as for example in Croatia; see Vidović and Baturina 2016), which can hamper social-entrepreneurship development.
27. Large EU tenders can also encourage rent-seeking behaviours (European Commission 2019; Baturina 2016; Bežovan *et al.* 2016). This can account for the fact that social enterprises are more interested in carrying out activities in the fields that are financially supported.

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# 14 Endogenous vs. Exogenous Drivers in the Development of a Social Enterprise Sector

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## Introduction

The aim of this chapter is to discuss the role that endogenous and exogenous factors play in the constitution of a contemporary national sector of social enterprise (SE). More precisely, we will contrast nationally specific and historically rooted drivers with global, internationally diffusive drivers in order to assess their specific value for the development of social enterprise in a country. By endogenous factors, we mean authentic forms of SE-like organisations that have a history of functioning in a country, national laws and regulations rooted in that history as well as a nationally constituted institutional framework. By exogenous factors, we refer to policy initiatives, financial incentives, knowledge and management forms coming from the broader surroundings (the European Commission or EU member countries, the US, various international organisations and networks).

In our approach, two important observations underline the relevance of the topic:

- Most of the empirical evidence proves that social enterprises play significant roles in modern economies and, especially, in compensating for the weakening of the welfare state (Borzaga and Defourny 2001: 3–5; Graefe 2005: 11). Social enterprises employ a significant number of people, generate an important share of GDP and prove to be sustainable, even in periods of economic crisis (Monzón Campos and Chaves 2007, 2012, 2016; European Commission 2018).
- In many countries, social enterprises act within an organised “subsystem” that could be considered as a separate sector of economy. This subsystem is regulated by specific legal acts, involves numerous actors (public institutions, private businesses, academia, civil-sector organisations), has access to funding sources, etc. (European Commission 2015; Monzón Campos and Chaves 2007, 2012, 2016).



If we consider social enterprises as part of the social economy,<sup>1</sup> we can refer to Defourny and his co-authors, who state that

*[N]eed is an insufficient explanation for the social mobilisation that lays behind its manifestations. The collective identity, the belonging to a group whose members were aware that they shared a common destiny, is a second rung of the explanation already developed by De Tocqueville.*

Defourny *et al.* (2001: 14)

We presume that conditions for the sustainable growth of the SE sector are met only when the inevitable global diffusion of SE goals and models meets authentic needs and historically developed, culturally conditioned practices in a country.

Based on the earlier, we hope to contribute to a better understanding of the SE sector in the countries presented and to shed more light on the possible “spots” for future policy intervention in this regard.

With a view to singling out, to the largest possible extent, the respective effects of endogenous and exogenous factors, we chose to focus on three European countries that are all characterised by their late modernisation. Indeed, in these countries, exogenous factors play a particularly important role in the development of social enterprise and can be more clearly distinguished from endogenous factors than in countries that underwent an early modernisation.

The analysis will be based, as just mentioned, on data from three countries—namely Armenia, Greece and Serbia; these countries entered modernisation after the liberation from the Ottoman rule, in the mid-19th century, and they have since followed different paths of economic, political and social development. Indeed, although these three countries started with similar social and economic structures (predominance of rural population, underdeveloped economies, weak institutions), their subsequent paths of development were marked, respectively, by Soviet-type socialism in Armenia, “liberal” socialism in Serbia and capitalism in Greece. These facts provide favourable ground for a comparative analysis. Our aim is to find how endogenous and exogenous drivers combine to support the development of the SE sector.

## 1. How Does an SE Sector Develop?

A recent research report reveals that, in European countries, the SE sector has reached different levels of development in terms of number and activities of social enterprises; legal and institutional framework; networking/partnerships; financial instruments/incentives; and awareness of social entrepreneurship (European Commission 2015). In addition to some common characteristics of the sector, each European country shows

certain peculiarities, which proves that the development of a national sector of social enterprise is “authentic” to a certain extent.

The development path of the SE sector can generally be split into three stages: (1) the initial stage; (2) the institutionalisation stage; and (3) the sustainability stage. At each stage, different actors and processes exist and/or are developed to a certain extent, achieving higher functionality and better integration of the various elements cited earlier—which then leads to a higher stage of development (Shrestha 2014).<sup>2</sup> In the initial stage of development of social enterprise, all factors (initiatives, legal/institutional framework, networking . . .) are only emerging and gradually evolving. The main feature of this phase is the fact that all factors appear, though they do not necessarily emerge at the same time and they usually develop at different paces. Since the various factors develop relatively independently, an important issue is the moment at which the whole sector transits from the initial into the institutional stage. For this to happen, not all factors need to be equally developed but all of them need to have developed at least to some extent. According to Shrestha:

*At a certain stage of development, these factors come into synergy, all components institutionalise, gain their foothold in the society (in normative acts—laws, in value terms—in the public, policies of public actors, among homologous and heterologous actors), legitimise and develop further with the support of social groups and structures.*

Shrestha (2014: 26)

In the sustainability stage of the sector, social enterprises are accepted and integrated into the economic and political system of a contemporary society. At this stage, the purpose and operation of social enterprises cannot be affected by changes in the political and economic system (except for radical changes in economic relations) (Shrestha 2014: 31).<sup>3</sup>

The transition from the initial to the institutional stage is very much based on the capacity of the actors involved, and primarily that of social entrepreneurs. Since the effect of their action depends on their activity as well as on the obstacles they have to face and the incentives (different types of resources) they can use, it is important to assess all these aspects. That is why, in presenting the development of social enterprise in Armenia, Greece and Serbia, we describe the following factors:

- actors in the field of social entrepreneurship: primarily not only social enterprises, social and other cooperatives and social entrepreneurs but also civil-society organisations, governments and state institutions, corporate sector and financial institutions;
- networking and partnerships among different actors on various bases and at different levels;

- legislative frameworks (laws and other legal regulations that define legal forms and operations of social enterprises);
- financial mechanisms, instruments and incentives for the development of social entrepreneurship (donations, loans, investments, tax exemptions, etc.);
- role of social enterprises in social policy and social care;
- awareness of social entrepreneurship among citizens (best examples of social enterprises known to the public, citizens informed about social entrepreneurship, etc.).

The rise of social enterprise has occurred in a globalised world, and it has largely been boosted through the diffusion of ideas, resources, organisational patterns, networks, as much as it is influenced by the national legacy of—broadly speaking—the social economy. To explain the development of social enterprise in the three countries analysed, we borrow elements from the path-dependency theory (Stark 1994; Granovetter 2002; Ebbinghaus 2005). On such a basis, we may state that the development path of the SE sector in each country is marked by historical specificities, and that the combination of endogenous and exogenous factors shapes specific steps of development for each country's social enterprises. It appears that the degree of importance of each of these groups of factors depends not only on the level of resources and organisational capacity of social enterprises but also on the prevalence of solidarity, philanthropic and collectivistic values and their manifestation in the interplay between bottom-up and top-down dynamics. The latter are “strongly intertwined with the development of the welfare state systems” (European Commission 2020: 42). This fact emphasises the role of political culture in explaining the development path of social enterprises. Generally speaking, we expect countries with a tradition of political freedoms, market economy and entrepreneurship, civic activism and “horizontally arranged” (flexible, adaptable) institutions to be more in favour of the institutionalisation of social entrepreneurship than those countries that have a long history of authoritarian rule, command economy and dominance of an etatist and paternalist political culture. But institutional legacy matters as well. The development path of social enterprises is not the same in countries that were modernised earlier in history and have a long tradition of humanitarian, civic and social-economic activism, as well as recognised patterns of social entrepreneurship, as in countries that experienced belated modernisation and where social enterprises are emerging mostly *ab novo*. In the latter case, exogenous factors and the diffusion of external organisational and institutional models play a much stronger role than in the former. This is why we have chosen three countries that are all characterised by belated modernisation but which differ from one another in that they have taken different paths in terms of social and economic development.

## 2. Country Profiles

Our intention is to analyse how, in Armenia, Greece and Serbia, the interplay between the forms of social enterprise that have historically been present, responding to the needs of the community, on the one hand, and the incentives for SE development and models of social enterprise implemented through international cooperation, on the other hand, leads to the development of the SE sector.

### 2.1. Armenia

Different dimensions and elements of social entrepreneurship, as well as different types of association and foundation, have been present in Armenia for a long time. However, the number of social enterprises in Armenia today remains small, and these organisations do not have their origins in traditional forms of the social economy. Throughout Armenian history, state- and market-failure problems have generally induced the creation of farmer groups and cooperatives, consumer cooperatives and other voluntary associations. The aim of these initiatives was to solve their members' common problems and to take care of social problems in their surrounding communities. These organisations were in line with the "mutual" and "community" purposes of the SE typology developed by Gordon (2015). However, during the time of socialism, which started in Armenia at the very beginning of the communist revolution in Russia, the state, which was omnipresent, suppressed all civic and communitarian initiatives and granted itself the exclusive formal right to entrepreneurship.

After the severe earthquake that hit the country in 1988 and the collapse of the Soviet Union, the consequences of the ensuing economic crisis and the war in Nagorno-Karabakh induced the creation of charity and philanthropic organisations concerned with the rehabilitation of the earthquake zone and the development of health, education and welfare systems in the country, which was in a post-socialist transition. These charities were family foundations established by the Armenian diaspora as well as branches of international charity organisations.<sup>4</sup> The founders of these initiatives brought solid experience in business and finance management, and strengthened values of solidarity in Armenia; moreover, these foundations were able to invite other rich Armenians from the diaspora to join them and thus scale up their activities and extend their scope of operations.

The diaspora effect might be regarded as a key element in the development of an authentic Armenian stream of social enterprise, but the SE concept itself became known in Armenia only in the mid-2000s, through international development organisations, charities and donors. The first wide-scale SE development programme was introduced by the Eurasia Partnership Foundation (EPF) in 2009.<sup>5</sup> In 2010, the programme granted

financial support to several NGOs to initiate commercial activities and improve their financial sustainability. EPF suggested using the SE model to increase civil-society organisations' (CSOs') financial sustainability and recommended that these organisations create a separate for-profit entity (a spin-off) in order to do so, since NGOs could not, at that time, engage in commercial activities. Experts who subsequently analysed this experience considered that the social-entrepreneurship concept had been left vague; the programme concentrated on business development, without developing mechanisms for reinvesting the revenues back into non-profit organisations, and the majority of the commercial entities that had been created with the support of the programme drifted apart from their parent CSOs and disappeared from the SE sector (British Council 2015). A British Council study shows that, according to the 2014 State Business Registry, only 205 CSOs were associated with registered commercial entities (limited-liability companies), and it is unlikely that all these 205 LLCs were social enterprises. For example, only seven out of these LLCs associated with a CSO were dealing with persons with disabilities (PWDs).

So far, the concept of social enterprise has not been used by public institutions in Armenia. There is neither a definition of social enterprise in policy papers and ministry documents, nor a specific legal framework for social enterprises and social entrepreneurship. There is also a huge misunderstanding of the concept of social enterprise in the country; indeed, some organisations think that any effort to achieve financial sustainability would turn them into a social enterprise. However, thanks to continuous promotion by international donors, the concept of social enterprise is gaining popularity, becoming better known and discussed, being more frequently included in public-policy papers and gaining an increasing development potential.

We can conclude that endogenous drivers of social entrepreneurship in Armenia are currently very weak. There is a lack/interruption of the country's social-economy historical tradition, and authentic national initiatives have been emerging only thanks to a relatively recent impact of Armenian diaspora-financed foundations. Consequently, the increasing inflow of international models and incentives has not yet produced a significant effect on the consolidation of social enterprises' operations. Not only due to the absence of a national legislative and institutional framework that might support initiatives' sustainability, but also, above all, due to a very low level of awareness, among all actors, of the importance and value of social enterprises for sustainable development, we can say that the SE sector is still in its initial stage in Armenia.

## 2.2. *Greece*

Although the concept of social enterprise is still rather new in Greece, its development is based on a long-lasting interaction between top-down

(state- and public-policy-led) and bottom-up (civil-society and grassroots initiatives) traditions. On the other hand, the European Commission's policies and funding mechanisms for social enterprises (Huliaras 2014: 11–12) are important exogenous factors, channelling social-entrepreneurial activities of the civil society and triggering the development of legal frameworks for social enterprises. The European Commission explicitly encouraged further policy development for the sector, specifically through the Outline Strategy and Priorities for Action to Develop the Social Economy and Social Entrepreneurship in Greece, which was conducted by an independent steering group of experts in 2013, as well as through the European support schemes for social enterprise supported by the Social Business Initiative and the Group of Experts for Social Entrepreneurship (GECES) of the European Commission.

As regards the bottom-up tradition, several actors and factors have contributed to the development of social enterprise in Greece: the church; the philanthropic tradition; the cooperative tradition, including social cooperatives; and grassroots and social movements.

As is the case in many European countries, the role of the church and of its organisations in Greece is closely linked to the provision of welfare services. The Orthodox Church provides social services, especially to vulnerable groups of the population. This role of the church goes back to the Greek Revolution of 1821 and still continues today.

Philanthropic foundations—both grant-making and non-grant-making ones—have been playing an important role in Greek society since the 19th century. Today, their activities are oriented towards developing, improving and providing social services, either on their own or through public and private organisations, thereby contributing to poverty alleviation and social cohesion.

In 1999, the legal form of limited-liability social cooperative (*Koinonikoi Syntetairismoi Periorismenis Evthinis*, or KoiSPE), a type of work-integration social enterprise (WISE), was established.<sup>6</sup> KoiSPEs aimed at reforming the mental-health sector by involving patients as active citizens in society; this evolution marked an important milestone in Greek legislation. This legal form was subsequently further developed under the 2011 law on the social economy and social entrepreneurship and then under its 2016 amendment law on the social and solidarity economy.

Bottom-up traditions, represented by actors in the field who contributed to the development of social enterprise, come from the social movements and the wider civil society and form the ecosystem around Greek social enterprises. This ecosystem is made of regional and local networks, such as the Association of Limited-Liability Social Cooperatives, the Network of Social-Cooperative Enterprises in Central Macedonia, Social-Cooperative Enterprises in Eastern Macedonia and Thrace, the Network of Social-Cooperative Enterprises in Crete, the Coordination of Social- and Solidarity-Economy Organisations in Attica and the Greek

Social Entrepreneurship Forum.<sup>7</sup> There is also a plethora of grassroots organisations that have focused their efforts—and still do—on tackling the social and economic challenges resulting from the 2010 financial crisis. Finally, international networks have been active in contributing to awareness-raising and capacity-building activities, and these activities are not restricted to specific legal or organisational forms of social enterprise.

As for top-down traditions related to SE development, they have included, since the 1980s onwards, a wide variety of laws regarding cooperatives. The aforementioned laws from 2011 to 2016 clearly referred to the challenges brought about by the economic crisis and saw the SE sector as a way to address these challenges and generate positive impacts. These laws did not refer explicitly to the term “social enterprise”, though, but only to social cooperatives, and there is neither a dedicated legal framework nor a specific policy for social enterprise as such in Greece. As for the cooperative sector, it remains rather small to this day.

The role of public authorities in the development of the SE sector should also be highlighted. The attempts at implementing legislative regulation and public policies have contributed to a higher level of awareness and recognition of the sector, based on the definitions used by policymakers. At the national level, the portfolio for social enterprises falls within the competence of the Ministry of Labour, Social Insurance and Social Solidarity. In some cases, as far as policies are concerned, and especially for the legal form of (civic) cooperative, this competence is shared with/held by the Ministry of Economy and Development. At the local level, some cities support social enterprises. Such support is not limited to organisations that are incorporated and/or operating under law 4430/2016 on the social and solidarity economy; initiatives operating under other legal forms are also entitled to it, provided they meet specific criteria. Municipalities run those support programmes mostly through their municipal development agencies. Finally, there was also an initiative at the regional level in 2018, namely a regional multidisciplinary team aiming to develop an assisted bottom-up strategic and operational planning and an accredited training programme for social enterprises.

The interplay between the top-down, state-led approach, on the one hand, and the bottom-up, actors-led one, on the other, has not always resulted in efficient or adequately developed support measures or mechanisms, able to improve the environment for social enterprises (Zoehrer 2017). Challenges for the future development of social enterprise in Greece lie in characteristics of the political and economic environment, such as bureaucracy, a dysfunctional state, institutional reforms and overregulation. As Greece is facing a high unemployment rate, social enterprises, and especially social cooperatives, are often related to the public discourse on (work) integration. There are no dedicated public grants or support schemes for social enterprises, and grants from philanthropic foundations are limited, as these can only be granted to applicant

organisations that have been recognised as non-profit by the foundations' legal departments. Social enterprises thus generate their income mainly through their economic activities, and European funds if applicable. They can also use financial tools developed by cooperative banks.

Despite the restrictions rooted in the broader political and economic status quo, the presence of social enterprise in the public dialogue has increased, which is evident from articles in the media, events and workshops dedicated to the subject. This contributes to a further institutionalisation of the SE sector and should in turn facilitate the increase of education and financing opportunities. Another, promising trend is the development of local SE ecosystems.

However, there is more to be done for the Greek SE sector to reach the sustainability stage. First, the terms and concepts of “social economy”, “social and solidarity economy”, “social entrepreneurship” and “social enterprise” are often used interchangeably, and the meaning of these various notions should be clarified. Secondly, from the perspective of public authorities or policymakers, “social enterprises” are not recognised as such, as there is no specific/dedicated legal form for social enterprise or recognition by a set of criteria. They register under the legal form of social cooperative or other social-economy types of organisation and have to meet specific legally binding criteria in order to be recognised as such organisations and gain access to public procurement and supporting mechanisms. This process does not include all bottom-up initiatives and sometimes excludes traditional social-economy or cooperative entities. Therefore, the various organisational forms and actors need to find a common voice in order to advance the institutionalisation process of the SE sector and bring it to the sustainability stage.

### **2.3. Serbia**

Social enterprise is a rather new phenomenon in the Serbian economy and policy, in both conceptual and practical terms. Its roots are to be found in two streams of development. One stream consists of cooperatives and WISEs for people with disabilities, which are the forms traditionally recognised by the Serbian legal system. The other stream consists of new organisational forms that can be used to run a social enterprise: non-profit organisations (associations of citizens and foundations) and business companies operating as CSOs' spin-offs, development agencies and business incubators. These forms have been established in the context of the recent, post-socialist transformation of the economic and social-protection systems—which emerged late in Serbia, in comparison to other post-socialist countries.

The roots of social enterprise that can be traced back to the first stream are rather weak. Although the Kingdom of Serbia was one of the eleven founders of the International Cooperative Alliance in London in 1895,



two peculiarities in the development of cooperatives in Serbia reduced the impact of this historical legacy. First, cooperatives were mostly developed in villages; they were producer and/or credit cooperatives (agricultural credit cooperatives), serving as a tool to protect small farmers jeopardised by the modernisation of agriculture in the early 20th century. Due to the prevalence of agriculture in the Serbian economy until the end of World War II, the cooperative spirit only spread to other spheres of the economy to a negligible extent.<sup>8</sup> The second factor that weakened the historical legacy of the cooperative movement in Serbia was the fact that, during the time of socialism (1945–1990) and the “blocked post-socialist transformation” (1990–2000) (Lazić and Cvejić 2007), cooperatives were under the strong political influence of the state; they decreased in number and lost their democratic character. As a result, with the rapid urbanisation that occurred after World War II, the political, institutional, historical and cultural preconditions for the development of cooperative movements in cities were quite unfavourable, while the economic and social role of cooperatives in rural areas decreased significantly.

As regards WISEs, they emerged in significant numbers during the time of socialism, based on strong egalitarian values and an inclusive social policy, but they suffered from significant economic inefficiency and low productivity. In most of the cases, WISEs performed even worse than the majority of poorly performing enterprises in the declining socialist economy. For these reasons, most of the WISEs from the socialist time could not withstand the increased competitiveness within the newly established market economy.

Both cooperatives and WISEs went through significant legal and organisational changes after 2000 and, together with non-profit organisations (NPOs), they paved the way for the emergence of social enterprises. However, exogenous factors were also crucial for the introduction of the concept and the establishment of the SE sector in Serbia. The concept of social enterprise came into wider use through a couple of research projects financed by the Swedish International Development Cooperation Agency (SIDA) and the United Nations Development Programme (UNDP) and conducted in the mid-2000s by the European Movement in Serbia (EMinS), a Belgrade-based CSO (Parun Kolin and Petrušić 2007), and by SeConS, a Belgrade-based think tank and development initiative group (Cvejić *et al.* 2008). After a couple of years, the concept of social enterprise became widespread and even appeared in a strategic document, the National Employment Strategy 2011–2020, and in a legal act—the 2009 Act on the Professional Rehabilitation and Employment of Persons with Disability. Also worth noting is the fact that an Act on Social Enterprises was drafted in 2014. The Ministry of Labour, Employment, War Veterans and Social Affairs expressed the intention to establish a permanent team to monitor the sector and coordinate the policies relevant for social enterprises. But despite the growing role that public

institutions have played in recent years in the development of the SE ecosystem in Serbia, civil society remains a major promoter and booster of such development. There are also notable examples of networking in the sector. The Coalition for the Development of Social Entrepreneurship, which is a network of advocacy organisations, has been very active in promoting the concept among different stakeholders, analysing the environment and the legal framework, advocating for an enabling environment and offering direct support to social enterprises. Another network in the field, the Social Economy Network Serbia (SENS),<sup>9</sup> is the only national network that brings together social enterprises; it provides promotion tools, networking and market access for its members, and it also raises general awareness of SE models and success stories. The SENS currently has 40 members from all over Serbia, including CSOs, WISEs, business companies and cooperatives.

Since there is no separate registry of entities with SE characteristics in Serbia, we learned about social enterprise in the country from the research projects on the topic carried out so far (one in 2007 and another in 2013). Although the SE sector in Serbia is rather small, there was a visible increase as well as a change in the structure of the sector between 2007 and 2012. The number of social enterprises grew from 264 to 411 over this period, primarily thanks to the increase in the number of social enterprises operating under the form of CSO.

The development of social enterprises in Serbia reflects social-policy transformation (Žarković *et al.* 2017). Their growth is based on two major factors. The first factor refers to the authentic social needs of citizens, coupled with high social consciousness and entrepreneurial skills of civic activists who serve those needs: social enterprises address the needs that public providers are unable to meet. The other factor is the influence of foreign donors who raise awareness of different actors and provide financial and other support to social enterprises. As stated in the recent Smart Kolektiv's<sup>10</sup> report, "international donors have played a significant role in supporting the development of the social enterprise ecosystem so far and are expected to continue to provide support, even if to a lesser degree" (Smart Kolektiv 2017: 2).

There is no formal institutional framework designed to support social enterprises, but there are initiatives by public bodies—in particular the Ministry of Labour, Employment, War Veterans and Social Affairs; the Social Inclusion and Poverty Reduction Unit of the Government; and the Office for Cooperation with Civil Society—to bring some order into the approach to this sector. These are all signs that social enterprises in Serbia have moved from the initial stage of development to the stage of institutionalisation. This statement is based on the characteristics of social enterprises and their ecosystem in Serbia. The sector is small, but active; there are inspiring experiences of social enterprises as well as concrete support from the surroundings (through different programmes and

projects), and there are authentic new experiences that operate under various legal forms. Civil-society organisations show awareness of the role and capacities of different actors in reaching social cohesion as well as maturity and inventiveness in profiling their activities in that direction. In the period of severe crisis (2008–2012), the number of social enterprises grew, thus sustaining the number of employees. Furthermore, examples of good cooperation between the administration, the private sector and social enterprises at the local level are more prominent than before, which shows that social enterprises, as a form of social-economy organisations, can play a significant role in inclusive local development. The progress of the SE sector, from the initial stage to the institutional one, was achieved thanks to the interplay between endogenous and exogenous drivers. Foreign models and donations were crucial to raising awareness and initiating networking and institutional change, but they also fell on fertile ground: SE-like practices already existed—one of them (WISEs) with strong historical roots and another (NPOs and/or their spin-offs) with a more recent success in merging civic activism with economic performance.

### **3. Comparative Analysis**

The brief analysis of the development of social enterprise in Armenia, Greece and Serbia presented in this chapter shows that these three countries started from similar historical circumstances in the mid-19th century but have currently reached different levels of SE development. We could say that, in Armenia, social enterprises have only entered the initial stage, since not all of the elements needed to form a system are present. The number of social enterprises is small, and initiatives emerge mostly through the projects of international donors, including the Armenian diaspora. Institutional and legislative settings are non-existent, financial incentives are scarce and networking is weak. Serbia is one step further than Armenia. Indeed, in Serbia, almost all the elements of the system are present: there are several forms of social enterprise, a few laws that introduce the concept, and an Act on Social Enterprises is to be drafted. Still, the legislative framework is not complete and the topic is not present in education and training institutions. All the actors involved and the wider public are familiar with the term and the practice of social enterprise; there are networks that advocate for social enterprises and certain public institutions have this topic on their agenda. We can consequently consider that Serbia has made considerable advancement in the institutionalisation stage, that is, in constituting an SE sector. Greece has gone still one step further than Serbia towards completing the institutionalisation stage. Work-integration social cooperatives and social cooperatives in general are the most prominent forms of social enterprise in the country (it should incidentally be mentioned, though, that the legal form of social

cooperative is also used by ventures that do not have an explicit social aim). Social cooperative has been the most established form of social enterprise in Greek society for a long time, responding to different needs of citizens and communities; they have their roots in the social economy and cooperative tradition. Social cooperatives in Greece are numerous and are connected through networks, not only at the national but also at the regional level, which provides a solid backbone for a collective identity of the sector. Although there is a bottom-up development of the sector, to which the state has responded by reforming and diversifying the respective legal frameworks, the capacity of the SE sector in Greece has not yet unleashed its full growth potential. Nevertheless, the ecosystem of actors contributes to the sector's further development and to its transition from a rather early stage of institutionalisation to its completion.

In two of the three countries, namely Greece and Serbia, we can see that social enterprises play an important role in solving some problems linked to the sustainable and inclusive development of local communities. In both countries, public institutions respond to the initiatives launched by social entrepreneurs by trying to regulate the field, and to a lesser extent by providing incentives for and cooperating with social enterprises. It seems that the SE sector in both countries is at a crossroads where its own capacity for networking within the sector, coupled with the action of other actors in the surroundings (primarily civil-society organisations), will be crucial for the development of more favourable conditions for the sector to grow and enter the sustainability stage. This capacity for networking is a little greater in Greece than in Serbia, owing not only to the need to respond to increasing social needs during the austerity period but also thanks to a stronger, uninterrupted tradition of social cooperative and a longer history of democratic pluralism. Unlike what is the case in Serbia and Armenia, the roots of social-economic activities in Greece developed further based on the fact that humanitarian activities of the church, philanthropic activities of the business sector and, most importantly, authentic forms of social cooperativism have been slowly transformed in accordance with changes in the broader economic surroundings. In Serbia, these roots are shallower; they encompass work-integration social enterprises, established some 50 years ago, and non-profit organisations that perform economic activities in order to employ or economically empower their members, which is a more recent phenomenon (they have been developing since the mid-1990s). This comparison shows that the development path of the SE sector has a strong influence on its performance.

Finally, in the comparative analysis of the three national cases, it is also worth noting that the three countries have another common feature, besides sharing very similar historical starting points in terms of modernisation. Indeed, all three have experienced a significant influx of exogenous drivers of social entrepreneurship: funds, trainings, lobbying

and networking. Greece left the door wide open to the European Commission's funds and initiatives; the other two countries find good opportunities, beyond European funds, in attracting non-European funds and establishing bilateral projects with European countries. Although a more specific and quantitative approach would be needed for a more nuanced analysis to examine how this access to external funds has concretely contributed to the development of social enterprise in each of the three countries, from a macro perspective, it seems that exogenous drivers have not achieved the same outcome in all of them. Our assumption is that the key lies in the interplay between endogenous and exogenous factors. Where an inflow of funds, knowledge and experience is streamed into a well-consolidated domestic ecosystem, the results are more effective, contributing thus to a sustainable SE sector; and when social entrepreneurs are skilful at recognising opportunities and directing the inflow to important social goals, the efficiency of investment increases.

## Conclusion

The comparative analysis presented earlier indicates that without strong endogenous drivers, exogenous factors only produce short-term and often vague effects, which contributes to the development of the myth of social enterprises and social entrepreneurship.<sup>11</sup> This is a major reason why a top-down approach in constituting an SE sector will fail if it does not meet genuine social entrepreneurial initiatives and a collective identity in the field—and the latter is something that takes time and a lot of effort to build and maintain. For the same reason, more detailed research on the effects of the transfer of funds, knowledge and experience from more developed SE ecosystems to less developed ones is needed. It is also evident that local networking should be supported and advocacy continued in order to empower collective identity and solidarity culture in the field of social enterprises.

## Acknowledgements

Section “2.3. Serbia” is a digest from the author's contribution to European Commission (2018).

## Notes

1. We consider here the social economy as a sector that is distinct from the private for-profit sector and from the public sector, yet is interlinked with them in an economic system.
2. Shrestha refers to the third stage as the “developed” stage, but we find the term “sustainability” more appropriate.
3. Shrestha mentions Italy and Anglo-Saxon states as those having sustainable social enterprises, thanks not only to a highly valued and developed concept

- of entrepreneurship but also owing to a high level of awareness among citizens, who buy products and services offered by social enterprises.
4. Several diasporan Armenians initiated various successful projects and foundations that are managed as social enterprises; examples include the TUMO Centre for Creative technologies, run by the Simonian Educational Foundation (an important US-based benefactor), and the Tatev Revival Project or the UWC College, run by the IDeA Foundation (an important Russian-based benefactor).
  5. See [www.epfarmeria.am/en/program-portfolio/other/social-enterprise/](http://www.epfarmeria.am/en/program-portfolio/other/social-enterprise/).
  6. Several legal acts, passed in the 1990s and building upon each other, are linked to the establishment of the KoiSPE legal form: Law 1667/1986 (On Civil Cooperatives and other clauses), Law 2716/1999 (establishing the legal form of limited-liability social cooperative properly speaking), and Law on the Development and Reform of Mental-Health Services and Other Provisions (Gazette A' 96/17-5-1999).
  7. While the aforementioned networks operate at the regional level and/or focus on specific organisational forms, the Social Entrepreneurship Forum operates at the national level and is a platform bringing together all types of social enterprise and their supporting organisations.
  8. The first Law on Economic Cooperatives, regulating cooperatives other than agricultural ones, was only introduced in 1937.
  9. See [www.sens.rs/](http://www.sens.rs/).
  10. Smart Kolektiv is a Belgrade-based NGO that plays a major role in the development of social entrepreneurship in Serbia. The report was commissioned by the European Bank for Reconstruction and Development (EBRD).
  11. See more on myth and the demystification of social entrepreneurship in Andersson (2011) and Dey and Steyaert (2012, 2018).

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# 15 Social Enterprises in Rural Areas

## A Comparative Study of the Baltic States

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### Introduction

Since 1991, social enterprises (SEs) in the Baltic states have grown into important actors in tackling social and environmental problems; however, their development remains strongly influenced by the region's recent turbulent history. The Baltic countries were occupied and incorporated within the Soviet Union in the periods 1940–1941 and 1944–1991. Following the restoration of independence, the political system became favourable, after a long period of centrally planned economies, to the development of private business. These economic and political changes opened up new opportunities for private entrepreneurship and civil society. Although SE development in the Baltic states is still influenced by this history, the number of social enterprises is steadily increasing, filling the gaps left by the state and the market in the provision of social services (Pless 2012).

Declining social services and relatively higher rates of unemployment and poverty levels (by comparison with urban areas) are just some of the challenges facing rural communities. Social enterprises can thus play a key role in rural development. Researchers argue that social enterprises pursue social missions through entrepreneurial means and implement social innovation (Dees 2001; Schöning 2013). In rural regions, social enterprises often simultaneously address the needs of multiple stakeholders and as such may have multiple functions and duties: delivering public services, meeting social needs, providing training and education to local community residents and creating working places.

This research aims to explore the evolution of rural social enterprises in the Baltic states by highlighting the factors that influence their

development and the interplay among their different stakeholders. Specifically, the article addresses the following aspects:

- processes and factors that facilitate or hinder the development of rural social enterprises, financial and policy challenges and barriers encountered and ways in which social enterprises overcome them;
- collaborations developed between social enterprises and their stakeholders and clients;
- development support needs of social enterprises;
- rural SE models.

This chapter provides information about the earlier issues by presenting a cross-case analysis of rural social enterprises from Latvia, Lithuania and Estonia.

## **1. Social Enterprises in a Rural Context: The Role of Environment and Stakeholders**

Social enterprises seek to produce goods and services with a social or environmental purpose, and they pursue the general interest of local communities, people and/or social groups. They thus aim to achieve dual goals—combining economic sustainability with the implementation of societal goals (Erpf 2017; Raišienė and Urmanavičienė 2017, Erpf *et al.* 2020). The orientation towards the public good does not imply that social enterprises do not undertake strategies to achieve economic and financial efficiency; on the contrary, they must constantly create economic value to guarantee their survival over time (Costa and Pesci 2016).

The sustainability of a social enterprise—that is, its long-term, continuous operational capacity—depends on its operating environment and its relationships with its stakeholders (Perrini and Tencati 2006). Rural social enterprises face some specific challenges in this regard, due to the economic and socio-cultural environment within which they operate; this is particularly true when they attempt to address specific local needs and problems, although there are also common challenges with social enterprises in urban areas, such as underdeveloped infrastructure, lack of private investors and insufficient business skills.

Beside some tasks that can be similar across rural communities (such as providing self-help environments or serving as repositories of the mutual knowledge that characterise social life in many rural regions; see Atterton 2007), the aims of rural social enterprises can differ widely: providing health and care services (Munoz *et al.* 2015); creating new employment opportunities (Steiner and Teasdale 2019); providing public services (O’Shaughnessy *et al.* 2011); more broadly, contributing to

rural development (Eversole *et al.* 2014; Steiner and Teasdale 2019). As emphasised by Steinerowski and Steinerowska-Streb (2012), social enterprises in rural areas can be an efficient form of doing business, since local community residents can identify their own needs and the challenges they face in daily life. Also worth underlining is the fact that, in rural communities, the “culture of self-help” and solidarity lending still remain, while they are almost lost in big cities.

The successful operation of rural social enterprises is highly dependent on their relationships with their stakeholders (Perrini and Tencati 2006). Stakeholder theory emphasises the benefits of engaging with stakeholders (Freeman 1994; Donaldson and Preston 1995); this is particularly important for social enterprises, *qua* “multi-stakeholder” organisations (Borzaga and Depedri 2015). Many interest groups can indeed be involved in social enterprises; they can be divided into external stakeholders (the community, the government, sponsors and private investors) and internal stakeholders (volunteers and employees) (Thompson and Martin 2010).

When seeking to pursue the different interests of their various stakeholders, social enterprises are faced with significant challenges (Courtney 2013; Smith *et al.* 2013). Hinrichs (2015) suggests a framework for defining and prioritising stakeholders; this framework includes elements such as the power exerted by stakeholders over the enterprise, their legitimacy and the urgency of their claim. Given their multidimensional nature, it is particularly important for social enterprises to design organisational solutions that allow the fulfilment of multi-focused stakeholder expectations (Di Domenico *et al.* 2009). Some of these organisations adopt an open and multi-stakeholder governance model, in which all categories of stakeholders have rights to participate in the management (Galera and Borzaga 2009). Such actions help to build and strengthen relationships based on trust between different groups of stakeholders.

## **2. Historical Context of SE Development in Baltic States and Challenges in Rural Areas**

The occupation of the Baltic states by the Soviet Union lasted for about 50 years; during that period, all forms of entrepreneurship were prohibited, and farming was collectivised into *kolkhozes* (agricultural cooperatives) and *sovkhazes* (state-owned agricultural enterprises). The Soviet system influenced the economy, the quality of life and the prevailing standards of behaviour in all life areas (Pārsla 2011). After the collapse of the Soviet Union, a large part of the population had—and this is still the case today—a misleading picture of cooperatives, due to the failures of these organisations, which were in turn linked to ignorance of the true principles of cooperation.

This particularly affected the emergence and growth of social enterprises after 1991; unlike what happened elsewhere in the world, where

many social enterprises chose a cooperative form, social enterprises in the Baltic countries emerged mainly under the legal forms of association and foundation, especially in Latvia and Estonia, or as limited-liability companies. Only recently, some 25 years after the end of Soviet occupation, have cooperatives started to become more popular.

As for the concept of “social enterprise”, it was also affected by these countries’ history: indeed, the notion of “social” was for many years linked to the concept of “socialism”; this remained true even after the demise of the Soviet Union and of its socialist ideology.

Post-socialist restructuring of the economy, the dissolution of Soviet-era large-scale farms, the replacement of the planned economy with a market economy and the opening of Baltic states to Western producers (including food producers) had a strong impact on the rural economy, and poverty levels increased, especially in more peripheral areas. Poverty levels and income inequality between rural and urban populations remain high to this day. For example, in Lithuania, the proportion of the population at risk of poverty in 2016–2017 was 29.6%; this rate has remained roughly stable over the past five years, with a significant difference between urban (24.7%) and rural (39.5%) populations (Jankauskaitė 2019). Data from the Central Statistical Bureau of Latvia (2020) also show high income inequalities between regions: in 2018, in the capital city, Riga, and in the Pierīga region, the rate of persons whose revenues were below the minimum-income level was very low (4.4% in Riga and 3.7% in Pierīga), while in the remote Latgale region, this rate reached 17.8%. In Estonia, relative poverty is still growing, and agricultural employment fell from 175,000 in 1989 to 24,000 in 2014 (Annist 2017). In Lithuania, the share of the agricultural sector in the country’s workforce decreased from 27% in 2013 to 22.6% in 2017 (Simonaitytė 2019). In Latvia, this share decreased from 16% in 1990 to 7% in 2017.

Rural emigration and migration to cities is a major issue in the three countries, following the economic and social changes of the 1990s. In all three Baltic states, people from rural areas leave their country more often than city inhabitants, or they migrate to cities. Emigration particularly increased in the 2000s, and especially after the Baltic states’ accession to the EU, in 2004. Between 2001 and 2011, the population in peripheral rural areas declined by 25% in Estonia (Annist 2017) and by 12.11% in Lithuania (Butkutė 2014); the decline rate reached 32% between 2000 and 2011 in Latvia (Central Statistical Bureau of Latvia 2020). In recent years, though, depopulation slowed down in both Lithuania and Latvia (Statistics Lithuania 2019a; Central Statistical Bureau of Latvia 2019a), while Estonia’s net migration became even positive (Statistics Estonia 2018). In fact, according to Seney and Hess (2018), emigration rates continue to be high but are counterbalanced by immigration. Growing immigration and inhabitants’ migration from rural areas to the cities is

characteristic of all Baltic States today (Statistics Lithuania 2019b; Central Statistical Bureau of Latvia 2019b).

While the three countries faced similar historical contexts and challenges, the solutions implemented to support the development of social enterprises differed.

Table 15.1 provides an overview of the SE phenomenon in the Baltic states in terms of existence or absence of a legal framework, definition of the concept and legal forms. Overall, the concept is still poorly understood in the region. In Latvia, a wide definition encompasses a variety of activities, including environmental issues. However, SE law allows social enterprises to operate only under the legal form of limited-liability companies. In Lithuania, enterprises that want to be granted the legal status of social enterprise have to adopt the legal form of a private or public limited-liability company, individual enterprise or small partnership company. Some social enterprises operate as public enterprises, but since 2015, public enterprises have not been allowed to apply for the legal status of social enterprise anymore. In Estonia, there is no specific law for social enterprises, and these initiatives mostly operate as non-governmental organisations, foundations and private limited companies.

Although two of the three Baltic states have adopted a legal framework for social enterprise (which constitutes some kind of recognition, at the political level, of the importance of the sector) and one has not, the

*Table 15.1* Characteristics of social enterprises in the Baltic states

<i>Country</i>	<i>Lithuania</i>	<i>Estonia</i>	<i>Latvia</i>
<i>Characteristics</i>			
<i>Law on social enterprise</i>	Since 2004	None	Since 2018
<i>Definition of social enterprise</i>	Narrow definition, embedded in the Law on Social Enterprise	No legal definition	Wide definition, embedded in the Law on Social Enterprise
<i>Legal form(s)</i>	Private and public limited-liability company, individual enterprise and small partnership company	No specific legal form for social enterprise (most operate as non-governmental organisations, foundations and private limited companies)	Limited-liability company (LLC)

challenges that social enterprises are facing are similar in all three countries, to the extent that these frameworks have not completely solved conceptual problems. Indeed, many socially oriented companies are still not recognised as social enterprises, and a distinction can thus be made between *de jure* social enterprises and *de facto* social enterprises.

This leads us to consider the factors facilitating or hindering the development of rural social enterprises across the Baltic States in a comparative perspective, and to analyse whether these factors differ for each country or are common to all; who the clients of rural social enterprises are; and the kinds of collaborations being developed between social enterprises and their stakeholders. These factors are addressed based on empirical evidence.

### **3. Methodology**

With a view to gathering qualitative data, ten semi-structured interviews were conducted with social entrepreneurs in Estonia, Latvia and Lithuania. Table 15.2 introduces interviewees and explains the types of enterprise they represent.

### **4. Results and Discussion**

Interviewees expressed their opinions regarding the development processes of their social enterprise and the factors that foster or hinder the processes through which social enterprises cooperate with their different stakeholder groups.

#### ***4.1. Factors Fostering/Hindering the Development of Social Enterprises***

Although the factors that influence the development of social enterprises vary among the three Baltic states, some similar tendencies can be identified. The main similarity concerns the cooperation with local governments: social enterprises in Estonia and Latvia build up trust with the local government, establishing partnerships in the provision of social services. In Lithuania, though, the cooperation between social enterprises and local governments is less developed than in the other two Baltic countries.

Social enterprises may also play a key role in consultations and through participation in policy-making procedures; in Latvia, for example, LV2 conducts annual surveys aimed at assessing the quality of municipal services and provides feedback on new services required in the future; this serves as the basis for subsequent procurement processes of the local government and ensures that the services provided are appropriate and useful. Furthermore, social enterprises consider that the focus they place

Table 15.2 Empirical sample: list of interviewees/social enterprises

<i>Code</i>	<i>Interviewee: position in social enterprise</i>	<i>Legal form of the social enterprise</i>	<i>Type of social enterprise and main activity</i>
LT1	Owner	Joint stock company	A small ecologically oriented company producing healthy food
LT2	Director	Public organisation	A rural public organisation providing social services
LT3	Teacher	Public organisation	A public organisation providing educational programmes for children in local rural communities
LV1	Chairman of the Board	NGO	A Christian charity organisation helping families in crisis, children and lonely people
LV2	Director	NGO	One of the largest Latvian social enterprises, with over 700 paid employees and 300 volunteers, providing social services
LV3	Founder	SE project within an LLC	A social enterprise producing tricycles and aid transport for disabled people
EST1	Manager	NGO	A rural village association managing the village community hall
EST2	Director	NGO	An intermediary retail enterprise sourcing and delivering rural micro/SME products
EST3	Board member	NGO	A rural village association delivering services for children and young people and managing the community hall
EST4	Board member	Foundation	A life-sharing community for special needs adults

on the needs of their customers is one of the key reasons for their successful cooperation with the local government. In Lithuania, for example, the emphasis has been on inter-institutional trust in addressing customer needs; this is considered as a major factor enabling successful cooperation between social enterprises and local governments.

Social enterprises are usually specific in terms of services provided, and they cannot always encompass the entire scope of a tender when, for example, municipalities ask for large and diverse “packages” of services;

in such cases, it often happens that individual social enterprises can offer only part of the required services. However, not all municipalities call for tenders for service delivery in one package. A positive point in this regard is the fact that the Public Procurement Law in Latvia provides for the principle of joint agreement, according to which all candidates meeting the criteria for public procurement have the right to enter the procurement contract, and the funding for specific services is later distributed separately. It means that funding received by each candidate in practice can differ, based on a price survey subsequently organised among all candidates for specific services. Significant changes also occurred in the field of public procurement following the transposition of the provisions of Directive 2014/24/EU of the European Parliament and of the Council of February 26, 2014, on public procurement into EU countries' national legal frameworks. One of the greatest achievements of the Directive is the transition from the application of the lowest-price criterion to a selection system of the best bid based on the price-to-quality ratio. The new Directive also introduces several important changes with regard to social entrepreneurs whose key goal is the social and professional integration of individuals from deprived and socially unprotected groups. Including the pursuit of a work-integration goal in the selection criteria can contribute to a choice that will be more sustainable and profitable in the long run, though bids including such goals might seem more expensive in a short-sighted perspective.

Cooperation with local governments is one of the best examples of long-term cooperation, as it requires a professional approach to accounting, reporting and needs assessment. Estonian social enterprises reported having quite a long history of cooperation with the municipality: EST4, for example, "has a long experience of cooperating with its municipality and has now entered a 20-year contract with them to manage the village community hall, and they operate throughout the community, providing a range of social and care-based services".

#### **4.2. Challenges in Cooperation**

The three countries reported similar challenges for SE development and cooperation with different stakeholder groups.

One of the main challenges, more specifically linked to cooperation with the local government, is *bureaucracy*. This was clearly emphasised by reports from Latvia and Lithuania. For example, LV2 prepared a procurement delegation agreement and sent it to five municipalities, which each returned the agreement with amendments; these five agreements were then sent to the Ministry of Environmental Protection and Regional Development, which made further changes. As a result, LV2 received five quite different agreements; merging them into a single agreement required meetings with several ministries at different levels.



These partnerships, though, get stronger through the definition of joint practices, and they enhance the competences of all the partners involved.

Trading with public authorities can be hindered by public-procurement requirements, which can lead public-sector actors to amalgamate their procurement contracts into large orders; this in turn restricts access to these procurement contracts for smaller social enterprises, which do not have the capacity to satisfy these. In rural areas, the requirement, for procurements below €10,000, to provide a price comparison between at least three suppliers can be difficult to meet when there are not three different companies in the local area capable of delivering the services requested; as a result, the procurement process may need to include a wider territory and take longer, or fail altogether.

The second challenge is linked to local governments' *motivation and resources*. Latvian and Lithuanian interviews revealed that the cooperation of social enterprises with the local government might be hindered in three ways: (1) the local government has neither the motivation nor the necessary resources to cooperate; (2) the local government is motivated but does not have sufficient resources to cooperate; and finally (3) the local government could find resources to cooperate with social enterprises but lacks the motivation to do so. Such a lack of motivation hinders the effective development of social enterprises.

Although social enterprises reported generally rather positive attitudes and good experiences in cooperating with local governments, "challenging cases" commonly occurred when the local government was motivated but had insufficient resources to cooperate. Indeed, local governments must have the necessary intellectual and human resources to establish and manage such partnerships. As reported by Latvian social enterprises, some local governments lack the human resources and institutional abilities to establish well-functioning partnerships between the public and private sectors. In such cases, social enterprises have to take the preparation of the entire "package of cooperation" into their own hands: preparing all the agreements and protocols, consulting experts on bureaucratic procedures, etc. It can be concluded that social enterprises often face quite stiff and formal bureaucratic attitudes, which may hinder their activities, as well as a lack of competence among municipality officials which slows down the pace of implementation of their activities.

*Political and policy change* at state and municipality level is the third factor hindering partnerships. Social enterprises can never be sure about the next procurement, not only because the local government could simply decide to withdraw its support but also because it might be forced to do so, due to budgetary constraints linked to external circumstances. Contract sustainability can also be problematic because local municipality politicians (and their direction and priorities) can change every few years. The demand for services can also grow to a point where it exceeds the delivery capacity of small social enterprises, which may then

have to withdraw from providing these services or collaborate with other providers.

The fourth factor is the *lack of business development and management skills among social entrepreneurs*. Many leaders of community organisations do not have any particular training or knowledge in business management, project management, bookkeeping or tendering processes. Changes in legislation make the situation all the more complicated: SE leaders may feel that they do not know whether everything they are doing or want to do is legal.

As reported by Estonian social enterprises, making social enterprises sustainable would require good business models, and SE leaders have to understand that they have to choose services and/or products which they can sell. This understanding is sometimes hard to come by and since residents in their local communities often perceive that their problems are things that municipalities or governments should do something about and should also pay for, it can be a challenge to develop a viable business plan. There is a need to change these attitudes and to train people in how to develop and sell products and services.

The fifth hindering factor is the *lack of knowledge and support for social enterprises among the lay public (rural residents)*, who may be insufficiently aware of social enterprise. Even though the situation has improved in recent years, many still do not understand the difference between a socially responsible enterprise, a social enterprise and a charity. Data are also lacking, in Latvia and Lithuania, on the social impact created by social enterprises.

The Estonian cases also highlighted a sixth hindering factor, namely a form of *nepotism and/or the existence of bias in procurement processes*. It appeared that where a key person in the municipality is closely connected with a social enterprise, there is a strong tendency for the service contract to be awarded to this particular enterprise, and other enterprises face huge challenges to be taken into consideration as potential providers. Tenders may also be framed to favour more established—rather than new—enterprises.

#### **4.3. Forms of Cooperation Implemented by the Stakeholders/ Clients**

Table 15.3 provides information about the stakeholder groups that play a key role in the development of social enterprises: governmental institutions and local governments, conventional enterprises, local communities, associations, SE networks, accelerators and business incubators and education institutions.

##### *Governmental Institutions and Municipalities*

In both Latvia and Estonia, social enterprises working in the field of social services often cooperate with municipalities through contracts to deliver

Table 15.3 Main stakeholder groups of social enterprises in the Baltic states

<i>Stakeholders/ clients</i>	<i>Forms of cooperation implemented by the stakeholders/ clients</i>	<i>Factors fostering cooperation</i>	<i>Challenges</i>
Governmental institutions/ municipalities/ local governments	<ul style="list-style-type: none"> <li>● Buying social and other services from social enterprises</li> <li>● Encouraging SE activity through public tendering, utilising privileged public-procurement procedures</li> </ul>	<ul style="list-style-type: none"> <li>● Interest to cooperate with social enterprises for the common good</li> <li>● New legislative approaches at EU level</li> </ul>	<ul style="list-style-type: none"> <li>● Bureaucratic attitude</li> <li>● Strict requirements of public tenders</li> <li>● Lack of motivation to cooperate with social enterprises</li> <li>● Demand for services sometimes exceeding the capacity of social enterprises</li> <li>● Lack of knowledge about social enterprises</li> </ul>
Conventional enterprises	<ul style="list-style-type: none"> <li>● Buying products/services from social enterprises</li> <li>● Entering into project partnerships with social enterprises</li> <li>● Becoming social investors in social enterprises</li> </ul>	<ul style="list-style-type: none"> <li>● Interest to cooperate with social enterprises to improve their image/reputation (corporate social responsibility)</li> </ul>	<ul style="list-style-type: none"> <li>● Profit-oriented enterprises, with no special interest in social enterprises' social mission</li> </ul>
Local community	<ul style="list-style-type: none"> <li>● Buying products/services from social enterprises</li> <li>● Disseminating information about social enterprises</li> </ul>	<ul style="list-style-type: none"> <li>● Generational value change—greater value attributed to work done by hand, by socially disadvantaged groups of people, etc.</li> </ul>	<ul style="list-style-type: none"> <li>● Insufficient information and knowledge about social enterprises</li> <li>● Reluctance/incapacity to pay the prices charged by social enterprises for their products/services, which are often higher than those practiced by conventional enterprises</li> </ul>

<i>Stakeholders/ clients</i>	<i>Forms of cooperation implemented by the stakeholders/ clients</i>	<i>Factors fostering cooperation</i>	<i>Challenges</i>
Other stakeholders: associations, SE networks, accelerators and business incubators and education institutions	<ul style="list-style-type: none"> <li>• Usually acting as mentors, advisors and supporters</li> </ul>	<ul style="list-style-type: none"> <li>• Creation of new support instruments/tools by different stakeholders (scholarships and grants for SE ideas' implementation set up by associations and SE networks)</li> </ul>	<ul style="list-style-type: none"> <li>• Insufficient information and knowledge about social enterprises</li> </ul>

social services to various socially excluded groups. In Lithuania, local governments may also purchase goods or services from social enterprises.

Public-procurement contracts can be awarded to municipalities in two ways:

- The provision of services can be directly delegated to a social enterprise by the municipality through public procurement without a call for tenders being issued (there is thus no competition among service providers). The LV2 case has proved that such cooperation is possible; this social enterprise has at least 30 such agreements with local governments.
- The second form refers to a general public-procurement procedure, in which social enterprises compete through open tenders for local-government funding; social enterprises have proved to be competitive actors in such context. Since many social enterprises aim to improve the quality of life in the communities where they operate by performing functions traditionally or legally assigned to governmental institutions, they achieve such improvements through undertaking contracts for the provision of services outsourced by local governments.

However, very often, municipalities do not recognise social enterprises as social-service providers; this is especially true in Lithuania and Latvia. According to these two countries' laws regulating social enterprise (passed, respectively, in 2018, for Latvia, and in 2004, and amended in 2011, for Lithuania), an organisation cannot be recognised by municipalities as a social enterprise if it does not have the legal status of social enterprise. While there are considerable opportunities for growth, current

progress in this area is hindered by the lack of good practice that could inspire municipalities. There are a few salient examples, though, such as those offered by the municipality of Riga and the Latvian Ministry of Welfare, which bought catering services from a social enterprise for a specific event, but this is only a beginning, and cooperation between local authorities and social enterprises could be strengthened in the future. Indeed, whereas procurement practices for the provision of social services function well and have steadily developed over the last two decades, such practices remain poorly developed in the case of other services and products.

Social enterprises often cooperate with municipal institutions providing social services in rural areas in order to jointly design solutions to social problems; for example, municipalities' departments of social services acquire material aid in the form of clothing, footwear and/or food, which is then distributed among eligible individuals by social enterprises. A similar form of cooperation exists in the collection and distribution of food through food banks and sale of handicrafts made by the disabled. Collection and distribution of food and clothes are particularly important for ex-convicts as well as for persons in crisis centres. The social enterprise, by providing humanitarian aid through cooperation with a municipal partner, is able to achieve its social goals over a much wider area or to reach a larger target group—which incidentally contributes to its visibility and reputation (Kumaceva 2018).

Social enterprises may cooperate with state institutions not just as suppliers of goods and services but also as potential employers. For example, within the framework of cooperation with state employment agencies, social enterprises can employ job seekers under various programmes aimed at reducing unemployment among particular target groups (the disabled, the long-term or young unemployed, etc.).

Local and state government and their institutions (and in particular their departments in charge of social services and employment services) can act both as support partners for social enterprises and as buyers of their products/services.

### *Conventional Enterprises*

Cooperation between conventional and social enterprises can take several forms and may involve the delegation of certain functions of the conventional enterprise to the social enterprise.

In one possible form of cooperation, the social enterprise operates as an autonomous and independent entity in organising and manufacturing its products, but these are all sold to a conventional enterprise, thus ensuring a guaranteed market and income. Social enterprises very often face challenges in selling their products, but in this cooperation model,

the risk is reduced because the products are bought in advance by the conventional enterprise. Some conventional enterprises, for example, offer products produced by the disabled as their corporate gifts.

Some conventional enterprises have become social investors, and they may even collaborate in designing the operational strategy of the social enterprise.

Cooperation may also take the form of a project partnership. For example, LV2 successfully cooperates with conventional enterprises in that way. The food bank “For a Fed Latvia” (*Paēdušai Latvijai*) has been running for ten years; since 2016, the private supermarket chain Rimi has become its partner and, as a result, the quantity of donated food has increased considerably.

### *Local Community*

Social enterprises operate in various sectors, including *inter alia* social services, the production of goods, health services (including prevention), charity shops, environmental protection, cultural diversity and heritage, education, work integration, consulting, information and communication (Lis *et al.* 2017). Some social enterprises are well-known and recognised in society, while others are less familiar to the general public, because of their smaller scale, the limited geographic focus of their activity or their location in a rural or remote area. For this reason, clients of social enterprises operating in rural areas are primarily members of local communities.

Among members of the local community, knowledge and awareness of the nature of and social value created by social enterprises are lacking, and these enterprises tend to be confused with enterprises implementing corporate social responsibility (CSR) principles or with social work. A mistaken perception that social enterprises are primarily concerned with work integration also prevails. In a positive development, however, the ambassadors’ network of the Social Entrepreneurship Association of Latvia organises events throughout the country, disseminating information about these events in social media and through websites; this results in successful information exchanges. During the events, social entrepreneurs often find new partners, which allows them to introduce new products or expand their businesses, and thus increases their competitiveness.

Despite the significant emigration mentioned earlier, positive trends in public thinking have also been observed across all Baltic states in recent years, largely due to the influence of generation Y (the demographic cohort born between 1980 and 1995), whose values tend to differ from those of previous generations. Millennials, as they are also called, are more concerned with the general public good, seek jobs that have meaning, think more about an efficient exploitation of limited resources, and

are often ready to work towards social goals for little—or even no—remuneration (Austruma 2012). This indicates a change in society’s system of values and needs and is indicative of the fact that this generation seeks to achieve its ideals and is, therefore, likely to be interested in the establishment of social enterprises and willing to support their products.

### *Other Stakeholders*

Business incubators are key early-stage support tools for social enterprises, particularly during the development stage; they provide premises and business-support services (legal advice, accountancy, expertise in business activities and marketing).

While universities are involved in training and research on social enterprises and are increasingly linking their theoretical knowledge with hands-on practice, social enterprises could provide an additional tool by becoming the first practical training or even the first job for students. Social enterprises can benefit in turn from the contribution of student trainees, who can undertake research on social enterprises, their social impacts and other business-development activities.

National associations/networks usually represent the interests of social enterprises at both national and local levels and cooperate with policy- and decision-makers in establishing and developing well-functioning ecosystems for social enterprises.

## **4.4. SE Typology in Rural Areas**

A synthetical and final way to characterise social enterprises in rural areas of the Baltic States might be to exploit the typology of SE models as elaborated by Defourny and Nyssens (2017) within the framework of the ICSEM Project. Table 15.4 summarises the key parameters of this analytical framework, highlighting the common trends that can be observed in the three Baltic countries as well as the SE models that prevail in each country.

### *Principles of Interests*

In all three Baltic countries, rural social enterprises emerged primarily from the sector of NGOs providing public-benefit services. They try to satisfy general public needs, but their operations are mainly guided by the interests of the local community (with some exceptions, such as LV2, which covers all Latvian regions).

Most of the rural social enterprises in Lithuania are developed by active communities seeking to address social issues in the countryside through entrepreneurial initiatives that aim to improve the well-being of rural communities or a particular target group. Earned income is frequently

Table 15.4 SE models in the Baltic States

Country	<i>Latvia</i>	<i>Lithuania</i>	<i>Estonia</i>
<i>Key parameters</i>			
<i>Principles of interest</i>	Social enterprises provide goods/services meeting general (mainly local community) interests and needs		
<i>Market reliance and resource mix</i>	Hybrid resources		
<i>Institutional trajectories generating SE models</i>	Move towards more market-oriented activities in order to complement existing resources		
<i>Prevailing SE models</i>	Entrepreneurial non-profit (ENP) model and social-business (SB) model		Entrepreneurial non-profit (ENP) model, public-sector SE model (PSE) and social-business (SB) model

used to maintain a community home or support community activities (LT3). In many cases, Estonian NGOs were formed soon after the country regained its independence (EST4); the local municipality or a person closely connected to the municipality was often a founding member.

#### *Market Reliance and Resource Mix*

While social-service providers (e.g. LV2, EST1, EST4 and LT2) mainly rely on subsidies from municipalities, others rely to a larger extent on market income. In all Baltic countries, social enterprises combine a varied mix of resources including, to differing extents, income from market sales, public subsidies, grants and philanthropic (private grants) resources to balance their social mission and financial sustainability. They are continually looking for ways to diversify into new services/products to sell so as to generate market income (EST2 and EST3). Many rural social enterprises in Estonia are dependent on project grants, and they sometimes need help to identify other possible sources of income, while in Lithuania, they usually lack financially sustainable business models and are quite dependent on state support, funding from the European Social Fund, etc. (LT2 and LT3).

#### *Institutional Trajectories Generating SE Models*

In the three Baltic countries, rural social enterprises mainly use hybrid resources, address general (community) interests and move towards more market-oriented activities in order to complement their existing



resources. In Estonia, social enterprises have close relationships with local municipalities and have been entrusted with the delivery of social services. In Lithuania, by contrast, social enterprises have rather weak partnerships with local public bodies; for example, the transfer of public and social service delivery to social enterprises has been slow, due to particular bureaucratic restrictions and a lack of trust between local public bodies and social entrepreneurs.

### *Prevailing SE Models*

In Latvia, social enterprises largely develop from non-profit organisations and use “mission-driven-business” approaches. Many Latvian social enterprises thus belong to the entrepreneurial non-profit (ENP) model (some are *de facto* social enterprises; indeed, if they are not limited-liability companies, they are not legally recognised as social enterprises). Since 2018, as social enterprises have started to adopt a hybrid economic model, becoming more entrepreneurial, there has been a move towards the social-business (SB) model. This evolution is partly driven by the Social Enterprise Law, which requires that social enterprises operate under a commercial legal form.

The situation in Lithuania in terms of prevailing SE models presents similarities with that in Latvia as the ENP model is the most common form of social enterprise in Lithuanian remote rural areas. It has been greatly supported through EU funding aimed at creating opportunities and innovative ways to solve emerging social problems in these areas while strengthening the capacities of the non-governmental sector and rural communities. Also significant is the fact that social enterprises belonging to the SB model are gradually emerging in the country.

In Estonia, the main SE models are the public-sector SE (PSE) model and the social-business (SB) model. But in rural areas, the SB model is replaced by the ENP model, so the two prevailing models are the PSE model and the ENP model. PSEs are historically connected with local municipalities and serve the needs of municipalities; SBs are market-oriented, while ENPs are usually taking care of community’s interests and use hybrid finance schemes.

### **Conclusion**

The diversity of SE initiatives and the absence of a well-adapted and consensual conceptualisation result in a poor understanding of the concept in the three Baltic countries. While Estonia has no specific law or legal form for social enterprise, Lithuania has had a Social Enterprise Law since 2004, and Latvia since 2018. In Latvia, the definition of the SE concept is broad and includes a variety of activities, but the

legal form is strictly defined (LLC). In Lithuania, by contrast, no specific legal form is required and social enterprises can take many forms, but the law narrowly defines the concept and, consequently, many socially oriented companies are not recognised as social enterprises. In Latvia and Lithuania, many social enterprises emerge from non-profit organisations applying “mission-driven-business” approaches. In these two countries, there are thus many ENPs, but the recent emergence of hybrid economic entrepreneurial models results in a move towards the SB model, while in Estonia, PSEs and SBs are the most common SE forms.

Beyond the blurry understanding of the concept, some similarities can be pointed out. In all three countries, many rural social enterprises emerge from the NGO/NPO sector. They provide public-benefit services, satisfy general public needs, and their operations cover local community interests. These social enterprises rely on a mix of various types of resources and use their market-oriented activities to complement their existing resources.

Finally, this chapter highlights the importance of collaboration with a variety of stakeholders as an essential driver for social enterprises and especially for rural social enterprises in order to succeed in their mission.

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# 16 Testing the Relevance of Major Social Enterprise Models in Central and Eastern Europe

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## Introduction

Although the notions of social entrepreneurship, social entrepreneur and social enterprise have sometimes been considered as different facets of a same phenomenon, especially in the late 1990s and early 2000s, the last two decades have witnessed clear trends towards distinct research developments about social entrepreneurship (and the related term of social entrepreneur), on the one hand (Dacin *et al.* 2011; Santos 2012; Alegre *et al.* 2017, among many others),<sup>1</sup> and social enterprise, on the other hand<sup>2</sup>—though, of course, this does not mean that the boundaries between these two research fields are clear-cut. In addition to such trends, many conceptual debates are still taking place within each of both “sides”, and in particular in the field of research on the concept of social enterprise (SE), which is at the heart of this book as well as of this final chapter. Indeed, the lack of a shared understanding and definition of social enterprise is today acknowledged by most of the researchers, and it even seems reasonable to speak of the “impossibility of reaching a unified definition of social enterprise”.

In response to such conceptual diversity and sometimes confusion, various authors tried to identify categories or types of social enterprise and to propose basic typologies. Alter (2007) was among the first; she put forward various types of operational models, for instance in terms of relations between social enterprises’ missions and economic activities—which can be, according to the terminology she proposed, mission-centric, mission-related or mission-unrelated. A bit later, Spear *et al.* (2009) identified four main types of social enterprise in the UK, according to the initiatives’ origins and development paths. For the same country, Teasdale (2012) and Gordon (2015) stressed the diversity of discourses or “basic values” shaping SE models, while McMurtry and Brouard (2015) put forward a typology adapted to the Canadian context. For their part, relying mainly on an analysis of the US SE landscape, Young *et al.* (2016) proposed the metaphor of a “social enterprise zoo”, in which different

types of animals seek different things—just like social enterprises, which differ significantly from each other in the ways in which they combine social and market goals.

When it comes to international comparative works, Kerlin (2013, 2017) adopted an institutional perspective inspired by the “social origins” theory developed by Salamon *et al.* (2000), identifying key features of macro-institutional frameworks to suggest how any set of socio-economic and regulatory institutions at country level tends to shape a specific major SE model per country. Borzaga and Defourny (2001), for the countries that then made up the European Union; Nyssens (2006), for eleven EU countries; Borzaga *et al.* (2008), for Central and Eastern Europe; Defourny and Kim (2011), for Eastern Asia; and more recently, the European Commission (2020), for the whole of Europe, all made attempts at international comparative analyses, but—with one exception<sup>3</sup>—these analytical grids did not rely on systematic data collection at the enterprise level.

Against such background, we developed a typology of SE models (Defourny and Nyssens 2017), which we also present in the introductory chapter of this book (see Section 2, about the second phase of the ICSEM Project). This typology, which is rooted in theoretical grounds provided by some inspiring works carried out by Gui (1991) and Hansmann (1996) on the very identity of the “third sector”,<sup>4</sup> highlighted four major SE models: the entrepreneurial non-profit (ENP), the social cooperative (SC), the social business (SB) and the public social enterprise (PSE).

The main objective of this final chapter is to test statistically, at the enterprise level, the relevance of this typology of SE models, on the basis of a dataset resulting from a field survey carried out on social enterprises. On such basis, we put forward the hypothesis that this typology is neither country-specific nor even, more broadly, context-specific. In other words, we will try to see to what extent each SE model may be identified across countries in Central and Eastern Europe and across world regions. In such broad perspective, we carried out the statistical testing both at the worldwide level and at the regional level, but in line with the whole content of this book, this final chapter of course focuses on Central and Eastern Europe and on the statistical exploitation of the data collected in this region.

This chapter is organised as follows. We first present the methodology adopted for the empirical survey that is at the very heart of this statistical work: we describe the key dimensions of social enterprise that were captured and the methodological choices that were made for this survey, which was carried out on 721 social enterprises operating in various world regions (Section 1). We then present the hierarchical cluster analysis that we carried out on the basis of such an outstanding dataset for Central and Eastern Europe (Section 2), before discussing the empirical results obtained, especially regarding the existence (or not) of our four

theorised SE models (Section 3). Finally, we conclude in terms of policy implications (Section 4).

## 1. The ICSEM Survey and Database

All the researchers involved in the ICSEM Project first had to provide a “country contribution” about the SE landscape in their respective countries. Among other things, researchers were asked to identify and characterise the various SE types or categories they could observe (phase 1 of the ICSEM Project; for a more detailed description of this phase, see the introductory chapter in this volume). Two major distinctive features of this approach should be underlined here. First, no *a priori* strict definition of social enterprise was imposed for these national contributions. We broadly delineated the field of analysis as “made of organisations that combine an entrepreneurial dynamic to provide services or goods with the primacy of their social aims”. The emphasis was put on the embeddedness of the SE phenomenon in local contexts. Secondly, most of the research was carried out by teams rather than by individual researchers, and this fostered discussion at the local or national level, thereby reducing the risks of biases induced by purely personal perceptions.

In a second phase, in order to address the lack of reliable datasets at enterprise level to undertake international comparative analysis, in-depth information was collected about social enterprises on the basis of a common questionnaire. More precisely, ICSEM research partners interviewed the managers of three to five social enterprises that were deemed emblematic of each SE type identified in the project’s first phase. The researchers were asked to collect information regarding more specifically the nature of the social mission or social aims, the type of economic model and the governance structure, as we hypothesised that these three dimensions particularly informed the diversity of social enterprises. Let us recall, in this regard, that the EMES SE ideal-type relies on these three dimensions. For each of them, a set of three indicators is put forward. It does not mean, though, that an organisation has to meet all the indicators in order to qualify as a social enterprise; the ideal-type is rather used as a yardstick for the comparison and grouping of observed organisations.

As a result, detailed data were collected in a rather homogenous way for 721 social enterprises from 43 countries. Needless to say, such a sample is by no way representative of the SE population across the world. Indeed, not only is the distribution across continents particularly uneven, with a quasi-absence of Africa; more fundamentally, the whole SE population is simply unknown, as there is no universal definition of social enterprise.<sup>5</sup>

As given in Table 16.1, the nineteen European countries covered by the survey account for almost half of all the enterprises surveyed across the world (328 enterprises out of 721). Thanks to the high number of



Table 16.1 Social enterprises covered by the ICSEM survey by region/country

<i>Regions and countries</i>	<i>No. of countries</i>	<i>No. of social enterprises</i>
Europe	19	328
<i>Western Europe</i>	12	164
<i>Central and Eastern Europe</i>	7	164
Albania		30
Croatia		12
Czech Republic		20
Hungary		30
Macedonia		22
Poland		11
Romania		39
Asia	9	100
Latin America	7	162
USA, Canada, Australia and New Zealand	4	45
Middle East (Israel and United Arab Emirates)	2	31
Africa (Rwanda and South Africa)	2	55
<b>Total</b>	<b>43</b>	<b>721</b>

observed social enterprises in Europe, the statistical work could be carried out in separate ways for Western Europe (with 164 surveyed social enterprises from twelve countries) and Central and Eastern Europe (with 164 surveyed social enterprises from seven countries). In this volume dedicated to social enterprise in Central and Eastern Europe, we of course focus mostly on findings for this region.<sup>6</sup>

In spite of limitations in the collection of data at the enterprise level, we argue that our overall research strategy—which combines a theoretical typology and a quite demanding bottom-up empirical approach based on a field survey—constitutes a significant step towards capturing the diversity of SE models. The following step (phase 3 of the ICSEM Project) aimed to exploit the dataset built through the ICSEM survey in order to see if it provided empirical support to the typology of SE models mentioned earlier and described in more detail in Section 2 of the introductory chapter in this volume.

## 2. A Hierarchical Cluster Analysis to Identify Major SE Categories

For the purpose of carrying out a cluster analysis, we extracted quantitative and qualitative (nominal and ordinal) variables from the questionnaire. The ultimate goal was to describe each of the 164 social enterprises from Central and Eastern Europe along five major dimensions: (1) general identity (legal form, origin and accreditations); (2) social mission (mission's nature, relation with the social enterprise's main economic

activity, price of the goods and services provided and type of innovation); (3) workforce composition (workers and volunteers); (4) financial structure in general and, more precisely, ways in which the social enterprise combines various types of resources; and (5) governance structure and rules regarding the allocation of surplus. As multiple choices and combinations of several choices were possible for many questions, we defined 141 variables.

Before undertaking a hierarchical cluster analysis (HCA) based on Ward's aggregation method, we had to solve two main issues. First, our database included both quantitative and qualitative variables, while HCA cannot be performed on qualitative variables. Secondly, we wanted each of the five pre-determined dimensions to have the same weight, which was not the case since some dimensions were composed by a higher number of variables than others. In order to overcome these problems, we, therefore, performed a multiple factorial analysis (MFA) on the 141 defined variables and selected six factors. Using MFA solved our two problems: first, it made it possible to give the same importance to each of the five pre-determined dimensions; secondly, it enabled us to describe each social enterprise through quantitative indicators only (the social enterprise's coordinates on each factor).

The optimal number of clusters ( $n$ ) resulting from the HCA corresponds to the number of clusters for which the sum of intra-cluster variances does not decrease significantly when  $n + 1$  clusters are considered. Based on that criterion, we identified five major clusters.<sup>7</sup>

### 3. SE Models in Eastern and Central Europe: Which Profiles and Relevance?

The key results of our statistical work are displayed in Table 16.2 (at the end of Section 3), where the five clusters are described through the various dimensions listed in the first column. The various clusters are analysed here with the following question in mind: to what extent do these clusters confirm or not the existence of our theorised SE models? Although Central and Eastern Europe displays SE patterns quite similar to the overall worldwide sample (Defourny *et al.* 2020), it is interesting to point out some distinctive features as well.

#### 3.1. *Three Clusters Converging Towards an Entrepreneurial Non-Profit SE Model*

Three clusters (clusters 3, 4 and 5) gather more than half of the social enterprises in this Eastern sample and can be considered as “entrepreneurial non-profit social enterprises” (ENPs). One of them (cluster 5) gathers organisations providing mainly health and social services, whereas social enterprises in cluster 4 contribute to local development

and those in cluster 3 are mainly driven by a mission of employment generation and may, therefore, be considered as work-integration social enterprises (WISEs).

The dominant legal forms in the cluster gathering “health and social-services” ENPs (cluster 5) are those of non-profit organisation and foundation. Two-thirds of social enterprises in this cluster have been launched by a group of citizens or a third-sector organisation. The board holds, in most of the cases, the ultimate decision-making power; in one-third of the cases, a single person is the social enterprise’s initiator, and he/she often independently manages the organisation. In almost 40% of social enterprises in this cluster, in case the activity is terminated, net assets go to another organisation with a similar social mission. These features are typical of NPOs, understood in a broad sense, including public-benefit foundations. Another major distinctive feature of social enterprises in this cluster is the fact that, even though they are medium-sized organisations, they are the largest organisations in the entire sample.

Only 24% of income comes from the market. Social enterprises in this cluster receive substantial public subsidies, and they also rely partially on philanthropy, including volunteering. Only one-fourth of these organisations sell their services at market price. Indeed, providing at least some services free of charge or at a price not covering most of the production costs is a widespread practice in this cluster.

Such resource mix could be seen as somehow surprising since a usual approach to social enterprise sees it as “a market solution to a social problem”. For many scholars, however, among which those belonging to the EMES school of thought (Defourny and Nyssens 2010), the entrepreneurial dimension of social enterprise lies, at least partly, in the fact that the initiative bears a significant level of entrepreneurial risk, but not necessarily a market risk. In this broader perspective, the resource mix which can best support the social mission is likely to have a hybrid character, as it may combine trading activities with public subsidies and voluntary resources.

In a similar way, Maier *et al.* (2016) identify several dynamics which can characterise “NPOs becoming business-like”, beyond the sole market character of financial resources: NPOs can adopt business-like goals (such as commercialisation or/and conversion from a non-profit to a for-profit legal form); they can also adopt business-like core and support processes (entrepreneurial orientation, professionalisation, business-like philanthropy . . .) or develop business-like rhetoric. Such dynamics can be observed in this “health and social-services” ENP cluster; boards, for example, are composed of managers, experts and workers, reflecting very clearly this “entrepreneurial orientation”. It is not surprising, in this perspective, that many NPOs and foundations have been identified as social enterprises by local researchers, even though they have far less than 50% of earned income.

Table 16.2 Main features of SE clusters for Central and Eastern Europe

<i>SE models</i>	<i>Social-business (SB) model</i>	<i>Social-cooperative (SC) model</i>	<i>Entrepreneurial non-profit (ENP) model</i>	
	<i>Cluster 1 Small and medium-sized SBs</i>	<i>Cluster 2 Cooperative social enterprises</i>	<i>Cluster 3 Non-profit-parent-launched WISEs</i>	<i>Cluster 4 Local-development ENPs</i>
<i>Cluster No. &amp; dominant type in the cluster</i>	<i>Cluster 1 Small and medium-sized SBs</i>	<i>Cluster 2 Cooperative social enterprises</i>	<i>Cluster 3 Non-profit-parent-launched WISEs</i>	<i>Cluster 4 Local-development ENPs</i>
<i>No. of observations (share of the sample)</i>	49 (30%)	17 (10%)	14 (8%)	41 (25%)
<i>Legal form</i>	Sole proprietorships (42%) Ltd companies (35%) Various	Cooperatives (82%) Various	Ltd companies (43%) Informal organisations (29%) Various	NPOs (43%) Foundations (40%)
<i>Goods and services provided</i>				Education, health and social services (54%)
<b><i>Social mission</i></b>	Employment generation (20%) and various types of social mission	Employment generation (35%), community development (18%), food security (18%) Mission-centric (29%) or mission-related (47%)	Employment generation (43%), access to education (21%)	Employment generation (24%), environmental protection (12%) Equality and empowerment (23%), employment generation (17%)
<i>Mission-centric, mission-related or mission-unrelated economic activity</i>	Mission-centric (43%) or mission-related (51%)	Mission-centric (29%) or mission-related (47%)	Mission-related (64%)	Mission-centric (54%) or mission-related (43%)

(Continued)

Table 16.2 (Continued)

SE models	Social-business (SB) model	Social-cooperative (SC) model	Entrepreneurial non-profit (ENP) model		
Cluster No. & dominant type in the cluster	Cluster 1 Small and medium-sized SBs	Cluster 2 Cooperative social enterprises	Cluster 3 Non-profit-parent-launched WISEs	Cluster 4 Local-development ENPs	Cluster 5 Health and social-services ENPs
<p><b>Economic model</b> Share of the different sources in the income mix</p> <p>Prices applied for the main economic activity and % of SEs applying them</p>	<p>Dominant market income: Market: 84%</p> <p>Market price (39%)</p> <p>Below-market price (33%)</p> <p>Free of charge (18%)</p>	<p>Dominant market income: Market: 75%</p> <p>Public grants: 20%</p> <p>Market price (65%)</p> <p>Below-market price (24%)</p> <p>Free of charge (12%)</p>	<p>Market: 66%</p> <p>Philanthropic revenues: 20%</p> <p>Public grants: 12%</p> <p>Market price (50%)</p> <p>Free of charge (29%)</p> <p>Below-market price (21%)</p>	<p>Hybrid resources: Market: 39%</p> <p>Public grants: 33%</p> <p>Donations: 20%</p> <p>Market price (44%)</p> <p>Free of charge (34%)</p> <p>Below-market price (17%)</p>	<p>Market: 24%</p> <p>Public grants: 55%</p> <p>Donations: 14%</p> <p>Free of charge (63%)</p> <p>Market price (26%)</p>
<p><b>Governance model</b></p> <p>Founder(s)</p> <p>Share of organisations with a multi-stakeholder board</p>	<p>Independent</p> <p>One person (55%)</p> <p>0%</p>	<p>Democratic</p> <p>Citizens (47%), TSOs (41%)</p> <p>59%</p>	<p>Mainly democratic</p> <p>Some independent TSOs or a parent organisation (86%)</p> <p>43%</p>	<p>Democratic</p> <p>TSOs (46%), a group of citizens (39%)</p> <p>55%</p>	<p>Democratic</p> <p>Some independent TSOs (35%), a group of citizens (31%), one person (34%)</p> <p>73%</p>

<i>Ultimate decision-making power</i>	One person (80%)	GA (53%) Board (24%)	A single decision-maker (29%) A parent organisation (29%) GA (14%) Board (14%)	GA (73%) Board (20%)	Board (69%) A single decision-maker (17%) GA (6%)
<i>When applicable, composition of the board (percentage of boards where the category of stakeholders is present)</i>	Workers (53%) and representatives of a wide diversity of other stakeholders (managers, users, experts, investors)	Managers, workers, experts	Volunteers, workers, managers, experts	Managers, experts, workers	
<i>Rules limiting profit distribution</i>	No (79%)	Yes (56%)	Yes (100%)	Yes (95%)	Yes (89%)
<i>If the SE terminates its activity, net assets are going to . . .</i>	Undetermined (52%) Members (23%)	Members (56%)	Parent organisation (71%)	Another social enterprise or NPO (37%) Members, the community	Another social enterprise or NPO (37%)
<i>Paid employees (median per social enterprise)</i>	8	6	5	4	17
<i>Volunteers (median per social enterprise)</i>	0	1	3	1	6

In the local-development ENP cluster (cluster 4), most of the social enterprises adopt the NPO legal form, in which the general assembly generally holds the ultimate decision-making power. In one-fifth of enterprises, this power rests with the board. Boards in cluster 4 are composed of volunteers, managers, experts and workers. Most of the social enterprises in this cluster have been launched by citizens or third-sector organisations. These small-sized NPOs are driven by local-development goals, such as employment generation or environmental protection, and they conduct a wide spectrum of economic activities. They have a markedly hybrid economic model.

The last cluster (cluster 3) of this group of entrepreneurial non-profit social enterprises gathers mainly work-integration social enterprises (WISEs). These social enterprises sell a wide variety of goods or services, mainly at market price, and they rely more heavily on earned income than organisations in the two previous clusters. These enterprises' productive activities can be considered as being less often "mission-centric" and more often "mission-related" than those of enterprises in the two clusters previously analysed: indeed, the economic activity is a means to create jobs, whatever the types of products that are commercialised for a population which is much wider than the group of vulnerable workers targeted by the social mission.

A distinctive feature in this cluster is the fact that the most frequent legal form is the limited company, while almost one-third of enterprises are simply informal organisations. This could be accounted for by another interesting feature: almost 90% of organisations in this cluster have been launched by a parent third-sector organisation. Depending on the type of relations between the social enterprise and its parent non-profit, the former may operate as a formal affiliate of its parent or more informally, without a distinct legal identity. It is why we labelled this cluster "non-profit-parent-launched WISEs".

These three clusters share enough features to suggest the existence of a deeply rooted "entrepreneurial non-profit SE model", covering a spectrum of non-profit social enterprises. The importance of funds coming from external funding agencies (EU-supported programmes and private foundations) may partly explain why the SE landscape in this region is dominated by the non-profit form, which appears to be the most suitable form to obtain support from some donors (Baturina *et al.*, Chapter 13 in this volume). These external donors—and national policies very strongly fostering "a business approach to non-profit organisations"—usually focus on some key social challenges, such as employment generation, local development (especially in rural areas) and access to social services (Ciepielewska-Kowalik *et al.*, Chapter 12; Baturina *et al.*, Chapter 13; and Evans *et al.*, Chapter 15 in this volume).

### 3.2. *One Cluster Indicating the Existence of a Social-Business Model*

The largest cluster (cluster 1, with 49 observed organisations) mainly gathers sole proprietorships and limited companies, mostly initiated and governed by a single person; this leads us to describe the ownership and governance of these social enterprises as “independent”. These enterprises combine a strong business orientation with a social mission. One of the most frequent social missions cited by these social enterprises is employment generation; this constitutes a further sign of the importance attached to this kind of mission in CEE countries—which even leads, in some cases, to conflating social enterprises with WISEs.

Data show that these enterprises produce a diversity of economic goods and services, and that the bulk of their resources (84%) comes from the market, although a significant share of these enterprises sell their outputs below market price. They operate with paid workers, and they do not rely on volunteers. This cluster is thus made of small-sized social businesses operating on the market while simultaneously pursuing a social mission.

At first sight, a good deal of the social-business literature emphasises and celebrates initiatives launched by or in partnership with multinational corporations, thereby suggesting that such initiatives tend to be rather large. It is that kind of profile we had in mind when we started to conceptualise the social-business model, but our statistical results actually suggest a very different picture: social businesses are actually rather small enterprises, led by an individual entrepreneur who is the main owner and the dominant decision-maker.

Only 21% of organisations in this cluster impose rules regarding the distribution of profits, and more than 50% have no predetermined rule about the distribution of net assets in case the activity is terminated. This is not to say, however, that all or most of the profits are usually distributed to owners: the dominant practice (75% of the cases) is to reinvest at least part of the profits in the social enterprise. In this context, the evolution of the balance between economic and social goals over time raises the question of the social mission’s sustainability. It thus seems critical to observe enterprises’ actual practices more in depth: To what extent do social and/or environmental dimensions actually dominate the profit motive? Are they not mere instruments to better serve the financial interests of the owner(s)? More generally, under which conditions can a social-value-generating economic activity be considered as an expression of social entrepreneurship?

In any case, at this stage, this cluster provides support to the idea that the social-business model is deeply rooted in SMEs’ willingness to generate blended value. The emergence of social enterprises corresponding to



the social-business model can be explained, in Eastern and Central European countries, by the fact that some external agencies, such as Ashoka or the British council, among others, propose their support to individual social entrepreneurs (Baturina *et al.*, Chapter 13 in this volume).

### **3.3. *One Cluster Indicating the Existence of a Social-Cooperative SE Model***

Although cluster 2 gathers only 10% of the whole sample, it has a strong identity from a legal point of view: an overwhelming majority of organisations in this cluster have adopted the form of cooperative. This invites us to look at this cluster as potentially signalling the existence of a “cooperative-type” SE model.

The cooperative model has a very specific history in CEE countries, where this legal form is just starting to arouse interest again. Indeed, although most of these countries had a rich cooperative history before World War II, cooperatives lost their autonomy under state socialism, and they became instruments controlled by the state. Due to this legacy, a negative image is still associated with this sector. However, with the progressive enlargement of the EU, the concept of social economy (which includes cooperatives) gained importance and new legal forms—such as that of social cooperative—were introduced in several countries, including Poland, Hungary, Croatia and Serbia.

Most of the organisations in this cluster have been launched by groups of citizens or third-sector organisations. They display democratic governance structures; workers are present in a majority of boards and so are various other types of stakeholders. If the social enterprise terminates its activity, the net assets are most often transferred to the members.

The social mission and economic activities are clearly interwoven. Organisations serve strong social objectives: they aim mainly at creating jobs for the unemployed or at supporting community development or improving food security. These social enterprises rely mainly on market resources (which represent on average 75% of their income), but one-third of enterprises sell their products below market price—a fact that reflects their general-interest orientation.

This leads us to conclude that our theorisation of social cooperative as an SE model is supported by empirical evidence. However, this model is still emerging in CEE countries, and this trend is not as strong as what is observed in other regions, such as Western Europe (Defourny *et al.* 2020).

## **Conclusion**

The objective of this last chapter was to test the typology of SE models that we had previously put forward on a theoretical basis (Defourny

and Nyssens 2017). The major finding is that three of our four theorised SE models are strongly supported by empirical evidence: the existence of a social-business model, a social-cooperative model and an entrepreneurial non-profit model is fully confirmed by the examination of the five clusters resulting from the statistical analysis of data about CEE social enterprises.

When adding results from the other regions of the world to the picture, we are able to confirm the relevance of these three SE models, both across countries within each region<sup>8</sup> and across regions. More precisely, these three models are found in 39 countries out of 43, and applying the statistical treatment described in Section 2 to the data about all the 721 surveyed social enterprises actually yielded the same major results.<sup>9</sup> Referring to the hypothesis that we had put forward in this chapter's introduction, we can now assert that our typology of SE models is neither country-specific nor even, more broadly, region-specific.

At this final stage, it makes sense to raise again the question which has been an underlying thread of the whole ICSEM Project: to what extent and why is it important to apprehend and highlight the diversity of SE models?

Let us address this central question in terms of policy implications, not just for institutional policymakers but also to feed debates in which all types of actors and stakeholders may get involved. Instead of presenting a menu of "best practices" like some experts and consulting companies, we prefer to identify some important risks, limitations or even traps to be avoided.

### *The Impossible Consensual Definition*

The first and most obvious trap would be to keep devoting a lot of efforts, time, energy and skills to the search for a "consensual definition of social enterprise". Indeed, achieving this goal is often perceived as a necessary condition for any advancement of the SE field towards clarity (of borders), measurability (of inputs and outputs) and legitimacy (in the eyes of all actors); but those who cannot live with SE diversity will face major difficulties when discovering that many social enterprises are actually hybrid organisations, living on or close to boundaries. Obstacles are getting even greater when it comes to estimating employment or other key variables in social enterprises: there is a high risk to focus only on SE types targeted by some public schemes, social enterprises registered in the framework of some precise legislation, or social enterprises accredited to be eligible for some forms of support, among others.

In Central and Eastern Europe, new legal forms, decrees or/and national strategies have emerged since the beginning of the century to promote social enterprise; this was, for example, the case in Albania, Bulgaria, Hungary, Latvia, Lithuania, Poland, Romania and Slovenia, to

name just a few (European Commission 2020). Obviously, none of these frameworks embraces the whole SE field; on the contrary, as highlighted by the European Commission (2020: 35), social enterprises tend to be narrowly understood through the lenses of these legal frameworks.

### *Isomorphic Pressures on WISEs*

Most of these legal forms are oriented towards the same social mission, namely the social and economic integration of low-skilled workers, handicapped persons, long-term unemployed or other disadvantaged groups. This is clearly confirmed by our statistical results, which show the prevalence of the employment-generation mission across all SE models in Central and Eastern Europe.

Such a focus on the employment of disadvantaged groups is tempting for all actors when public funds are allocated and legal frameworks designed to promote such initiatives because work integration ranks very high on the political agenda. In such context, it may even happen that public authorities impose one or a few very precise type(s) of WISE framework, while leaving very little space for autonomy to social enterprises (in Hungary, for example, social cooperatives cannot be fully independent from local municipalities or from state-accredited charities). Therefore, a second trap, closely linked to the first one, is to narrow the understanding of social enterprise to those initiatives that pursue a goal of employment generation and to overlook all other types of social enterprise.

### *Isomorphic Pressures From External Funders*

As analysed in various chapters of this book (see Chapters 12 and 13), the SE programmes developed by external donors have deeply shaped the discourse on social enterprise in Central and Eastern Europe. Against such background, it often proves tempting to import SE models supported by these external public bodies (the British Council, EU Structural Funds, UN programmes) or private agencies (Ashoka, NESsT, Yunus Social Business).

The dominant discourse conveyed by these donors is inspired by the “earned-income” school of thought, which defines social enterprise as “a market solution to a social problem”. As underlined by Baturina and his co-authors in Chapter 13 of this volume, such an approach can legitimise at least a partial withdrawal of the state from social-services provision and place (too) high expectations on civil society’ resources to achieve key public missions. However, it is striking to observe that almost 50% of the social enterprises in the ICSEM sample for CEE countries have less than 50% of market income.

Some of these external discourses also tend to point out a “weak associative and cooperative tradition” in Central and Eastern Europe

(European Commission 2020). Once more, our data provide another picture: 70% of social enterprises are converging to either the social-cooperative model or the entrepreneurial non-profit model. Civil society does not appear as weak in CEE countries as it is commonly assumed. Indeed, many post-communist countries have vigorous public spheres and active civil-society organisations. However, the institutional environment may hinder these organisations' advocacy role, and state/civil-society relationships are rather characterised by clientelism than by partnership (Foa and Ekiert 2017). Regarding the cooperative movement, as already highlighted, several CEE countries had a lively cooperative movement before World War II. Nowadays, although some mistrust in cooperatives still persists as part of the legacy of state socialism, the social-cooperative model is starting to arouse interest in several countries.

Allowing the field to be shaped by external discourses would be a third trap. Without denying that external support has been a key driver for the development of the SE ecosystem in Eastern and Central Europe, SE policy frameworks would benefit from relying more intensively on endogenous drivers, embedded in clear internal policy strategies (Cvejić *et al.*, Chapter 14 in this volume).

Finally, orienting many efforts towards “catching up” with Western-framed SE models would constitute a fourth trap, specific to CEE countries. These efforts would probably only “produce short-term and often vague effects, which [would contribute] to the development of the myth of social enterprise and social entrepreneurship” (Cvejić *et al.*, Chapter 14 in this volume) as outstanding solutions to “fill the gap” with the West.

### *Towards a Plurality of Endogenous SE Ecosystems*

Our results suggest that social enterprises stem from most, if not all, parts of the economy and can be related to different organisational backgrounds—namely the non-profit, the cooperative and the traditional business sectors. Our empirical analysis does not confirm the existence of a public-type SE model through the identification of a distinct cluster, but in the cluster gathering parent-launched work-integration social enterprises, 30% of enterprises involve a governmental agency among their founding members, and some country contributions clearly identify this model; this is, for example, the case in Estonia (Evans *et al.*, Chapter 15 in this volume).

Instead of leading towards limitations or traps such as those just listed, the diversity of SE models should be seen and exploited as a key asset. In today's context, indeed, the complexity of social or societal challenges calls for a sound awareness of all models' strengths and weaknesses and for collaboration, synergies and partnerships among social enterprises.

Social enterprises are influenced by external factors, but they can also in turn contribute to shaping their institutional environment. Social enterprises' institutional dimension— that is, their potential role in the development of norms and regulations—should be acknowledged both at the level of the organisation and beyond, through the “institutional work” of all actors. Through their innovative dynamics in many fields of activities, these initiatives indeed bear a transformative potential for the whole economy, in search for sustainable models. The challenge is, therefore, to take the full measure of their contribution and broaden their influence.

## Notes

1. In their classic survey of literature on social entrepreneurship, Dacin *et al.* (2011) listed some 80 references, among which only one referred to social enterprise in its title. On the basis of 307 documents selected because they referred to at least one of the notions of “social enterprise”, “social entrepreneurship” and “social entrepreneur” such as they understood them, Alegre *et al.* (2017) developed a citation map and a cluster analysis of definitions; they came out with five quite distinct groups, among which three focused on social entrepreneurship and a single one, quite isolated, focused on defining social enterprise. For their part, Sassmannshausen and Volkmann (2018) provided an overview of the state of art of research on social entrepreneurship and its establishment as an academic field. See also the *Journal of Social Entrepreneurship*, launched in 2010.
2. See the *Social Enterprise Journal*, launched in 2005; most of the research carried out by or in relation to the EMES International Research Network since the late 1990s; and the recent EU report titled *Social Enterprises and Their Ecosystems in Europe* (European Commission 2020).
3. The work coordinated by Nyssens (2006) relied on a common survey covering 162 work-integration social enterprises (WISEs) from eleven EU countries and almost 1,000 “WISE participants”, that is, persons engaged in work-integration trajectories.
4. Kerlin's typology is also rooted in a theory trying to explain the existence and the place of the non-profit (third) sector. However, it is not confronted with empirical evidence at the enterprise level.
5. In a few countries where the notion of social enterprise is defined, for instance through a law, the definition does not generally enable an uncontested mapping and statistical analysis, because such a legal approach is often deemed too large or too narrow.
6. Results for Western European countries are presented in the ICSEM book which is devoted to this part of Europe (Defourny and Nyssens 2021). Results for Latin America and Asia are presented in the first two ICSEM books, that is, respectively, Gaiger *et al.* (2019) and Bidet and Defourny (2019).
7. One more cluster, gathering eight social enterprises, was identified, but it was dropped because these social enterprises could be considered as “outliers”.
8. See the other three books that resulted from the ICSEM Project, and in particular Chapter 20 in Defourny and Nyssens (2021), Chapter 16 in Bidet and Defourny (2019) and Chapter 11 in Gaiger *et al.* (2019), for results about, respectively, Western Europe, Asia and Latin America.

9. This global statistical analysis was first carried out and reported by Defourny *et al.* (2019) in an ICSEM Working Paper and was then published in *Non-profit and Voluntary Sector Quarterly* (Defourny *et al.* 2020).

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