

## **Social economy - laying the groundwork for innovative solutions to today's challenges (Paris, 10-11 December 2012)**

### **Social Entrepreneurship in the Czech Republic<sup>1</sup>**

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#### **1. What are the current situation and the recent trends in your country in relation to social economy?**

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

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

##### **Overview**

There are currently around 100 social enterprises in the Czech Republic<sup>2</sup> doing business in just about every area of the economy (production and services of all kinds). These include cleaning services, cafés, confectionary shops, restaurants,

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2 A telephonic survey is currently being made by P3 – People, Planet, Profit, o.p.s. The data of 75 social enterprises were already obtained and 40 social enterprises are still to be called.



production and processing firms, graphic studios, digitisation studios, call centres, park and garden maintenance firms etc.

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

The majority of existing social enterprises in the Czech Republic employ people with disabilities; this is influenced by tradition and the relatively clearly defined instruments and status of this kind of disadvantage compared to other types. However, enterprises employing Roma, young people who have left children's homes, homeless people, people with a history of drug addiction etc. can be found increasingly commonly. We believe that this trend (employing socially disadvantaged people and "not just" people with disabilities) is on the rise in the Czech Republic.

There does not exist any specific legal form for social enterprises and there are not any specific tax advantages. Social enterprises in the Czech Republic take various legal forms. There is no categorical answer as to which of these forms is the most advantageous. It always depends on the specific conditions, the type of services/products and the founders' approach.

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

In the last case, though, it should be kept in mind that citizens' associations cannot be founded for enterprise purposes. Entrepreneurial activity may be a "secondary" activity of citizens' associations, however. The profit from this secondary activity is then used to finance the association's primary activities (which performs in order to fulfil its mission).

The social economy and social entrepreneurship are currently mentioned in several strategic documents (e.g. National Strategic Reference Framework for EU Structural Funds 2007-2013, Strategy for combating social exclusion 2011-2015).

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

Social entrepreneurs who come from the ranks of "normal" entrepreneurs are usually well acquainted with the business environment and with business and financial plans and may possess capital from their previous business activities which they now use as, for example, as a start-up investment in their new enterprise activity or as a "cushion" in leaner times (economic crisis etc.). Another advantage



we could mention is that these entrepreneurs usually know how to negotiate with banks and have an established network of contacts and acquaintances in their area. Problems mainly arise with this type of entrepreneur in their work with the target group (if they employ disadvantaged people) or generally in fulfilling and preserving their enterprise's social mission.

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

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

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

## **2. What framework measures and models to encourage social enterprises are applied in your country?**

### **Structural Funds**

The main incentive to the increase of social enterprises in the Czech Republic came with the Structural Funds. In 2009 Ministry of Labour and Social Affairs (MoLSA) announced two calls for proposals targeting support for the social economy. These are the only calls for proposals in the Czech Republic focusing exclusively on social entrepreneurship and, despite certain shortcomings that receive criticism from the expert or general public, their existence is without doubt a major fillip for social entrepreneurship in the Czech Republic.

The calls for proposals are:

- call for proposals no. 8 of the Integrated Operational Programme (IOP)<sup>3</sup>, under which applicants can apply for investment support;
- call for proposals no. 30 of the Human Resources and Employment Operational Programme (OP LZZ), under which applicants can apply for non-investment support.

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3 Up to 29 July 2011 this was call for proposals no. 1 of the Integrated Operational Programme.



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

The applicants' success rate is not particularly high, however. What is more, many of the successful applicants only received support after making one or more corrections and repeatedly submitting their applications. Specifically, 446 project applications had been submitted and assessed under OP LZZ as of 28 October 2012; 77 applications were being implemented. Under IOP 256 project applications were received; but only 40 were being implemented.

### **Loans**

It is very difficult, practically impossible almost, for social entrepreneurs starting out to obtain a loan (without a history, without guarantees etc.): banks regard this kind of entity as insufficiently established and therefore a risk. The only financial institution that is active in support of social enterprises is currently Česká spořitelna, or rather the transnational group Erste bank: in 2011 it conducted a pilot project under which social entrepreneurs and enterprises in the Czech Republic could obtain a cheap bank loan (investment or operational loan). In fact, only 2 social enterprises succeeded to gain a financial support. The continuation of the pilot is under preparation.

### **Support organisations**

There are organisations that offer various types of support (training, consultation etc.) to social entrepreneurs, help raise awareness of this topic or try to garner support for this idea from major firms on the market (e.g. from banks). The most important support organisations in the social economy undoubtedly include the Union of Czech Production Cooperatives (cooperatives were historically the predecessors of social enterprises), the VIA Foundation (which operates the Accelerator Academy of Social Entrepreneurship), NESsT (which provides consulting and training combined with financial contributions), Fokus Praha (which supports the social firms model) and last but not least P3 – People, Planet, Profit, o.p.s. (which provides consulting and training to start-ups and widely promotes social entrepreneurship. P3 coordinates the activities of the Thematic Network for Social Entrepreneurship TESSEA. TESSEA has more than 230 members, both legal persons (organisations) and natural persons (individuals). It is focused mainly on raising awareness, disseminating information and communication with policymakers. A club for social entrepreneurs has been recently created by P3.



### **3. What are the main challenges for the future development of the social economy and social enterprises?**

#### **Opportunities:**

- Effective exploitation of gaps in the local and regional market in goods and services;
- Trend in society towards responsible consumption;
- Social entrepreneurship products and services can be linked to a badge of quality;
- Media and their coverage of the topic;
- Possibility of referencing the EU – part of European policies;
- Potential for tackling problems at local and regional level;
- Potential for tackling problems of disadvantaged groups (job creation and socialisation);
- Greater use can be made of foreign experiences;
- More effective use of further EU financing in the next programming period (not just social integration);
- Generate public interest in the issue;
- Generate interest in the topic among politicians;
- Make use of CSR for the needs of the social economy.

#### **Threats:**

- Tendency in state administration to shift its responsibility for resolving social services and regional and local deficits onto social entrepreneurship;
- Misuse of the instruments, name and phenomenon of social entrepreneurship for inappropriate interests (groups, individuals, personal gain);
- Having only WISE enshrined in legislation will slow down the development of other types of social enterprises;
- Social entrepreneurship confused with charity and social services;
- Poor use of social enterprises discredits the issue;
- State fails to understand and appreciate the potential of social entrepreneurship;
- Business risks underestimated by the non-profit sector;
- Complicated rules for existing support will lead to grant support being stopped.

The current form of support given to social enterprises by the relevant ministries does not match their real needs. Considering that social enterprises carry on business activities and their impact on local development is substantial, in the next programming period support for social entrepreneurship should be included under the Ministry for Regional Development and Ministry of Industry and Trade operational programmes. The issue of social entrepreneurship has been recently incorporated into the Strategy for the Regional Development and the National Plan for Reforms but it is still waiting for the real support. It is expected that the



substantial support will come with the new programming period of the Structural Funds.

There should continue to be mechanisms enabling the creation of social enterprises, but these should also be expanded to cover social enterprises in all stages of the lifecycle, i.e. the focus should not be entirely on start-ups and existing social enterprises should also be supported. The spectrum of provided support should also be broader, meaning that support should be provided in more ways, not just through grants but by means of micro-loans, loan guarantees etc. As mentioned before, it is expected that it will start in the new programming period.

Given the vulnerability of the existing examples of good practice, grants should also be provided for enterprises' capacity building in general. Small grants for capacity building would have a positive influence on their professionalisation and would undoubtedly help them stabilise their position on the market/in the region and would thus, from the long-term point of view, improve their sustainability.

The concept of social entrepreneurship should be presented more strongly to representatives of the state administration and local government at regional and local level as well as to politicians in a way making clear all its benefits, impacts and values. Social and environmental aspects should be also factored into public procurement at the level of state administration. Awarding points to social entrepreneurs in terms of their social and economic benefit when judging public procurement candidates would directly contribute to the development of this segment of enterprise. Going about public procurement in this way, especially at local and regional level, would help reduce unemployment among disadvantaged population groups in the region.

#### **4. A brief assessment of the learning value of the French good practice to your country.**

The French social entrepreneurship is highly developed in comparison to the situation of the Czech Republic and there are many activities in France that can be taken as an inspiration and good practice for the Czech emerging social economy sector.

- The existence of the Higher Council for the Social Economy in France: an interdepartmental body that would deal with the social economy and would integrate the departments affected by the social economy is badly needed in the Czech Republic.
- The French authorities want to prepare a legislative basis for the social economy: there is a Czech initiative (a transnational project of P3) to prepare a draft of the white paper for WISE in cooperation with MoLSA and the French draft bill will be very inspiring.
- The French project engineering and finance tools through a public investment bank (PIA): it will be very interesting to study the mechanisms even if the Czech



situation is very delayed and it cannot be implemented in the recent Czech situation.

- Business and employment cooperatives in France are a very interesting form of support that is missing in the Czech Republic and that can be easily transformed. Information on the CAEs will be shared and hopefully used.

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Quotations from the Study of the infrastructure of the social economy in the Czech Republic, 2011, written by Daniela Bednaikova and Petra Francova for TESSEA were used in the text.

