



A map of social enterprises and their eco-systems in Europe

Country Report: Czech Republic

European Commission

This report provides a non-exhaustive overview of the social enterprise landscape in the Czech Republic based on available information as of August 2014. Although a range of stakeholders were interviewed to verify, update and supplement the information collected from secondary sources, it was not possible to consult all relevant stakeholders within the constraints of the study.

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Headline summary

Definition(s) and concepts

The Thematic Network of Social Economy (TESSEA) has developed a definition of social enterprise that is accepted by a broad range of stakeholders in the Czech Republic, including the Ministry of Labour and Social Affairs (MoLSA), Agency for Social Integration, Association of Czech and Moravian cooperatives and others. Given the importance of WISE in Czech circumstances, TESSEA also provides a definition aimed specifically at this type of social enterprise. Currently the TESSEA definitions serve as a guidance when identifying social enterprises. They are not included in any legal framework, nor is there a specific body responsible for monitoring of compliance.

Policy and legal framework

Social entrepreneurship is not defined in national legislation and there is no specific policy document or public body officially designed to deal with it. The inclusion of social entrepreneurship in the national legislation is, however, being discussed. The legal form of a social cooperative has been recently included in the legislation.

Moreover, the Agency for Social Inclusion has promoted socially sensitive public procurement among municipalities – about sixty of them included some of its elements in their strategic documents and a few actually included the employment of people with disabilities as one of the evaluation criteria.

Public support and initiatives

There is no systematic policy support for social entrepreneurship at national and regional policy levels. Public support tends to be characterised by one-off project grants (e.g. OPHRE an IOP grant schemes). The only systematic support is received by WISE employing people with health disabilities who can claim financial contributions from the Labour Office.

The capacity to provide business advice about start-up and management of social enterprises is limited and fragmented.

A number of big commercial companies (such as CSOB and Ceska Sporitelna) has financed small-scale programmes aimed to provide grants and business advice to social enterprises.

Networks and mutual support mechanisms

The leading opinion platform about social enterprises is TESSEA. It was founded in 2009 and currently includes over 350 legal and physical persons from business. In addition, a regional Cluster of social enterprises in Moravskoslezsky region was established in November 2013. A Platform of Social Companies - an association of 12 social enterprises and 4 physical persons who accept the principles of a “social company” – has also been set up.

Marks, labels and certification systems

There are no marks, labels and certification systems aimed directly at social enterprises in the Czech Republic.

Social investment markets

Social investment markets are rudimentary and offer very limited supply of finance.

Spectrum of social enterprises

There is one institutionalised form of social enterprise in Czech Republic: Social cooperative under Commercial Corporations Act no 90/2012. Besides, there are several types of organisations registered on the TESSEA database among which some can be de facto regarded as social enterprises. These include: Associations with commercial activities; a small share of workers' cooperatives pursuing

general or collective interests; Public benefit organisations (to be replaced by institutes); and mainstream enterprises pursuing an explicit and primary social aim.

Scale and characteristics

It is estimated that there are currently 250-300 of organisations fulfilling the criteria of EU operational definition of social enterprises.

Own activities are the main source of income of social entrepreneurs, but there is also a high reliance on public funding from OPHRE an IOP. Most of the Czech social enterprises are WISEs.

Factors constraining the start-up and development of social enterprise

Based on the available literature and the opinions of interviewed experts, the main constraining factors seem to be the lack of public support and initiatives, limitations in terms of access to finance and accessing public procurement opportunities.

1 Definitions and concepts of social enterprise in the Czech Republic

Box 1 Origins of social enterprise in the Czech Republic

The roots of the social economy in the Czech Republic can be traced back to the emergence of worker cooperatives, mutual type organisations, associations and non-profit sector in the mid-19th century. (Bednarikova & Francova 2011; Dohanlova 2009; Kotynkova 2013; Huncova 2010) These organisations focused mainly on financial, consumer and production self-help activities.

Social economy has long tradition mainly in the countryside, where SMEs, worker cooperatives, associations, mutual/municipal savings banks and cooperative agricultural banks developed under the Hapsburg Empire. These voluntary organisations helped to form Czech cultural and economic identity within the empire. Their activities intensified towards the end of the century and reached their peak after the First World War. In the 1920s and early 30s, the number of associations and cooperatives was rising in all areas including student and interest organisations, sport clubs, associations of national minorities, etc. (Dohnalova 2009)

After the Second World War, the communist regime was established in February 1948. While some of the associations and cooperatives survived this change, their activity lost certain important elements of the social economy. They lost their autonomy from the state and became politicised. Many were dissolved by the state because their social mission was not in accordance with the regime. Cooperatives had to produce goods according to the plans made by the state at the central level, rather than according to their own free will.

The totalitarian regime interrupted the development of Czech social economy for 50 years. The activities of associations and cooperatives became discredited in the eyes of the public due to their high level of politicisation. The whole independent civil society was suppressed. This created a legacy that slowed down the development of social economy and entrepreneurship in several ways (Dohnalova 2009):

- Mistrust in associations and cooperatives because of their connection with the regime;
- Lack of willingness to participate in activities with social mission;
- Underdeveloped entrepreneurship culture;
- High dependence of the third sector on the state; and
- Underdeveloped legal framework for support of third sector activities.

The communist regime fell in 1989. Afterwards, there were efforts to revive the autonomous cooperative sector. The efforts concentrated especially on credit cooperatives, but these organisations were unable to fulfil their role. They collapsed at the end of the 1990s and became discredited in the eyes of the public.

The interest in defining the social economy and its actors has been apparent since early 2000s. In 2002, the Czech Republic hosted a conference devoted to social economy as a first post-communist country. As a result, a declaration was signed to support the '*creation of suitable social framework in the Czech Republic and other countries*' from Eastern and Central Europe (Dohnalova 2009). However, this conference still had relatively limited attendance due to low awareness of the social economy concept at the time.

The legislative framework is also underdeveloped – there is no definition of social enterprise currently available in the Czech legislative. Neither is there any public body specifically devoted to the issue of social entrepreneurship (nor to the broader concept of social economy).

Thematic Network of Social Economy (TESSEA) has developed a definition of social enterprises that is accepted by a broad range of stakeholders in the Czech Republic,

including MoLSA, Agency for Social Integration, Association of Czech and Moravian cooperatives and others. The final version of the definition is relatively recent – TESSEA published the first version in 2010 and a revision in 2011 (Bednarikova & Francova 2011).

As a starting point, the TESSEA publication defines the broader concepts of social economy and social entrepreneurship (quoted from Bednarikova & Francova 2011):

- **Social Economy** as a sum of activities undertaken by social-economy entities, the purpose of which is to increase employment in the local conditions or to fulfil other requirements and objectives of the community in the field of economic, social, cultural and environmental development.
- **Social-economy entities** as social enterprises, financial, consulting and training institutions that support social entrepreneurship and non-governmental non-profit organisations that carry on economic activities in order to secure work for their clients or gain additional financing for their mission. Social-economy entities share common values, which are the fulfilment of a publicly beneficial objective, democratic decision-making, supporting citizens’ initiatives, independence from public or private institutions, a different way of using profits, taking into account for environmental considerations, and prioritising local needs and local resources.
- **Social entrepreneurship** as enterprise activities benefiting society and the environment. Social entrepreneurship plays an important role in local development and often creates jobs for the disabled or the socially or culturally disadvantaged. The majority of profits is used for the further development of the social enterprise. Achieving profit is equally important for social enterprises as increasing public benefit.

In the context of these broader definitions, a more detailed definition of the social enterprise follows. Social enterprise is defined as a “social-entrepreneurship entity”, i.e. a legal person established under private law or a part of such legal person or a natural person respecting the principles of a social enterprise. Social enterprises pursue a publicly beneficial objective that is formulated in their founding documents. They are formed and developed on the basis of the triple bottom line concept – economic, social and environmental:

Table 1.1 TESSEA definition for a social enterprise

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

Given the importance of WISE in Czech circumstances, TESSEA also provides a definition aimed specifically at this type of social enterprise. This definition differs from the general definition mainly by a more restricted specification of the social benefit and target groups:

Table 1.2 TESSEA definition for a WISE

PRINCIPLES OF SOCIAL ENTERPRISES	Social benefit	Economic benefit	Environmental and local benefit
Characteristics (those underlined are not required)	a) Employment and social integration of people disadvantaged on the labour market.	a) Any profits preferentially used to develop the social enterprise and/or fulfil publicly beneficial goals.	a) Preferential satisfaction of the local community's needs.
	b) Employees and members participate in the enterprise's strategic decision-making.	b) Employees are encouraged to increase their work productivity in line with their capabilities.	b) Preferential use of local resources.
	c) Emphasis on development of work skills of disadvantaged employees.	c) Independence (autonomy) from external founders in decision-making and management.	<u>c) Preferential satisfaction of local demand.</u>
		d) At least a minimum share of total revenues and growth thereof from sales of products and services.	d) Consideration for environmental aspects of both production and consumption.
		e) Ability to manage economic risks.	e) Social enterprise cooperates with important local actors.

TESSEA also developed a set of indicators that provide measurable characteristics to identify social enterprises. These include, among others, the following criteria:

- Social enterprises must derive 10% from own economic activity;
- WISE must derive 30% of income from own economic activity;
- Both social enterprise and WISE must reinvest at least 51% of profit into development of the social enterprise and /or implementation of socially beneficial aims;
- Social enterprises must employ at least 10% of paid employees involved in its operations and activities;
- In WISE, at least 30% of employees must be from groups disadvantaged on the labour market. In this case, employee is defined as a person with an equivalent of standard employment contract of at least 0.3.

The work on the indicators is currently continuing in an ESF/MoLSA project aimed at piloting and modifying both the WISE and social enterprise indicators¹. The results will be available later in 2014.

¹ <http://www.esfcr.cz/zakazky/sada-indikatoru-rozpoznacich-znaku-pro-socialni-podnik-a?highlightWords=www.penzijni-pripojisti-info.cz%2Fpenzijni-pripojisti+Duchodove+pripojisti+se+statnim+prispevkem+nabizi+prilezitost+zajisti+financi+na+penzi+-+ucastnici+penzijniho+pripojisti+si+ukladaji+finance+v+penzijnich+fondech+www.penzijni-pripojisti-info.cz%2Fpenzijni-pripojisti>

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

Crucially, these outputs have already been linked to funding opportunities for social enterprises. MoLSA approved the TESSEA definitions and indicators in 2010 and used them when defining social enterprises in its grant calls. This helped to spread the notion of social entrepreneurship – all of the applicants needed to openly accept the social enterprise principles to be eligible for support. Similarly, Ceska Sportelna used the TESSEA definition of social enterprises in its pilot project providing micro loans for social enterprises (Bednarikova & Francova 2011).

Other important actors have also approved this definition. The Agency for Social Inclusion has been trying to spread the knowledge of social enterprises among municipalities and encourage socially conscious public procurement. However, municipalities have low awareness of this issue and generally do not include any criteria that would favour social enterprises.

The Association of Czech and Moravian Producer's Cooperatives also participated in TESSEA activities. As a whole, they agree with the definition, even though they put more emphasis on the economic dimension of social entrepreneurship. This is counterbalanced by the organisations from the non-profit sector, which highlight the importance of the social mission.

The most debated part of the TESSEA definitions relates to the inclusion of employees in strategic decision making of the enterprise. The debate focuses mainly on the extent to which people with health and social disadvantages can (and want to) participate in more complex strategic decisions regarding the enterprise.

Another point of controversy is related to the independence in decision-making. While interviewed stakeholders broadly agreed that state and municipalities should not establish social enterprises, their opinions differed on the extent of influence public institutions can have on decision-making of a social enterprise. Opinions varied particularly in case of social enterprises that are highly dependent on public financial support.

2 The ecosystem for social enterprise in Czech Republic

2.1 The policy and legal framework for social enterprise

2.1.1 National policy framework for social enterprise

There is no specific policy framework for social enterprise. However, the concept of social enterprise forms part of some national strategic policy documents. It is a part of the National Action Plan of Social Integration for the Years 2008-2010 and the National Plan of Support for and Integration of Citizens with a Disability for the Period 2010-2014. The broader concept of social economy has been included in the Concept of Roma Integration for the Period 2010-2013 and is a part of the Strategy of the Fight against Social Exclusion. It is also a part of the Sustainable Development Strategy and the Strategy for Combating Social Exclusion 2011 – 2015 and it was mentioned in the Strategy of SME support 2014 – 2020. Social economy will also be included in the Strategy of the employment policy 2014 – 2020 (Bednarikova & Francova 2011).

2.1.2 Legal framework

There is no legal definition of social enterprise in the Czech legislative. However, the government has recently added social enterprise to its legislative plan, acknowledging its rising importance in Czech circumstances. It is going to be discussed in the first quarter of 2015.

Recently, TESSEA has published a proposal on how to include the concept of social enterprise in Czech legislative. It specifies the following three options (RAVL, 2013):

- Create a separate legal act defining the main attributes of a social enterprise irrespective of its legal form. This can be followed by further measures specifying in more detail the support aimed at social enterprises.
- Include the support of social enterprises into the currently existing Employment Act 435/2004 Coll. The support measures for social enterprise would have to respect the basic principles of this legal act. There is an option to extend some of the support measures for employment of disadvantaged individuals to social enterprises.
- Pilot evaluation of application of existing active employment measures to social enterprises. The evaluation would be carried out in two to three regions and provide more information about how to design support for social enterprises at the national level.

The Czech Republic is currently in a state of transition as it moves from its previous Civil Code to a New Civil Code regime. Under the new regulation, some legal forms will continue without change, while others will need to adapt to the new regulatory provisions. The new regime also introduces new legal forms. A new legal form of social cooperative was added to the Commercial Corporations Act n. 90/2012 Coll in January 2014. Social cooperatives are limited to the purpose of enabling social and employment integration of deprived persons into the society. Social cooperatives must also prioritise fulfilling local needs and use of local resources according to the seat or location of operation of the co-operative. This form matches the European Operational Definition in important ways, as is apparent from the box below:

Box 2 Social Cooperative

This legal form is defined in the Commercial Corporations Act n. 90/2012 Coll. The Act became effective on the 1st of January 2014.

Social cooperative is defined as a “cooperative that is pursuing beneficial activities to promote social cohesion through work and social integration of disadvantaged people in society, prioritizing the satisfaction of local needs and utilization of local resources particularly in the area of job creation, social services and health care, education, housing and sustainable development.”

The social cooperative:

- Has to specify its social mission and rules of profit distribution in its statutes;
- Cannot transfer or mortgage its assets unless the counterpart is another social cooperative (asset lock);
- Can redistribute a maximum of 33% of profit among its members;
- Provides each member with one vote at the member meetings (democratic principle).

Other not-for-profit legal forms can undertake economic activity. However, carrying out such activity may result in the enterprise not being considered eligible for the tax incentives normally available for not-for-profit legal entities

2.2 Public support schemes targeting social enterprises

Since 2009, there were three important public grant schemes initiated by MoLSA. They focused exclusively on WISE, as one of the main eligibility conditions was that at least 40% of workforce of potential applicants must come from the following target groups:

- People with health disabilities;
- Youth threatened by socially pathological influences;
- The homeless;
- Care and prison leavers;
- Victims of criminal activities;
- Carers for relatives at risk;
- People with experience of substance misuse;
- Long term unemployed;
- Other people at risk of social exclusion (or socially excluded).

In total, these public support schemes supported approximately 150 social enterprises. Their overview is provided in the table below:

Table 2.1 Public support schemes overview

Public support scheme	Specification
Grant call nr. 30 "Social Economy" within the OPHRE (February 2009 – October 2013) ²	<ul style="list-style-type: none"> ■ The grant call focused on support of new entrepreneurship activities. Successful applicants received non-investment financial support, that covered 100% of eligible costs of the project³. ■ The maximum support per project was 200 000 EUR. The total amount to be provided was approximately 15 million EUR. The project was co-funded by MoLSA (15% of funding) and ESF (85% of funding). ■ The eligibility of social enterprises for the support had been assessed according to the following criteria: <ul style="list-style-type: none"> – Engage in new social entrepreneurship activities aimed at socially beneficial mission; – Reach a share of at least 40% of people from the target groups within their workforce; – Reinvest at least 51% of profit into the activities of the social enterprise, such as providing higher qualification to its employees, acquiring new technology, or its social

² <http://www.esfcr.cz/file/7884/>

³ For more details on eligible costs see <http://www.esfcr.cz/07-13/oplzz/priirucka-d5>

Public support scheme	Specification
IOP grant calls 1 & 8 “Investment support of social economy“ (April 2009 - May 2013) ⁴	<p>mission;</p> <ul style="list-style-type: none"> – Satisfy local demand and respect environmental principles; – Reach maximal possible engagement of workers in decision-making and promote social cohesion; – Be innovative by, for example, introducing new work methods or by producing new goods or services; and – Be independent from private and public institutions. <hr/> <ul style="list-style-type: none"> ■ The grant calls focused on support of new entrepreneurship activities. Successful applicants received investment support covering 80% of eligible project costs. ■ The maximum support per project was 200 000 EUR. The total support provided during the two grant calls was approximately 17 million EUR. 85% of the costs were covered from ERDF and 15% from national budget. ■ The eligibility conditions for social enterprises were identical as for the Grant call n.30 “Social Economy“. ■ The IOP and OPHRE grant schemes were compatible with each other. Thus, social enterprise could apply (and receive) for both investment and non-investment support at the same time.

Currently, there are no schemes supporting social enterprises on a comparable scale. However, there have been a few smaller projects supporting social entrepreneurship. A project called “Support of social entrepreneurship in Czech Republic“ is currently being financed from OPHRE⁵. Its primary objective is to test the support of social enterprises by creating a national network of ten local consultants and five experts/coaches. This network provides free consultancy services to social enterprises in various areas, including business and legal support. Secondary goal of the project is to grasp the concept of social entrepreneurship and create a set of indicators that would help to identify social enterprises in practice.

Another OPHRE project “Innovative establishment of social entrepreneurship“⁶ aims to raise awareness about social entrepreneurship. It has established a national network of eight ambassadors⁷ that actively promote social entrepreneurship in their regions through seminars, panel discussions, etc. Further outputs to be delivered include:

- A report that summarises good practice in social entrepreneurship;⁸
- A guide how to set up a social enterprise;
- Three documentary movies about social economy; and
- Sixteen short portraits of Czech social enterprises.

⁴ <http://www.mpsv.cz/cs/11137>, <http://www.mpsv.cz/cs/6748>

⁵ <http://www.esfcr.cz/projekty/podpora-socialniho-podnikani-v-cr>

⁶ <http://www.esfcr.cz/projekty/inovativni-prosazovani-socialniho-podnikani>, <http://www.p-p-p.cz/cz/projekty/projekty/168-inovativni-prosazovani-socialniho-podnikani2>

⁷ <http://www.ceske-socialni-podnikani.cz/cz/podnikani-jinak/ambasadori>

⁸ http://www.ceske-socialni-podnikani.cz/images/pdf/Priklady_dobre_praxe_socialni_podniky_P3.pdf

Finally, OPHRE supports TESSEA in cooperation and experience sharing with foreign stakeholders involved in social entrepreneurship. It also supports the activities of the newly created Club of Social Entrepreneurs. This informal network organises quarterly seminars that allow social entrepreneurs from different regions to share their experiences and good practices. Around 20 to 30 people attend each seminar.

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

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

Finally, the Agency for Social Integration promotes social entrepreneurship as a means for resolving employment issues. At the local level, it has worked with around 60 municipalities – its aims to promote public procurement that include social criteria in its evaluation conditions. Such criteria can help the social enterprises to succeed in public tenders and thus access new markets with their services.

To this end, the Agency has published a collection of good practices in socially responsible public procurement and a methodological guidance devoted to this issue⁹. It advises municipalities on how to make their tenders more compatible with social entrepreneurship. This can be done by inclusion of other than the lowest price evaluation criteria in public procurement – for example, the condition that people with disabilities should form at least a tenth of the workforce of tender applicants.

Table 2.2 Overview of publicly funded schemes specifically designed for or targeting social enterprises

Support type	Are there any schemes specifically targeting social enterprises?	Are any of these schemes funded by ERDF/ ESF?
Awareness raising (e.g. award schemes, communication, advocacy)	✓	✓
Social entrepreneurship education (e.g. academic courses)	X	X
Pre-start / start-up support e.g. <ul style="list-style-type: none"> ▪ Business support e.g. mentoring, consultancy, coaching etc. ▪ Grants ▪ Infrastructure e.g. incubators 	✓	✓
Grants and business support for established enterprises (e.g. business planning, management skills, marketing, training and coaching etc.)	X	X
Investment readiness support	X	X
Dedicated financial instruments (e.g. loans, guarantee schemes, social impact bonds etc.)	X	X
Physical infrastructure (e.g. shared working space)	X	X

⁹ <http://www.socialni-zaclenovani.cz/dokumenty/metodiky-a-manualy-dobrych-praxi-asz-2014>

Support type	Are there any schemes specifically targeting social enterprises?	Are any of these schemes funded by ERDF/ ESF?
Collaborations and access to markets	X	X
Networking, knowledge sharing and mutual learning initiatives	✓	✓

2.3 Other specialist support and infrastructure available to social enterprises

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

VIA Foundation runs two programmes that provide consultancy and training support for social enterprises:

Table 2.3 Support schemes for social enterprises run by VIA Foundation

Programme	Source of funding	Amount of funding	Specification
Better Business: Support of Social Entrepreneurship ¹⁰	Unicredit Foundation	65 000 EUR	<ul style="list-style-type: none"> ■ The programme supports start-ups and new entrepreneurship activities ■ Eligibility criteria depend on the TESSEA definitions and indicators ■ The programme aims to support social enterprises in business plan creation and sustainability ■ The first part provides advice during: <ul style="list-style-type: none"> – Two workshops – One day meeting with social entrepreneurship experts – Individual consultations ■ During the second part, the most successful social enterprises receive financial grants for their activities ■ 69 social enterprises signed up for the programme and 12 were selected to participate
Academy of Social Entrepreneurship ¹¹	Ceska Sportelna	Not publicly available	<ul style="list-style-type: none"> ■ The programme supports already existing social enterprises and aims to make them more efficient ■ It is a one-year education programme that provides knowledge about how to design a detailed business plan ■ It provides an opportunity to present this business plan to potential investors ■ A maximum of 5 organisations is admitted ■ Second part of the programme is the Club of Social Entrepreneurs¹², which includes:

¹⁰ <http://www.nadacevia.cz/cz/granty-a-podpora/rozvoj-nno/program-lepsi-byznys-podpora-socialniho-podnikani-2013>

¹¹ <http://www.nadacevia.cz/cz/o-nadaci/co-delame/pilir-rozvoj-nno/akademie-socialniho-podnikani>

Programme	Source of funding	Amount of funding	Specification
			<ul style="list-style-type: none"> – six meetings per year for people involved or interested in social entrepreneurship – these meetings take place only in Prague – Expected attendance is 20 to 30 people per meeting

People, Planet and Profit provides the following services for social enterprises:

- Coordination of the TESSEA opinion platform (see section 2.4)
- Administration of the programme ‘Stabilisation of Social Enterprises’ financed by CSOB (see section 2.6.1)
- Consultancy and advice in such areas as start-up of social enterprises; designing business plans; and designing marketing strategies;
- Consultancy on how to apply for public funding;
- Expert analysis for public authorities in designing strategies and financial instruments aimed at social enterprises; and
- Awareness raising about social entrepreneurship and socially responsible public procurement.

Other organisations providing business support for social enterprises include:

- Union of Czech and Moravian Worker Cooperatives (UCMWC) was actively involved in development of TESSEA definition and indicators. Previously, it also carried out two ESF funded projects related to social entrepreneurship called “Entrepreneurship in Social Economy” and “Social Cooperative and Enterprise”. Currently it offers support for cooperatives in starting-up of social enterprises.
- Fokus Praha - initiated the Platform of Social Firms and published the Standards of Social Firms¹³;
- HUB Prague – provides shared workplace and consultancy for social enterprises;
- Social Economy Centre – provide consultancy on legal, financial, grant and marketing aspects of social enterprise in Prague.

There are a few awards in Czech Republic that aim to support socially beneficial entrepreneurship, but the eligible activities overlap with the Operational Definition only to a limited degree. These awards support innovative, socially beneficial ideas and do not necessarily highlight the role of the entrepreneurial dimension and other criteria associated with social enterprises. They include, for example, the Social Impact Award¹⁴ and The Socially Beneficial Entrepreneur of the Year¹⁵.

In terms of academia, the subject of social entrepreneurship and the social economy is taught at several universities. For example, the Faculty of Human Sciences of the Charles University systematically develops the topic of social economy and entrepreneurship and includes an obligatory subject on Social Economy in its teaching plan since 2006¹⁶. The Centre for Social and Economic Strategy of the Faculty of Social Sciences of Charles University included social economy among social innovations as part of the research plan

¹² Note that this club has nothing to do with the club run by TESSEA

¹³ <http://www.socialnifirmy.cz/images/Standardy%20soci%C3%A1ln%C3%AD%20firmy.pdf>

¹⁴ <http://socialimpactaward.cz/>

¹⁵ <http://www.ey.com/CZ/cs/About-us/Entrepreneurship/Entrepreneur-Of-The-Year/Spolecensky-prospesny-podnikatel-roku>

¹⁶ <http://ksos.fhs.cuni.cz/KOS-14.html>

entitled Vision and Strategy for the Development of Czech Society in the EU (Bednarikova & Francova 2011).

2.4 Networks and mutual support mechanisms

People, Planet & Profit coordinate the activity of the main opinion platform about social enterprises called TESSEA. It was founded in 2009 and currently includes over 350 legal and physical persons (Bednarikova & Francova 2011) from business, academic and non-profit sphere. Its main goal is to promote social economy and entrepreneurship among lay and expert audiences. As a part of this goal, it:

- Designed the currently used definition of a social enterprises and a set of indicators to identify them;
- Created a database of social enterprises that openly accept the principles of a social enterprise specified in the definition. As of 06/006/2014, this database contains contacts and information for 193 social enterprises;
- Carried out two surveys of social enterprises in the Czech Republic. These surveys summarise the main characteristics of Czech social enterprises and their needs;
- Published a proposal to include the concept of social entrepreneurship into the Czech legislative;
- Runs the website <http://www.ceske-socialni-podnikani.cz/en/> promoting social entrepreneurship;
- Runs the Club of Social Entrepreneurs aimed at sharing of good practices and experiences among social enterprises; and
- Actively supports the creation of tools and infrastructure to support social entrepreneurship.

Besides that, a regional Cluster of social enterprises in Moravskoslezsky region was established in November 2013¹⁷. Currently it comprises of 30 social enterprises with a total of 840 employees, out of which approximately 600 have a health disability and further 50 are socially disadvantaged. Common turnover of the cluster was around 9.3 million EUR in 2013. Its main goal is to make the voice of its members heard when dealing with important stakeholders, such as regional authorities. It has already achieved creation of a regional working group whose members include representatives of Moravskoslezsky region and of the cluster.

Finally, the Platform of Social Companies is an association of 12 social enterprises and 4 physical persons who accept the principles of a “social company”. Principles of a “social company” are broadly consistent with the TESSEA definition of social enterprise, but focus exclusively on integration work with people with health disabilities¹⁸. The main goal of the platform is to spread the “social company” model, characteristics and principles.

2.5 Marks, labels and certification systems

There are no marks, labels and certification systems aimed directly at social enterprises in the Czech Republic. The closest available label is the “Work of disabled”, awarded by Foundation for the Support of Employment of Individuals with Health Disabilities¹⁹. This label is relevant because many social enterprises employ people with health disabilities, rather than because of some closer association with social entrepreneurship principles.

¹⁷ This information is based on an interview

¹⁸ <http://www.socialnifirmy.cz/images/Standardy%20soci%C3%A1ln%C3%AD%20firmy.pdf>

¹⁹ <http://www.pracepostizenych.cz/>

2.6 Social investment markets

2.6.1 The supply of finance

Up until recently, MoLSA provided the main source of financial support through the OPHRE and IOP grant schemes (see Table 2.2 for details). In addition, social enterprises often use the financial support for employment of people with health disability granted by the Employment Act (see section 2.2 for details). Other public institutions do not have any support schemes aimed at social enterprises (Bednarikova & Francova 2011, Jetmar 2012).

Private sources of finance are small-scale compared to the past MoLSA support. There are no specialised commercial instruments aimed at social enterprises. Instead, some of the large banks donate through foundations or pilot small loan schemes for these enterprises as a part of their CSR initiatives (Jetmar 2010 & 2012). A list of representative examples provided is presented in the table below:

Table 2.4 Examples of private support schemes aimed at social enterprises

Organisation	Amount of financial support	Scheme description
Erste Group Bank AG- good.bee initiative ²⁰	130 000 EUR	<ul style="list-style-type: none"> ■ Good.bee is an initiative to provide microfinance to social enterprises in Central and Eastern Europe ■ In the Czech Republic, the support is aimed at co-working spaces and work integration services ■ Eligibility of social enterprises is assessed according to their social mission, ownership structure and commercial orientation
CSOB ²¹	11 650 EUR	<ul style="list-style-type: none"> ■ The programme “Stabilisation of Social Enterprises” aimed to support already existing social enterprises and make them more efficient ■ 23 social enterprises registered for the programme ■ Four social enterprises were successful in their applications and received financial grant and expert consultation ■ The eligibility conditions were based on the TESSEA definition and indicators ■ The programme is administered by People, Planet & Profit that also provides consultations ■ The programme will continue in 2014 under the same conditions
Foundation VIA	65 000 EUR	<ul style="list-style-type: none"> ■ The project “Better Business: Support of Social Entrepreneurship” was financed by Unicredit Foundation ■ For more details see Table 2.3

These examples give the idea of how little finance is currently available for both start-up and scaling up of social enterprises. They also give an indication of possible future developments in this area - some of the interviewed experts noted that funding of social enterprises through corporate responsibility strategies of large commercial companies is an area that should be explored in the future.

²⁰ <http://www.erstestiftung.org/inside-the-foundation/mission-and-vision/good-bee/>

²¹ <http://www.csob.cz/cz/Csob/O-CSOB/Spolecenska-odpovednost/odpovedne-podnikani/Stranky/CSOB-grantovy-program-stabilizace-socialnich-podniku.aspx>

2.6.2 The demand for finance

Existing social enterprises clearly feel lack of external financing options (Nova Ekonomika, 2011). In a recent member survey of the TESSEA social enterprise database (P3 & Provida, 2013), a half of the respondents claimed that they would appreciate new grant opportunities. Further 21% stated that they would appreciate additional financial contributions for employment of disadvantaged workers. However, Czech social enterprises do not rely on commercial loans often – only 6% stated that they would appreciate a commercial loan offer. This is because commercial loans usually require high collaterals, which is a condition that majority of Czech social enterprises cannot satisfy.

Given the current absence of public funding schemes and specialised commercial instruments, most of the social enterprises are self-reliant when it comes to financial needs. This can be illustrated by the fact that out of the average of 25% of enterprises that suffer yearly financial losses, 71.4% cover them from own resources, 11.4% use loans from non-bank sources and only 5.6% rely on bank loans (P3 & Provida, 2013). Some of the social enterprises from the non-profit sector also rely on the support of the founding organisations when they are in need of funding.

2.6.3 Market gaps/ deficiencies²²

In Czech Republic, the social investment market is missing - there are no specialised commercial instruments aimed at social enterprises. Some large banks invest in social enterprises as a part of their corporate responsibility strategies, but their number is limited.

In part, this is due to the structure of the Czech financial market. It is dominated by a few large financial institutions, for which the social enterprise market is relatively small and too specialised. The commercial terms of general loans usually require high collateral, turnover and a few years of existence. These conditions are not suitable for the nascent social enterprise market – most of the social enterprises are young and small and thus do not have the means to satisfy these conditions. In addition, commercial loans are usually out of reach for those who would like to start-up a social enterprise.

Other sources of financing are also sparse. There is no seed capital in Czech Republic and foundations do not tend to be very wealthy. These sources are unlikely to provide a systematic funding alternative.

However, problems are not concentrated solely on the supply side of the market. Czech social enterprises usually specialise on work integration of people with health disabilities, which an area unlikely to attract investors due to low profitability. In addition, social enterprises often lack business plans, methods evaluation of social impact and management skills. Thus, they constitute a risky investment - particularly after the economic crisis banks are very sensitive to risk and tend to avoid uncertain areas for investment. Finally, social enterprises are often grant dependent, which makes their future evolution hard to predict.

2.7 Overview of the key actors in the social enterprise ecosystem

Table 2.5 Stakeholder overview

<i>Policy makers - Governmental departments or institutions designing or implementing policy, support instruments and measures for social enterprises and infrastructures</i>	<ul style="list-style-type: none"> ■ MoLSA ■ Ministry of Industry – the Small and Medium Enterprise unit ■ Agency of Social Inclusion under the Cabinet Office
<i>Customers – authorities contracting social enterprises</i>	Does not exist

²² Based on interviews with Johan Heep of Erste Group Bank AG – Good.bee and Marek Jetmar

<i>Organisations promoting, certifying and awarding social enterprises labels</i>	Does not exist
<i>Institutions, civil society initiatives or other social enterprises promoting social entrepreneurship education and training, and presenting role models</i>	<ul style="list-style-type: none"> ■ P3 – People, Planet, Profit o.p.s. ■ TESSEA
<i>Organisations that have the capacity act as an observatory and to monitor the development and to the assess needs and opportunities of social entrepreneurs/social enterprises</i>	TESSEA
<i>Providers of social enterprise start up and development support services and facilities (such as incubators)</i>	Does not exist
<i>Business support providers</i>	<ul style="list-style-type: none"> ■ P3 – People, Planet, Profit o.p.s. ■ Union of Czech and Moravian Productive Cooperatives (SČMVD) ■ Via Foundation ■ PPSD ■ HUB Praha ■ Fokus Praha ■ Social Economy Centre
<i>Facilitators of learning and exchange platforms for social enterprises</i>	Does not exist
<i>Social enterprise (support) networks, associations</i>	<ul style="list-style-type: none"> ■ Thematic Network of Social Economy TESSEA ■ Club of Social Entrepreneurs ■ Platform of Social Firms under TESSEA ■ Union of Czech and Moravian Productive Cooperatives
<i>Key providers of finance</i>	<ul style="list-style-type: none"> ■ MoLSA ■ CSOB ■ ERSTE foundation (through the good.bee initiative and Ceska Sportelna) ■ Unicredit foundation
<i>Research institutions</i>	<ul style="list-style-type: none"> ■ Faculty of Humanities, Charles University

3 Mapping of social enterprise in the Czech Republic

3.1 The spectrum of social enterprises in country the Czech Republic

Box 3 Development pathways and the evolving landscape

Activities directly related to social enterprises (as defined by the Operational Definition) are very recent. Notably, several public grant schemes to support social enterprises were launched by the Ministry of Labour and Social Affairs (MoLSA) between 2009 and 2013. The grant calls 1 & 8 within the Integrated Operational Programme (IOP) and grant call 30 within the Operational Programme for Human Resources and Employment (OPHRE) were particularly important. They provided substantial amount of investment and non-investment financial support to emerging social enterprises.

These public grant schemes have generated interest in social entrepreneurship and led to creation of many new social enterprises. Together, the IOP and OPHRE grant schemes supported around 150 enterprises. They targeted exclusively work integration social enterprises (WISE).

This reinforced the traditional Czech focus on work integration of disadvantaged individuals. The dominant target group of social enterprises are people with health disabilities – 72% of social enterprises employ people from this group (P3 & Provida, 2013). About a fifth of social enterprises also employ people in long-term unemployment, which makes them the second largest target group.

In addition, the Employment Act 435/2004 Coll defines support for those organisations that employ people with health disabilities. This mirrors the strong position of WISE targeting people with health disability. It also provides possibilities for future development in this area.

There have been recent developments in national legislative that may lead to significant changes. Social entrepreneurship has been included in the legislative plan of the government for the first quarter of 2015. This means that there is a possibility of a introducing the concept of social enterprise into the Czech legislative. Such a definition could be a first step to more systematic support of social enterprises, which could cover more areas than employment of people with health disabilities. In fact, the legal form of social cooperative has already been introduced in January 2014 (section 2.1).

Municipalities also seem have a growing interest in finding other ways of public procurement that do not focus solely on the lowest price criteria. The Agency for Social Inclusion has been advising municipalities how to include social considerations in their public tenders. As a result, approximately 60 municipalities have included social criteria in their strategic documents. A few municipalities even included social criteria in their tenders – for example in the form of a condition that people with health disabilities must constitute at least 10% of the employer's workforce.

This development favours social enterprises and could help them access new markets and customers. It acknowledges their social mission and considers it in bid evaluation. It reduces the disadvantage that social enterprises face in public tenders where municipalities evaluate bids solely on the lowest price basis. For example, WISE employing people with health disabilities are not likely to be fully competitive if the benefits of integration are not considered – their workforce is likely to be less productive due to health limitations.

Big commercial companies are also starting to explore the potential of social enterprises in their corporate responsibility strategies - recently CSOB and Ceska Sporitelna banks launched schemes to support social entrepreneurs. However, the support has been financially quite modest up until now (Jetmar 2010 & 2012), so this remains an area to be explored.

Finally, the interviewees felt that the cultural climate was becoming more favourable towards social enterprises. On the supply side, the interest in setting up social enterprises has been steadily growing in the recent years. On the demand side, consumers have become more socially conscious about what goods they are buying and how were they produced (i.e. the fair trade principle).

Social enterprises in the Czech Republic are identified by their membership in the database run by TESSEA. To sign up, members of this database have to accept the TESSEA definition and indicators of a social enterprise. Membership is not conditional on any specific legal form - the major forms deemed compatible are:

- The limited liability company, defined in the Commercial Code, can be founded with a different aim than conduct of business, if a special directive does not prohibit it

(Dohnalova 2009). If it is founded with a socially beneficial mission, a limited liability company may be considered a social enterprise.

- Cooperatives, defined in the Commercial Code, are associations of a non-limited number of people founded with the aim of conduct of business or to address the business, social or other needs of its members. Where the aim of a cooperative is consistent with the TESSEA definition, they may be considered a social enterprise – this is mainly the case of workers cooperatives employing disadvantaged individuals. The decision-making of cooperatives is inherently democratic because all members are considered equal in this process.

Note also the recent creation of the social cooperative legal form that is closely aligned with social enterprise principles (see **Error! Reference source not found.**)

- Civic association, defined in Act nr. 83/1990, is a non-profit legal form that allows people to associate to pursue various social missions. It allows for supplementary commercial activities – if such option is used to pursue a publicly beneficial social mission, civic association may be considered a social enterprise.
- Public benefit organisation, defined in Act nr. 248/1995, is a legal form whose main aim is to provide publicly beneficial services. Its profits need to be reinvested into the provision of those services. It can earn its income by charging acceptable prices for the provided services and by accepting subsidies and donations from the state and private sources. From this definition, it is apparent that public benefit organisation combines the profit seeking and socially beneficial motives, and as such may qualify as a social enterprise.

According to the interviewees, approximately a half of the social entrepreneurs come from commercial background. They attempt to do business “differently” and profit often remains a strong incentive for them. Sometimes, they are not even aware of the concept of social entrepreneurship and do not openly sign up to it. They just feel that doing business can serve publicly beneficial aims (Bednarikova & Francova 2011).

This group of social entrepreneurs usually has knowledge of business environment and business plans. They know how to negotiate with banks and sometimes have capital from previous efforts. They also tend to have developed networks of contacts in the business sphere, which makes the profit-making part of social entrepreneurship easier for them. On the other hand, they may lack experience with their target groups and with how to set and achieve their social mission. For some companies, the overriding aim is profit and social mission is only included as a part of their corporate responsibility strategies.

The rest of the social enterprises have their origins in the non-profit sector. Various NGOs carry out entrepreneurial activities to generate some additional income for their social mission. These activities are clearly secondary to their main activities and serve as a means to achieve their social mission.

Contrary to the social enterprises from the business sphere, NGOs usually have extensive experience with their target groups and know how to provide socially beneficial services. They are usually capable of writing good project applications and secure public funding. Many of them also improved their financial management because of the controls and audits associated with EU funding (Bednarikova & Francova 2011).

However, NGOs may lack certain essential business skills. Their business plans can be vague and lack realistic assessment of relevant risks. As a result, the enterprises established by NGOs tend to be hard to sustain without grants and appropriations.

3.2 Application of operational definition: determining the boundaries

Table 3.1 Comparison of TESSEA definition to EU Operational Definition

EU definition – core criteria	Social enterprises enlisted in the TESSEA social enterprise database	Principle from EU definition satisfied?
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EU definition – core criteria	Social enterprises enlisted in the TESSEA social enterprise database	Principle from EU definition satisfied?
<p>Entrepreneurial dimension - The organisation must engage in economic activity: this means that it must engage in a continuous activity of production and/or exchange of goods and/or services</p>	<p>It is clearly stated in the TESSEA definition that social enterprise must engage in “performance of a systematic economic activity”. Indeed, one of the identifying characteristics of a social enterprise is that that at least 10% (30% for WISE) of its total revenues has to come from sales of goods and services. The enterprise must also be able to manage economic risks and trend towards paid work (i.e. employ more than 10% of paid employees, 30% in case of WISE).</p> <p>The importance of the economic dimension of social entrepreneurship is highlighted by social enterprises originating in the commercial sector. For them, the economic activity and profit-seeking is equally important as the social mission.</p> <p>In contrast, social enterprises from the non-profit sector tend to stress the primacy of the social mission. According to the interviewed experts, these are often established by foundations as a means for securing further financial resources for their own social missions.</p> <p>Overall, the social aim and economic profit are regarded as equally important in the Czech context. This is a legacy of the communist regime – after its fall, more emphasis was put on free market activities in Czech Republic than in the Western Europe.</p>	Yes
<p>Social dimension - It must pursue an explicit and primary social aim: a social aim is one that benefits the society</p>	<p>The TESSEA definition clearly states that social enterprises must perform an activity that benefits the society or a specific group of (disadvantaged) people. The following possible target groups are listed in indicators designed to identify social enterprises:</p> <ul style="list-style-type: none"> ■ Local communities in general; ■ Disabled persons; ■ Socially disadvantaged persons; ■ Children and youth, particularly from communities endangered by social pathology phenomena; ■ Ethnic and national minorities; ■ Foreigners; ■ Persons taking care for a relative; and ■ Other groups (their urgent needs must be evidenced). <p>Overall, TESSEA definition puts more emphasis on the local and environmental dimensions of the social enterprise. These dimensions are conceived as an integral part of the social enterprise, rather than just one of its possible social missions. This makes the TESSEA definition narrower than the EU Operational Definition.</p>	Yes
<p>Governance dimension - It must have limits on distribution of profits</p>	<p>The profit distribution rules of Czech social enterprises depend on their legal form. There are no particular profit distribution rules associated with social enterprises with the exception of a profit cap –</p>	No

EU definition – core criteria	Social enterprises enlisted in the TESSEA social enterprise database	Principle from EU definition satisfied?
and/or assets: the purpose of such limits is to prioritise the social aim over profit making	social enterprises need to reinvest 51% of their profits needs into their activities.	
It must be independent i.e. organisational autonomy from the State and other traditional for-profit organisations	<p>One of the principles from the TESSE definition states that social enterprise must be independent (autonomous) from external founders in its decision-making and management.</p> <p>Note however, that Czech social enterprises often rely on public support in forms of grants and contributions for employment of people with health disabilities. Thus, the state has considerable influence over the type of activities social enterprises perform – for example, the recent OPHRE and IOP grant calls clearly favoured work integration over other social missions.</p>	Yes
It must have inclusive governance i.e. characterised by participatory and/ or democratic decision-making processes	The TESSEA definition states that employees and members of social enterprises should participate in the enterprise's strategic-decision making. This may be difficult to achieve in practice, particularly in WISE employing people with health and social disadvantages. In such enterprises, at least some employees may lack the capabilities or willingness to participate on the strategic decision-making level.	Yes

3.3 Measurement of social enterprises

The database of social enterprises run by TESSEA²³ provides the basis for estimates presented in this section. As of 06/06/2014, the database had 193 members. The condition of membership was to openly accept the TESSEA definition of a social enterprise.

The TESSEA and EU Operational definitions are very similar, as illustrated in the section above. The only notable difference between the two is the lack of asset lock and rules for profit distribution in the Czech definition. These criteria are omitted when identifying social enterprises satisfying the EU Operational Definition – they would disqualify major share of Czech social entrepreneurship activities. This is because most Czech social enterprises have been founded recently and are not developed enough to fulfil all of the governance criteria. Instead, the reinvestment of revenues is assured by a 49% cap on profit to be distributed between owners of a social enterprise.

Since the TESSEA and EU Operational definition are so similar, all of the 183 TESSEA database members are considered social enterprises according to the EU Operational Definition. This number serves as an initial measure of social entrepreneurship activities in the Czech Republic (see Table 3.2).

Table 3.2 Estimates of the size of the social enterprise activities, 2013

Type of measure	Total social enterprises	Total turnover in million EUR	Total full-time employees	Total part-time employees	Total volunteers
TESSEA database	193	25	1470	1390	270

²³ <http://www.ceske-socialni-podnikani.cz/cz/adresar-socialnich-podniku>

Type of measure	Total social enterprises	Total turnover in million EUR	Total full-time employees	Total part-time employees	Total volunteers
Low estimate of SE activity	250	33	1900	1800	350
Medium estimate of SE activity	280	36	2130	2020	390
High estimate of SE activity	310	40	2360	2230	430

However, the database is unlikely to capture the full extent of social entrepreneurship in the Czech Republic. According to the interviewed experts, around a further 100 of organisations satisfy the TESSEA (and thus the EU) definition but are not aware of the concept of social entrepreneurship or are unwilling to openly sign up to it.

To reflect this, three estimates of the total number of social enterprises are presented in Table 3.2. The low estimate assumes that there are further 60 social enterprises not signed up in the TESSEA database, medium estimate assumes further 90 social enterprises and the high estimate assumes 120 social enterprises.

Table 3.2 also shows the estimated turnover of the social enterprise sector and the number of people employed in it. These estimates are based on the 2013 P3 & Provida survey, which reports that an average social enterprise:

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

3.4 Characteristics of social enterprises

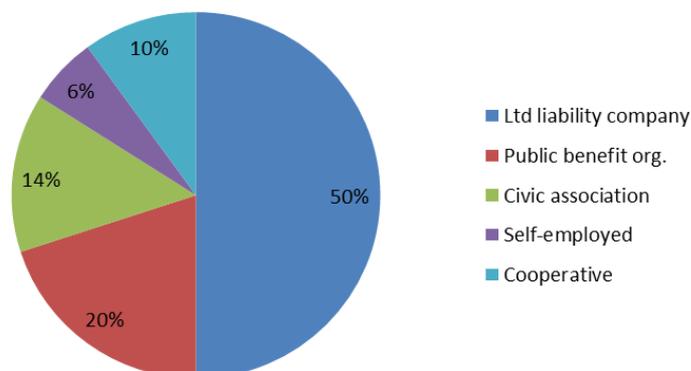
3.4.1 Legal forms

According to a survey carried out in 2013 (P3 & Provida survey 2013), almost a half of social enterprises take the legal form of a limited liability company. Further 24% are public benefit organisations and 16% are civic associations. Finally, 8% are self-employed individuals and 5% are cooperatives.

However, the survey only focuses on social enterprises that openly acknowledge the TESSEA social enterprise definition. The interviewed experts agreed that this is not a fully representative sample of social enterprises. Particularly organisations from the commercial sector that can be considered social enterprises often do not sign up to this definition²⁴ and/or are not aware of it.

Thus, the survey results needs to be re-estimated to make it more representative. To reflect the low representation of social enterprises from the commercial sphere, we slightly increase the share of legal forms associated with the business sector - that is, the limited liability companies and cooperatives. The tentative estimates are presented in the figure below:

²⁴ According to the interviewees, this is because of the lack of advantages associated with social enterprises in Czech Republic.

Figure 3.1 Social enterprises by their legal forms

3.4.2 Business models

Sources of income

Own activities are the main source of income of social entrepreneurs – they constituted 51.2% of total income of an average social enterprise in 2013 (P3 & Provida survey 2013). This income is derived mostly from provision of goods and services. About a fourth of social enterprises provide gardening services, maintenance and cleaning. Another fifth operates in the hospitality industry. Food production and sales is the third dominant activity, with 16% of organisations doing business in this area (People, Planet, Profit 2014).

In the last year, the reliance on public funding from OPHRE an IOP was high. Contributions from these programmes formed a third of total the total income of an average social enterprise (P3 & Provida survey 2013)²⁵. In addition, labour office contributions accounted for approximately 6% of income. Other sources of support did not account for more than 3% per source.

Social impact

Most of the Czech social enterprises are WISE (see section 3.4.3), which means that they deliver their societal impact through the people they employ. Usually, the number and satisfaction employed people is taken as a measure of success. An example of such an enterprise is presented in a box below.

Box 3.1 Eticelle - overview

Eticelle was founded in 2005 as a civil association. It focuses on employment of people with light or combined mental disabilities. The ultimate goal is to provide these people with skills that would allow them to fully participate in the labour market and work for regular commercial companies.

The company currently has 120 employees, out of which 90 have mental disabilities. They are usually employed on a part time basis and receive salaries that are based on the Czech minimal wage.

The enterprise provides a wide variety of services through three coffee bars, five cleaning teams, a farm producing fruits and vegetables and an e-shop. It operates on a local basis in Prague and a nearby town called Kladno.

To develop its activities, Eticelle used the financial support from OPHRE grant call “Social Economy”. It also receives contributions for employment of people with health disabilities from the Labour Office.

Link: <http://www.eticelle.cz/>

²⁵ This proportion is likely to decrease as the public funding from these sources runs out.

Besides that, some social enterprises affect the society through the nature of the services they provide. This would include publicly beneficial activities in various areas of social integration, such as care for the elderly or environmental support (Bednarikova & Francova 2011).

Use of paid workers

Social enterprises employ an average of 14.7 employees, out of which 10.3 are from disadvantaged groups. The largest social enterprise had had 150 employees, the smallest had only one worker.

About two-third of the disadvantaged employees are employed on a part-time basis, the rest on a full-time basis. In contrast, healthy employees usually work on a full-time basis. The majority of social enterprises rely on paid labour force - only 12.9% report employing volunteers (P3 & Provida survey 2013).

3.4.3 Fields of activity

The majority of Czech social enterprises are WISE (Bednarikova & Francova 2011). According to the interviewed experts, this group constitutes approximately 80% of all social enterprises, with the rest focusing on provision of social integration or environmental services. The dominance of WISE is partly a result of tradition and partly the result of the OPHRE and IOP grant schemes that targeted this type of activity.

However, this distinction is not always clear. Some WISE focus on provision of publicly beneficial services and some organisations primarily focused on social service provision employ disadvantaged people. The TESSEA definition of a social enterprise also specifies that social enterprises need to be environmentally friendly and satisfy local needs. The following example highlights how blurred can the line be between WISE and welfare service provision in Czech context - social cooperative Podane Ruce merges both work integration and social welfare provision in an innovative way:

Box 3.2 Podane ruce case study

Podané Ruce

Social cooperative Podané Ruce was founded in 2008 to provide social services for people with health disabilities, for the elderly and for children less than one year old. Its employees provide personal assistance services for people with lowered self-sufficiency due to age, chronic disease or health disability. The cooperative also manufactures goods made out of glass. It operates at a local level in Zlinsky Region.

Besides its social service provision activities, it employs people disadvantaged at the labour market. Approximately 80% of its labour force consists either of people with a health disability or those who were found difficult to employ by the local Labour Office. Podane Ruce has approximately 10 employees – half of them on a full time basis and half of them on a more flexible working agreement. The employees get a pay that is substantially above the minimal wage.

Overall, Podane Ruce operate in a sustainable way – in the past few years they operated with low levels of public support (5% of total income) and generated a moderate profit.

Link: <http://www.podane-ruce.cz/>

Taking into account that some social enterprises have multiple fields of activity, the following table shows the main areas in which social enterprises operate (P3 & Provida survey 2013):

Table 3.3 Social enterprises by their filed of activity

Field of activity	Percentage of enterprises
Equal opportunities (mainly employment of disadvantaged individuals)	91%
Social services (social consultancy and help, for example to own employees)	69%

Field of activity	Percentage of enterprises
Local community development	69%
Cultural activities	39%
Environmental issues and ecology	38%
Other	3%

Judging from the current available support, which constitutes out of the Labour Office contributions to employment of people with health disabilities, the dominance of WISE is likely to continue in the near future.

Box 3.3 New models of provisions of social services

New models of provision of social services in local contexts

Male technicke sluzby is a social enterprise operating under a public benefit organisation Liga Bruntal. The enterprise focuses on maintenance and cleaning of public spaces in the western part of a small Moravian town Bruntal. The locality is predominantly inhabited by the Roma minority and other socially excluded persons. In the past, there were severe problems with public waste disposal.

The approach taken by the Male Technicke Sluzby was to employ socially disadvantaged people living in the area to clean its public spaces. This helped to integrate the employees back into society and make others in the locality also feel responsible for its maintenance. It was a crucial success factor in cleaning of the public spaces.

Currently Male Technicke Sluzby employs about ten people. Since 2010 it has a stable contract with the town of Bruntal to clean the problematic locality. According to the interviewee, this contract was signed because the enterprise was able to provide the services cheaper than other public and commercial providers.

Link: <http://www.ligabruntal.cz/main.php?s=3>

Box 3.4 ‘Socially conscious consumption’

Innovative satisfaction of “socially conscious” consumption

Domov Sue Ryder is a public benefit company that focuses on care for the elderly. It runs a chain of charity shops that sell goods donated by individuals and fair-trade products. The shops were created with the purpose of making profit that will be reinvested into the care for the elderly.

The first shop was founded in 1996 with the financial support of Sue Ryder charity from England. It pioneered the British model of charity shops in the Czech environment. The main motto of the shops is “you help regardless of whether you donate or buy!” Even today, activity is relatively unique in Czech circumstances.

The introduced model proved to work well. The number of shops has grown to six over the time, with the last one being opened in 2012. The shops generated net profit in the last two years and helped to finance the social mission of Domov Sue Ryder.

Link: <http://www.sue-ryder.cz/en/charity-shops.html>

3.4.4 Target groups

Quantitative data is available for WISE as the main group of social enterprises (People, Planet, Profit 2014). Their target group was to a large extent influenced by the OPHRE and IOP grant schemes, which specified the following disadvantaged groups:

- Youth (15-26);
- Individuals with a health disability;
- Ethnic and national minorities;
- Foreigners;
- Homeless;
- Care and prison leavers;
- Victims of criminal activities, domestic violence, human traffic and commercial abuse;
- Carers for a close person; and
- Individuals with substance misuse experience.

Out of these groups, most social enterprises focus on employing people with health disabilities (67%). This is partially due to the strong tradition in this area and partially due to the relatively easy access to stable contributions from the Labour Office for this group. The table below presents all the major target groups of WISE:

Table 3.4 Social enterprises by their target groups

Target Group	Share of social enterprises ²⁶
People with health disabilities	67%
Long-term unemployed	28%
Ethnic minorities	12%
Youth and young adults in difficult situations	11%
Carers for relatives	11%
Homeless and prison leavers	9%
People with substance misuse experience	8%
Other target group	12%

3.5 Summary of mapping results

The Table 3.5 presents the summary of the mapping exercise.

²⁶ Note: some social enterprises report employment of multiple groups at the same time, so the sum of shares of social enterprises is more than 100%.

Table 3.5 Mapping the universe of social enterprises in the Czech Republic

Dimension	Criterion	Social Enterprises satisfying TESSEA definition	Legal forms of social enterprises				
			Public benefit organisation	Civic association	Workers cooperative	Limited liability company	Self-employed
Core criteria							
Entrepreneurial dimension	The organisation must engage in economic activity	Yes	Economic activity yes, business only as a supplementary activity	Some do as a supplementary activity	Yes, by definition	Yes	Yes
Social dimension	It must pursue an explicit and primary social aim	Yes	Yes	Yes	Some do (few)	Some do (few)	Not defined
	It must have limits on distribution of profits and/or assets	Not defined	Profit reinvested in social mission	Profit reinvested in social mission	Yes, given in law	Yes, given by law	No
Independence and governance	It must be independent	Yes	Autonomous	Autonomous	Autonomous	Autonomous	Autonomous
	It must have inclusive governance	Yes	encouraged, but not a requirement	Yes, but limited to members	Yes, but often limited to members	Some do (few)	Not defined
Total estimated number of social enterprises in 2014		280	55	40	30	140	15
Estimated share of a given form of social enterprises in the total (%)		100%	20%	14%	10%	50%	6%
Mapping criteria							
Entrepreneurial dimension	Share of income derived from : fees (incl. membership fees); trading income; rental income on assets; income from public contracting (both competitive tenders and direct contracting); grants and donations etc.	at least 10% (30% for WISE) of total revenues has to come from sales of goods and services	Business only as a supplementary activity	Business only as a supplementary activity	By definition dependent on production of goods or service provision	By definition a for-profit, commercial form of organisation	By definition dependent on income from own economic activity
	The use of paid workers	Typically yes, at least 10% of paid employees as a condition (30% for WISE)	Not-for-profit organisation, may use some volunteers	Not-for-profit organisation, may use some volunteers	Typically paid workforce	Typically paid workforce	Typically paid workforce – a self-employed person can employ a few other people and act as any

Dimension	Criterion	Social Enterprises satisfying TESSEA definition	Legal forms of social enterprises				
			Public benefit organisation	Civic association	Workers cooperative	Limited liability company	Self-employed other employer
Social dimension	Fields of activity	employment of disadvantaged persons (WISE); production of goods and services, intended for a specific group and/or local community; activities positively influencing sustainable life of people in the environment	Most are WISE (about 80%)				
	Target groups (customers/users of goods and services provided)	local communities in general; disabled persons; socially disadvantaged persons ;children and youth, particularly from communities endangered by social pathology phenomena; ethnic and nationality minorities; foreigners; persons taking care for a relative; other groups (their urgent needs must be evidenced)	Majority focuses on people with health disabilities and long-term unemployed	Majority focuses on people with health disabilities and long-term unemployed	Majority focuses on people with health disabilities and long-term unemployed	Majority focuses on people with health disabilities and long-term unemployed	Majority focuses on people with health disabilities and long-term unemployed
Independence and governance	Transparency - a system for measuring and reporting impact	SROI or similar methods available only exceptionally	Not known				

3.6 Opportunities and barriers

The emergence of social entrepreneurship is a recent development in the Czech Republic. It is not a widely known concept neither among lay public nor among policy-makers. Based on the available reports (Bednarikova & Francova 2011, Dohnalova 2009) and opinions of interviewed experts, the main enabling and constraining factors seem to be the government policy and legal framework, free provision of consultancy, financial resources and public procurement. These are further elaborated below.

Government policy and legal framework

There is no systematic policy support for social entrepreneurship at national and regional policy levels. Currently the only active public bodies supporting the concept are MoLSA and the Agency for Social Inclusion. The existing support consists of OPHRE projects with limited duration that rely on ESF or ERDF financing. These projects usually support work integration of disadvantaged individuals, which is in line with the policy interests of both MOLSA and Agency for Social Integration. Other social missions are rarely publicly supported, because the relevant ministries (Ministry of the Environment, Ministry of Regional Development and Ministry of Industry) are not active in supporting development of social enterprises (Bednarikova & Francova 2011).

This means that the government support is of a relatively limited, one-off project nature. The only systematic support is received by WISE employing people with health disabilities who can claim financial contributions from the Labour Office. The lack of systematic government support has two negative consequences:

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

Interviewees felt that more systematic policy approach would help to overcome these issues. For example, institutionalised financial support for employment of socially disadvantaged persons and other social missions was mentioned (through contributions, tax incentives or other means). Similarly, creation of an inter-ministerial body dedicated to social entrepreneurship could help clearly delineate policy responsibilities at national level, improve awareness among policy makers and extend public support to other social missions than work integration.

However, more systematic government support would require changes in Czech legislative framework (Bednarikova & Francova 2011, Dohnalova 2009). The current framework provides no definition of a social enterprise, which makes it difficult to define support for this particular type of organisation.

The developments seem promising in this area – as already mentioned in section 2.1, the concept of a social enterprise has been added to the legislative plan for the first quarter of year 2015. Approval of a law defining social enterprise or at least of stable ways to support social entrepreneurs could open up new possibilities for social entrepreneurs and raise awareness of the concept.

Consulting Capacities

Currently, the national network of consultants that provide free business advice for social enterprises is weak. According to the interviewees, it consists only of a few organisations (for example VIA, People, Planet, Profit and Fokus) that do not systematically cooperate with one another. The government support in this area consists of a small group of consultants and coaches, which is not sufficient to cover the need for advice and information. The project is also running only for a limited amount of time.

The interviewees felt that more consulting capacities are required due to the lack of business skills and knowledge among some of the social entrepreneurs. This is particularly relevant for those coming from the non-profit environment - they may have problems to design a viable business plan, assess economic risks and manage the enterprise efficiently. This issue was highlighted on the example of enterprises that received grants from the OPHRE and IOP schemes. Activities of some of these enterprises turned out to be unsustainable once they run out of the public financial support.

Financial Support

Currently the financial support targeted specifically at social enterprises is very limited (Jetmar 2010 & 2012). In the past, the largest sources of finance were the OPHRE and IOP grant programmes but these already ended. Thus, the public financial support is limited to contributions for employment of people with health disabilities. Currently there is no public start-up support.

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

The lack of finance was clearly felt clearly felt as an obstacle by the social enterprises (Nova Ekonomika 2011, P3 & Provida 2013), even though it was not necessarily the major one. Interviewed stakeholders saw opportunities in strategic financial support from the state (see above) and in exploring of the corporate responsibility strategies of big commercial companies.

Public Procurement

Interviewees felt that public procurement at local level was a particularly promising area of development for social enterprise. The inclusion of social and environmental factors into public tenders could reflect the characteristics of social enterprises and encourage their growth (Bednarikova & Francova 2011). As the example of Male Technicke Sluzby illustrates (see **Error! Reference source not found.**), social enterprises may be able to provide some publicly beneficial services at a lower cost than commercial or public companies when the additional benefits of employment of hard-to-employ individuals are considered.

However, the vast majority of municipalities still use the traditional public procurement methods, which put social enterprises at a disadvantage because they do not acknowledge their social mission. In particular, evaluation of bids based on the lowest price criteria without any additional social considerations is the most frequently used method.

Annex 1 Comparative overview of legal forms commonly used by social enterprises in the Czech Republic

Legal form	Institute “ústav/z.ú.”	Association “spolek”	Social co-operative “sociální družstvo”
Definition	<p>The Institute can be established to pursue an activity that is socially or economically beneficial and based on the usage of the personal and property components of the Institute. As a part of such an activity may be provision of services which are accessible for a defined cross section of the public.</p> <p>In general, this definition complies with the conditions that are characteristic for a social enterprise. The [New] Civil Code limits only the use of the profit made by the Institute to the support of the activities, for which the Institute has been established and to cover the expenses related to administering the Institute.</p> <p>An Institute may be used as a legal form suitable for running a social enterprise and is a natural successor to the currently popular form of Public Benefit Corporation that will no longer be available under the [New] Civil Code.</p> <p>The name of an institute must include the words “zapsaný ústav” (meaning “registered institute”) or a legal acronym “, z.ú.” added to the name.</p>	<p>The main purpose for which an Association may be established should be the realization of the purpose pursuing the common interest, for which the members of the Association have decided to voluntarily associate themselves and acquire for that purpose the form of a legal entity.</p> <p>The purpose of an Association may be both mutually and publicly beneficial.</p> <p>The name of an association must include the words “spolek”, od “zapsaný spolek” (meaning “registered association”) or a legal acronym “, z.s.” added to the name, unless the name used suggests the associative feature and cannot lead to other possible interpretations of the legal form, then association (“spolek”).</p> <p>Associations established according to the Act No. 83/1990, on Associating of Citizens are considered to be associations according to the Act 89/2012 Sb., Civil Code. Within a two-year period of time (until January 1, 2016) they have to change their name as required by the new regulation, and within a three years period of time (until January 1, 2017) they have to</p>	<p>The social co-operative is a special form of the ordinary co-operative, which may be established to pursue generally beneficial activities aimed to support the social cohesion leading to social integration of deprived persons into the society.</p> <p>In particular, the social co-operatives should primarily aim its activities towards fulfilling local needs and with the use of local resources of the community where it has its seat or where it operates. In particular, it is expected that the social co-operative will create employment opportunities on the local labour market, or shall provide social services, health care, education, dwelling opportunities and/or be involved in activities supporting sustainable development and protection of the environment.</p> <p>The name of a social co-operative must include the words “sociální družstvo” (meaning “social co-operative”).</p> <p>The social co-operative may not change the object of its activities into anything not in compliance with Article 758 of the Act No. 90/2012 Sb., on</p>

Legal form	Institute “ústav/z.ú.”	Association “spolek”	Social co-operative “sociální družstvo”
	.	bring their bylaws to accordance with the Act 89/2012 Sb., Civil Code. Within the same period of time these associations may also change their legal form into that of a registered institute or a social cooperative.	Business Corporations and Co-operatives (see above the specifications of the aim and purpose) It is explicitly forbidden to the social cooperative to change its legal form into anything else as the social co-operative. By its definition, the social co-operative might be a good choice for realizing activities in the manner, as assumed for a typical social enterprise.
Key national legislation governing legal form	Articles 15 - 22, 303 – 334, 347 – 390, and 402 - 418 of the Act No. 89/2012 Sb., [New] Civil Code.	Articles 15 - 22, 118 - 307 of the Act No. 89/2012 Sb., [New] Civil Code	Articles 15 – 22 of the Act No. 89/2012 Sb., [New] Civil Code, and Chapter VI and in particular Articles 758 – 773 of the Act No. 90/2012 Sb., on Commercial Corporations and Co-operatives.
Whether the legal form is used exclusively or not exclusively for social enterprise	Not exclusively for social enterprise. The Institute may be established to pursue any socially or economically beneficial activities as long as the personal or property components of the institute can be used for that purpose. Any profit generated must be used exclusively for the purpose of supporting and developing the activities for which the institute has been established and for covering expenses related to its administration.	Not exclusively for social enterprise. The purpose of an Association may be any one, which is either mutually or publicly beneficial. Any economic or even a commercial activity may be a part of its main activities aimed on achieving the purpose of the Association under certain conditions.	Exclusively for social enterprise. The social co-operative may be established for the purpose of organizing generally beneficial entrepreneurial activities aimed at social cohesion and enabling the social and employment integration of deprived or handicapped persons into the society It does this by providing appropriate and manageable jobs corresponding to the needs of the local community and making use of its local resources.

Legal form	Institute “ústav/z.ú.”	Association “spolek”	Social co-operative “sociální družstvo”
Methods of creation	<p>The founders (natural or juridical persons) draft and sign the agreement of establishment of the Institute.</p> <p>This Document of Establishment must not violate the provisions of the law and must contain the minimal requirements as defined in the law.</p> <p>In the case of a single founder, the Deed of Establishment has to be produced in the form of the Public Notary Note.</p> <p>The institute attains its legal personality when registered with the Public Register of Institutes managed by the territorially competent registering court.</p>	<p>To establish an association, the preparatory committee of at least three persons (natural or legal) must prepare legally compliant bylaws and submit them as a part of the registration request to the association’s regional court.</p> <p>Alternatively, the persons interested in establishing an association may call an establishing meeting to accept the compliant bylaws of the Association in the presence of a Notary Public official. The proposal is then submitted to the court as above.</p> <p>The association attains its legal personality when registered with the Public Register of Associations managed by the territorially competent registering court.</p>	<p>To establish a social co-operative, an establishing Assembly of Members is held where the bylaws are approved and these are submitted as part of the registration request to the court.</p> <p>The social co-operative attains its legal personality when registered with the Public Register of Corporations managed by the territorially competent registering court. The form of a social co-operative is one of the mandatory information filed with the register.</p>
Required capital or assets	<p>The law requires the founders to contribute to the established institute with an initial property. However, the law does not specify any minimum for such an contribution.</p>	<p>There are no requirements for initial capital of an association.</p>	<p>Every member of the social cooperative is required to participate on the entry membership deposit to the initial basic capital of the social cooperative as determined at its founding Assembly. It is forbidden to transfer or close the title to the social co-operative member’s share to another person.</p>
Management and corporate governance	<p>Required to have a Board of Trustees, which must be a minimum of three. The Board of Trustees appoints and removes the Executive Director with the exception of the first one, which is</p>	<p>It is in general required that the association is directed by a board elected by the general assembly of the association. However, this does not exclude governance executed by a</p>	<p>Required to have a Board of Directors, which is elected by the Assembly of Members and acts as the social co-operative’s statutory body</p>

Legal form	Institute “ústav/z.ú.”	Association “spolek”	Social co-operative “sociální družstvo”
	<p>appointed by the founder of the Institute.</p> <p>Where the property of the Institute exceeds CZK 5 million there an Institute must also have a Supervisory Board again consisting of at least 3 members, For smaller Institutes it is sufficient to have just an Inspecting Officer.</p> <p>Institutes must have an Executive Director who may not be a member of any of the other boards. The Executive Director is a statutory body of the Institute, which means that he/she has all powers that are not assigned to another body of the Institute by the law or its Document of Establishment.</p> <p>The founder(s) appoint and remove the members of the Board of Trustees, Supervisory Board or an Inspecting Officer, unless otherwise specified in the Document of Establishment. This power can be provided to the Supervisory Board or even to the Board of Trustees itself. In such a situation, the members of the boards may not be elected more than twice consecutively and for more than three years terms.</p> <p>According to the Article 159 of the New Civil Code, all bodies of all legal entities are obliged to act with the care of the good housekeeper.</p>	<p>single person.</p> <p>The bylaws of the Association must define which of its bodies performs the role of a statutory body, how is that body denominated and what is its personal composition.</p> <p>The bylaws of the Association may require existence of a collective Control Commission of at least 3 members, which is elected by the assembly of members to oversee whether the association’s matters and activities are in compliance with the bylaws and the legal regulations.</p> <p>The assembly of all members of Association elects and recalls the members of the statutory, executive and control bodies, unless the bylaws specify otherwise.</p> <p>According to the Article 159 of the New Civil Code, all bodies of all legal entities are obliged to act with the care of the good housekeeper.</p>	<p>The bylaws may contain provisions enabling to fill vacancies in the Board of Directors by co-optation, if the vacancy occurs between sessions of the Assembly and the number of directors is less than the required quorum as defined in the bylaws.</p> <p>The members of the board must not be members of a statutory body of another legal entity with similar objectives and activities.</p> <p>The registered bylaws of the social cooperative define other bodies, when necessary, including a Control Commission.</p> <p>The Control Commission is a collective body with at least 3 members, which are elected by the Assembly. In case of a vacancy occurring between Assembly sessions, the Control Commission may appoint new members with the term ending with the next Assembly meeting. The Control Commission oversees the activities of the social co-operative, deals with appeals of its members and may request any information and documents about economic activities. It is independent with respect to any other body of the social co-operative. All decision making bodies of the social co-operative are obliged to inform the Control Commission about any matter which might have serious</p>

Legal form	Institute “ústav/z.ú.”	Association “spolek”	Social co-operative “sociální družstvo”
Rights of members	Institute is a legal form which does not have members.	<p>Association is a legal form essentially based upon having as a minimum three members.</p> <p>Any natural or legal person may become a member of the association if it meets the conditions as defined in the association’s bylaws.</p> <p>Ultimate control of the association rests with the members because of their right to attend, speak and vote at the assembly. They can elect and be elected to its bodies and review the minutes of the assembly. They can change the association’s bylaws and appoint and remove the board. However, the bylaws may provide for several types of membership and specify membership rights and obligations for each of the membership type, which are equal within one type.</p>	<p>consequences for reasonable economic performance are status of the co-operative.</p> <p>According to the Article 159 of the New Civil Code, all bodies of all legal entities are obliged to act with the care of the good housekeeper.</p> <p>Social co-operative is a legal form essentially based upon having as a minimum three members.</p> <p>Membership in a social co-operative is limited to the extent that a natural person may be a member only, if it is employed by the co-operative, or provides a voluntary work for the co-operative without being paid a wage for it when not an employee or if it is a beneficiary of the services provided by the social co-operative. In the case, when the social co-operative is achieving its purpose solely by providing shelter opportunities to handicapped persons, these persons must be members of the social co-operative.</p> <p>Ultimate control of the social co-operative rests with the members because of their right to attend, speak and vote at Assembly of Members. They can vote and be elected to bodies of the co-operative, participate on its management and decision making, as well as participate on</p>

Legal form	Institute “ústav/z.ú.”	Association “spolek”	Social co-operative “sociální družstvo”
			benefits provided by the co-operative.
Voting and representation of members in general meetings	Not applicable for the institute as a legal form	<p>Members of the association are represented at the Assembly.</p> <p>Where an association has a large membership or is active on a larger territory it is possible to convene a conference of delegates rather than an assembly of all the members.</p> <p>In this case a member may be represented by a delegate elected on a partial meeting of the members or by a method determined in the bylaws.</p> <p>Delegates must each represent the same number of members. If this is not reasonably possible, the bylaws may provide for a deviation from this equality rule.</p>	<p>Members of the social cooperative are represented at Assembly of Members.</p> <p>Members can also participate on sessions of bodies of the co-operative in person.</p> <p>A proxy may represent a member if he/she is authorized to it by a written power of attorney.</p> <p>The social co-operative cannot convene its Assembly of Members in a form of a conference of delegates or make decisions on partial assemblies of members.</p>
Types of shares, if any	No shares of any persons are eligible for an institute.	Members of the association are not supposed to have any shares on its property nor to execute any ownership right to it, unless otherwise specified in the association bylaws.	<p>The members of a social co-operative do have shares on its basic capital, which are equal to the initial deposit or to a sum of further additionally required deposits of each member to the social co-operative basic capital.</p> <p>Every member has only one vote on matters of deciding about the provision of a financial assistance, the payment obligation, and the termination of the co-operative with liquidation no matter</p>

Legal form	Institute “ústav/z.ú.”	Association “spolek”	Social co-operative “sociální družstvo”
			<p>the size of their shareholding.</p> <p>The bylaws may determine that in other matters a ‘natural person’ member might hold up to 10% of all votes and a ‘legal person’ member may hold up to 25% of all votes when deciding on the Assembly of Members of the social co-operative.</p>
Distribution of dividends on share capital	The distribution of any eventual profit made by an institute to individuals is forbidden.	<p>Associations may not be established for profit-making or business activities.</p> <p>Any profit must be used for the purpose, for which the association has been established. No distribution of the eventual profit made by the association to its members is permissible, unless explicitly specified in the bylaws. However, in such a case the association will not be permitted to apply for the Status of Public Benefit and to make use of tax and other benefits related to the Status.</p>	Under conditions specified in the bylaws the members of a social co-operative may share on the distribution of a maximum 33% of the disposable part of the profit made by the social cooperative; this is possible only after proper allocations to the reserve fund and other funds formed from this part of the profit are made, if such funds has been established.
Distribution of reserves	There are no legal provisions regarding establishing a reserve fund for an institute. However, whenever it is engaged in entrepreneurial activities, it is recommendable to have such a reserve funds and rules for its filling from eventual profit specified in the either the Document of Establishment or statute of the institute.	There are no legal provisions regarding establishing a reserve fund for an association. However, whenever it is engaged in entrepreneurial activities, it is recommendable to have such a reserve funds and rules for its filling from eventual profit specified in the bylaws of the association.	No legal provisions regarding reserves although, in general, all business corporations are required to create a mandatory reserve and fill it from profit made to cover possible losses in the next financial year. Thus, the bylaws of the social co-operative should stipulate the establishment of a reserve fund and other possible funds to which there must be appropriated parts of disposable profit (profit after tax and

Legal form	Institute “ústav/z.ú.”	Association “spolek”	Social co-operative “sociální družstvo”
			other mandatory payments).
Allocation of the surplus particularly to compulsory legal reserve funds	There are no explicit requirements to allocate surpluses to compulsory legal reserve funds for an institute. If such funds are established, rules should be as a minimum in the statute of the institute or defined by founders in the Document of Establishment.	There are no explicit requirements to allocate surpluses to compulsory legal reserve funds for an association. If such funds are established, rules should be as a minimum in the bylaws of the association.	The social co-operative is a business corporation and as such it is supposed to make profit and therefore be in risk of a loss. To prevent the insolvency, the reserve fund is required and the bylaws in a part devoted to economy have to define the way and scope in which the disposable profit has to be used to fill the reserve fund of the corporation, alias social co-operative. See also the profit distribution rules.
Distinction dividends/refunds and distribution of refunds	Refunds not applicable for this legal form.	Refunds not applicable for this legal form.	On termination of membership, the member has the right to receive back their initial and eventual additional membership deposits. If this is not possible, the refund is made in a proportional manner. This means that the members of the social co-operative do not have the right to a part of the liquidation balance in excess to what they deposited to the basic capital.
Restrictions on ability to trade	The Institute may be established to pursue any socially or economically beneficial activities as long as the personal or property components of the institute can be used for that purpose.	Economic or commercial activity may be a part of the association’s main activities under two conditions: a) The economic activity is considered as a tool for achieving the main statutory purpose of the	The activities must be only in the scope and for the purpose, for which the social cooperative has been established. This includes any kind of business activity, if it may be attributed to the main purpose of the social co-operative.

Legal form	Institute “ústav/z.ú.”	Association “spolek”	Social co-operative “sociální družstvo”
	<p>This includes explicitly the possibility to run a business unit or otherwise be engaged in profit making activities. Such an activity must not be on detriment of main statutory activities of the institute. Moreover, any eventual profit may be used exclusively to support the purpose, for which the institute has been established or to cover the costs of its administration.</p>	<p>Association, for which it has been established,</p> <p>b) The economic activity is not of such intensity that it could be considered as “comparable with entrepreneurship”, i.e. an activity pursued systematically for the purpose of profit making.</p> <p>Any profit making economic activity or participation in entrepreneurship may be an additional, not the primary, activity of the Association.</p> <p>There are no limits on the establishment of other legal entities on the association’s behalf, if this represents an auxiliary, not primary, activity.</p>	<p>The activities must also be conducted with the preferential use of local resources and to satisfy local needs.</p>
<p>Internal financing (e.g. investment title, member investors, increase in members contributions)</p>	<p>When raising funds by a legal act by which its real property, author rights or industrial rights are either sold or used as a loan warranty, the executive director as a statutory body of the institute before doing so has to obtain previously a consent of the Board of Trustees.</p> <p>The consent of the Board of Trustees is also required, when the institute acquires title to a tangible thing value of which exceeds the minimal value for which a public tender is required by a special law.</p>	<p>An association may raise funds through membership fees as defined in the bylaws or as determined by a body defined in the bylaws.</p> <p>An association can accept grants and donations from its own members.</p> <p>It is not expected from an association to issue bonds or other securities, since these are considered tools of entrepreneurship, for which associations may not be established.</p>	<p>The members of the social co-operative have to pay initial contribution to the capital of the co-operative, as defined by the founding Assembly of Members or an additional deposit, as the further Assembly may decide.</p> <p>The social cooperative may receive grants and donations even from its own members</p>

Legal form	Institute “ústav/z.ú.”	Association “spolek”	Social co-operative “sociální družstvo”
	<p>The Institute may receive grants and donations, including donations in a form of a security or a bond issued by the founders or members of the boards.</p>		
<p>External financing (e.g. banking loans, issuing bonds, specific investment funds) including possibility for non-member investors</p>	<p>The Institute may negotiate bank loans, but may not use its assets or other property as a warranty for such loans.</p> <p>The institute can accept subsidies from public budgets or grants from private foundations, funds and commercial companies, as well as from any other private person or from abroad..</p> <p>The institute may not become a partner with unlimited liability. That prevents institute from issuing bonds and other securities, with such an eventual consequence.</p> <p>There are no explicit regulations prohibiting institute to participate on financial market.</p>	<p>Associations may negotiate bank loans and accept subsidies from public budgets, grants from private foundations, funds and commercial companies or donations from any persons.</p> <p>There are no explicit regulations prohibiting associations to participate on financial market, unless that would be considered an entrepreneurial activity.</p>	<p>The social cooperative is explicitly prohibited to emit bonds, and secure liabilities of other persons.</p> <p>No other restrictions apply. It may participate on financial markets and it may accept subsidies from public budgets or grants from private foundations, funds and commercial companies, as well as donations from any other persons.</p>
<p>Transparency and publicity requirements (and related auditing issues)</p>	<p>The institute must publish annual reports revealing details on its activities and finances.</p> <p>The annual balance sheet and final accounts of the Institute will need to be reviewed by a licenced auditor, if prescribed for in the Document of</p>	<p>In general, associations are not required to file any reports.</p> <p>Associations, when registered with the Status of Public Benefit, will be required to publish annual reports revealing details on activities and economy, including the sum of three</p>	<p>In general, social co-operatives are not required to file any reports.</p> <p>Social co-operatives, when registered with the Status of Public Benefit, will be required to publish annual reports revealing details on activities and economy similar to those of</p>

Legal form	Institute "ústav/z.ú."	Association "spolek"	Social co-operative "sociální družstvo"
	Establishment, or where the net turnover of the Institute exceeds CZK 10 million. The auditor will also review the annual report.	<p>highest annual sums of salaries and remunerations paid to officials or employees. Otherwise, no external audit is required by the law.</p> <p>Note: While the [New] Civil Code provides for basic conditions that a legal entity has to fulfil to receive the Status of Public Benefit, it refers to a special law that should regulate the procedures connected to registration and loss of the Status. However, the Bill on Status of Public Benefit has been refused by the Senate of the Czech Republic Parliament, so that application of the issues related to the Status will become effective only after a new such a bill would pass Czech Government and Parliament. This is realistically expected to take place during 2015.</p>	<p>associations</p> <p>A social co-operative is required to have its annual balance sheet and final accounts audited when using part of its profits to increase its initial capital.</p> <p>In general, the external audit for a cooperative is mandatory, when any two of the following conditions are met:</p> <ul style="list-style-type: none"> a) the sum of active assets exceeds CZK 40 million b) turnover exceeds 80 million c) the number of employees exceeds 50.
Employee involvement systems	Neither the Executive Director, nor any employee of the Institute may be a member of the Board of Trustees or Supervisory Board, or to execute the function of the Inspecting Officer.	There are no legal barriers for enabling the staff to participate in decision making.	<p>A natural person may be a member of the social cooperative only if it is employed by it, or works for it on voluntary basis or is a beneficiary of its activities.</p> <p>Only a member may be on the Board of Directors and other bodies. An employee might have a share on the part of the profit only if he/she is a member.</p>
Distribution of the proceeds of dissolution, liquidation, disinvestment	If an institute was not fulfilling its purpose for a prolonged period of time,	The assembly of an association may decide on voluntary termination of the	The Assembly of Members of the social co-operative may decide on

Legal form	Institute “ústav/z.ú.”	Association “spolek”	Social co-operative “sociální družstvo”
(in particular provision of asset lock)	<p>the territorially competent registering court can decide on termination of the institute after providing a reasonable remedy period of time. A request to the court can be brought by a person with a legal interest in the institute.</p> <p>An institute can follow the two forms of bankruptcy proceedings: insolvency and debts in excess.</p> <p>Potential rescue is possible in two ways: using the classical bankruptcy procedure, and through discharging the debts,</p>	<p>association with liquidation.</p> <p>The court can also dissolve the association with liquidation on request of a person with valid interest, or when</p> <p>a) the association, in spite of being noticed by the court, have been involved in activities banned by the law,</p> <p>b) the association is in business activities violating the rules of non-distribution of the profit to its members or not running the business exclusively as an additional economic activity,</p> <p>c) the association forces third parties to be members; to the participation on its activities or to its support, or preventing its members to terminate their membership.</p> <p>An association can follow the two forms of bankruptcy proceedings: insolvency and debts in excess.</p> <p>Potential rescue is possible in two ways: using the classical bankruptcy procedure, and through discharging the debts.</p>	<p>winding up the social cooperative with liquidation.</p> <p>The court may also dissolve the social cooperative and order its liquidation in the case, when it is engaged in activities violating the requirements of the law, it uses its profit in violation of the law, or does not comply with the condition according to which it may provide as a benefit the housing facility only to its own members for the period of time longer than more than 12 months.</p> <p>According to the Act No. 182/2006 Sb., Insolvency Law, there are distinguished the following two forms of bankruptcy: insolvency and debts in excess.</p> <p>A social cooperative can follow the two forms of bankruptcy proceedings: insolvency and debts in excess.</p> <p>Potential rescue is possible in two ways: using the classical bankruptcy procedure, and via reorganization.</p>
Distribution of the proceeds of dissolution, liquidation, disinvestment (in particular provision of asset lock)	<p>The assets are distributed as provided for in the Document of Establishment of the Institute.</p> <p>If this is not possible, the assets are distributed to an Institute with similar purpose.</p>	<p>The assets are distributed as provided for in the bylaws of the Association.</p> <p>If this is not possible, the assets are distributed to an association with similar purpose.</p>	<p>The assets are distributed to the members of the social cooperative equal to value to their initial contribution. If the rights on shares of the members cannot be satisfied in full, it is done in a proportional manner.</p>

Legal form	Institute “ústav/z.ú.”	Association “spolek”	Social co-operative “sociální družstvo”
Conversion to another form of company	<p>An institute may not change its legal form to anything else then another registered institute.</p> <p>However, the public benefit corporations established before January 1, 2014 may change their legal form into a registered institute, as well as into an endowed foundation or a fund without endowment,</p>	<p>Where the Association is registered with the Status of Public Benefit, the remaining assets must be used exclusively for the publicly beneficial purpose.</p> <p>Association of Citizens established prior to 2014 are required to amend their name within 2 years to comply with the New Civil Code.</p> <p>Moreover, within three years they may either bring their bylaws into compliance with the provisions of the New Civil Code or decide on changing their legal form into either an institute or a social co-operative.</p>	<p>The rest of the assets should be offered to another social cooperative as decided by the assembly of the members.</p> <p>A social co-operative may not change its legal form to anything else then another social co-operative.</p>

Annex 2 Annex: List of Information Sources

A2.1 References

Note to researcher: *Please reference all documents in the Harvard style*

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<http://www.ceske-socialni-podnikani.cz/cz/novinky/810-navrh-na-zpracovani-socialnich-podniku-do-legislativy>

A2.2 List of consultees

Name of the person interviewed	Organisation/ Role	Stakeholder category
1. <i>Petra Francova</i>	<i>People, Planet, Profit</i>	<i>Organisation providing support / Network of social enterprises</i>
2. <i>Karel Rychtar</i>	Union of Czech and Moravian Worker Cooperatives	<i>Sector Representative</i>
3. <i>Svatava Skantova</i>	<i>Ministry of Labour and Social Affairs</i>	<i>Policy Maker</i>
4. <i>Alena Zieglerova</i>	<i>Agency for Social Inclusion</i>	<i>Policy Maker</i>
5. <i>Jiri Novak</i>	<i>Fokus</i>	<i>Organisation providing support / Network of social enterprises</i>
6. <i>Kamila Blazkova</i>	<i>VIA Foundation</i>	<i>Organisation providing support</i>
7. <i>Jana Jurenova</i>	<i>Male Technicke Sluzby / Zelena Dilna / Cluster of social enterprises in Moravskoslezsky region</i>	<i>Social Enterprise / Network of social enterprises</i>
8. <i>Jakub Knezu</i>	<i>Etincelle</i>	<i>Social Enterprise</i>
9. <i>Martin Fojticek</i>	<i>Pracovni Sobota</i>	<i>Social Enterprise</i>
10. <i>Jan Dominik</i>	<i>Domov Sue Ryder</i>	<i>Social Enterprise</i>
11. <i>Sarka Doricakova</i>	<i>Podane Ruce</i>	<i>Social Enterprise</i>