



# **Peer Review on “Social business for people with mental health difficulties”**

**Cyprus, 19-20 June 2018**

**Peer Country Comments Paper – Czech Republic**

## **How do we deal with support to the social economy in the Czech Republic?**

DG Employment, Social Affairs and Inclusion



**EUROPEAN COMMISSION**

Directorate-General for Employment, Social Affairs and Inclusion

Unit C1

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## 1 Introduction

This paper has been prepared for the Peer Review on "Social business for people with mental health difficulties". It provides a comparative assessment of the policy example of the Host Country and the situation in the Czech Republic. For information on the host country policy example, please refer to the Host Country Discussion Paper.

## 2 Situation in the peer country

### 2.1 Brief history and economical situation in the Czech Republic

In comparison to Cyprus, the Czech Republic is a country in central Europe which became an independent state in 1993 after Czechoslovakia split into two countries. This break-up took place four years after the non-violent "Velvet Revolution" which took place in 1989 and abolished the communist government and started a return to market economy and parliamentary democracy. We have had good economic and political relations with Slovakia since then.

Today, the country is a developed, small and highly open economy. In 2016, Gross Domestic Product (GDP) was EUR 177 billion<sup>1</sup> (CZK 4 773 billion) and about EUR 16 733 per capita (CZK 451 785). In this perspective, the Czech economy still lags behind the most advanced economies, reaching approximately 80% of the EU average, but is doing pretty well in comparison to regional peers and is similar to Cyprus.

However, the total unemployment rate in the Czech Republic is now approximately 2.5 %, which is one of the lowest in the EU, in contrast to quite high level of unemployment in Cyprus.

Employment support for people with mental disabilities is regulated by relevant legislation. There is no distinction as to which type of disability is involved. The support is aimed at persons who are recognized by the Czech social security institution as disabled. A grading scale of levels 1, 2 or 3 is used, or alternatively they are recognized legally as the so called „persons with health disadvantages“. When a person is recognized as a person with a disability, the following supportive tools are applicable:

- Financial contribution towards setting up a job for a disabled person
- Contribution towards covering operating costs incurred in connection with employment of a disabled person
- Contribution provided to employers on a protected employment market
- Obligation to employ people with disabilities
- Income Tax Discount

According to the Czech Statistical Office, 103,600 people with disabilities are employed in the Czech Republic. The data on employment and economic activity of persons with disabilities are not disaggregated according to individual types of disability.

The Czech Republic is nonetheless characterised by relatively high entrepreneurial activity, increasing among the younger generation, but has declining tendency among women and the unemployed. Moreover, entrepreneurship is supported by the Government through the Small and Medium-sized Enterprise (SME) Support Strategy 2014-2020 which focuses notably on SMEs, which represent more than 1 million economic entities in the Czech Republic (i.e. 99.84% of all businesses). A number of citizens are however sceptical towards entrepreneurs' contribution to the improvement of socio-economic conditions due to, among other things, the frequent incidents of corruption connecting politics and business.

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<sup>1</sup> when using the exchange rate 27 CZK/1 EUR

### 3 Assessment of the policy measure

#### 3.1 Current situation in the field of social economy

The definition of social enterprises is fairly problematic in the Czech Republic, such as in other European countries, including Cyprus. There was a significant bottom-up origin of social enterprises and civil society organisations played a pivotal role in this, working in cooperation with the Ministry of Labour and Social Affairs (MoLSA). Nowadays, this situation has changed and approximately half of the existing social enterprises have a commercial origin. These contrasting results confirm the difficult and unclear situation and capture the variety of social enterprise types and their relative weight.

A further difficulty is the lack of a legal definition. The policy debate is still characterised by the misuse of concepts (i.e. social economy, social entrepreneurship and social enterprise). The Thematic Network for Social Economy (TESSEA) played a key role in supporting a conceptual clarification by developing a definition of social enterprise<sup>2</sup> that is accepted by a broad range of stakeholders in the Czech Republic.

Nowadays, the role of this network is not that clear anymore and local or regional networks are being established. Specificities of social enterprises continue to be poorly understood, with a tendency to recognise only specific types of social enterprises (mostly Work Integration Social Enterprise- WISEs).

Social enterprises in the Czech Republic can adopt various legal forms that are not originally meant for them, namely associations, Public Benefit Companies and Limited Liability Companies:

- **Limited Liability Company (LLC)**, legally defined in the Business Corporations Act, may be created with an aim other than doing traditional business. It is the most common form of the social enterprise in the Czech Republic. Many NGOs choose this legal form when they want to establish a separate legal body for their economic activities. These LLCs are better perceived by banks that are more likely to grant a loan to a commercial company. Nowadays, establishing such a company represents a considerable cost, but it is not anymore a time-consuming process. Activities of LLCs are not subject to tax benefits applicable in the non-profit sector.
- **An Association**, which is the most common form of non-profit organisations in the Czech Republic, can also do business. Profits earned are used to help achieve the association's goals.
- **Institute** is a type of legal entity which aims to provide publicly beneficial services under specific conditions: profits gained must be reinvested into the provision of those services; services provided should be affordable for beneficiaries; the company can accept funding from the state and private sources. Institutes were called Public Benefit Companies in the past.
- **The social co-operative** is the only dedicated legal form for social enterprises, introduced in the Czech Republic in 2014, but still perceived as relict of the communist regime. Social co-operatives are defined in the Commercial Corporations Act (2012) as a "co-operative that is pursuing beneficial activities to promote social cohesion through work and social

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<sup>2</sup> principles of social enterprises:

a. The workforce should be made up of at least 30% disadvantaged individuals; only written employment contracts are acceptable.

b. Relations in a social enterprise aim at the highest possible participation of employees and members in strategic decision making and strengthening of social cohesion.

c. Profit should be used for the development of a social enterprise or publicly beneficial aims and not distributed to shareholders and a minimum of 51% should be reinvested into the social enterprise.

d. Social enterprise satisfies preferentially local needs and utilises preferentially local resources, takes part in local initiatives and partnerships and contributes to local development. This principle was widened and took into account environmental aspects.

integration of disadvantaged people in society, prioritising the satisfaction of local needs and utilisation of local resources". A social co-operative has to specify its social mission and rules of profit-distribution in its statutes (e.g. maximum 33% of the profits can be redistributed to its members; assets can only be transferred to another social co-operative).

Unfortunately, there are no advantages linked to this legal form. There is still a lack of experience and information regarding the use of this new legal form and the number of social co-operatives that have been created is so far very low.

### 3.2 A long history of legislation

The previous Government decided to provide a legal framework for social enterprises, acknowledging their rising importance in the Czech socio-economic context, but did not reach their goal during the election period.

Despite quite lively policy debate and interest of researchers (sometimes even policymakers) social enterprises are still rather invisible. The key reason is that social enterprises continue to be misunderstood by the public. In the Czech Republic lots of emphasis is placed on WISEs and very little attention is paid to the organisations that manage to institutionalise community engagement and pursuing general-interest goals. Those are mainly established by youngsters (students, millennials).

The establishment of a regulatory framework for social enterprises can be one feature of their recognition, which will define the social aims to be fulfilled, fields of engagement and the characteristics that enterprise must possess, thereby safeguarding the general interest. However, the laws introduced in most EU member countries do not seem to have succeeded in their intent to support the growth of the sector to a significant extent. This said, drawing on the lessons learned from other EU member countries that have a longer social enterprise history, the commitment and aim should be towards introducing a comprehensive legal framework that manages to capture and regulate the different types of social enterprises that operate in a wide set of domains of general interest.

In the Czech Republic the **Office of the Government, along with two Ministries (MOLSA and Ministry of Investment and Trade, MIT)**, are **working on a Draft Law on Social Entrepreneurship**. According to the legislative plan of the Czech Government, the law was **expected to come into force in April 2018** (postponed with no specific date). The drafting of the law took into consideration the results of a study analysing the legislation for WISEs in other EU countries prepared by experts of the Union of Czech and Moravian Production Co-operatives (RAVL, 2013), along with extensive analyses of legal regulations in many EU countries. The purpose of the law is to:

- Define the social enterprise, including WISEs
- Establish a register for social enterprises. This body will be assigned by MoLSA and will supervise the fulfilment of obligations of social enterprises that are registered.
- So as we understood, goals of the law are pretty much the same as in Cyprus. It will be an umbrella law that will cover all legal forms of social enterprises, it will set the characteristics that a social enterprise must fulfil, and determine the method of checking rules leading to the acquisition, and consequently loss of social enterprise status. **The Law** will not enforce any legal claims on benefits or preferential treatment but it **will allow ministries to provide departmental support** to sustain social enterprises **and will enable other laws to react to it and incorporate advantages for social enterprises**. Currently there is no preferential treatment (fiscal or tax) of social enterprises.

The Office of the Government established a steering group that consists of representatives of the central Government and a working group comprising



stakeholders, including representatives from social enterprises and experts from various support structures.

A widely discussed issue was the role of municipalities in social entrepreneurship and whether municipalities can be social enterprises or have a majority ownership interest. A decision was made to preserve the independence of social enterprises and not to allow municipalities to have a majority.

The last but not least part of the law focuses on the co-ordination and support the relevant policy actions. The Government assigns MoLSA an advisory, active and co-ordinating role in the area of social entrepreneurship. MoLSA will prepare a draft of the strategy for the development of social enterprise that will be approved by the Government, and consult and initiate bills that influence social entrepreneurship. The Government will submit an annual report on the development of social entrepreneurship and the effectiveness of benefits. According to this strategy, social enterprises will be supported by the activities of financial, advisory and training organisations. Regional authorities are entitled to plan, finance and implement policies to support social entrepreneurship in their region.

The areas of support should cover a range of activities including investment and operating finances for social enterprises, training, research and networking. The benefits also include preferential public procurement rules, state financial support and possible fiscal advantages. Suggested forms of support might be grants, benefits, guarantees, preferential loans (including micro-loans), reductions of taxes and fees and preferential treatment in public procurement. The main instruments of support include information, training, consultancy and finance. Support is expected to be provided by the following: MoLSA, MIT, the Ministry of Finance and other ministries; regional and local authorities and public contracting authorities.

By recognising two types of social enterprises: (1) general social enterprises and (2) integration social enterprises, the draft law – which is in line with the EU Social Business Initiative, adopts a comprehensive approach, which is expected to further develop social enterprises in a wide spectrum of fields.

### **3.3 Access to market and finance**

Social enterprises are usually dependant on a mix of revenues, from private sources (e.g. sale of goods and services to other business and end consumers, membership fees, sponsorship and donations) and public sources (e.g. public contracting, grants and subsidies).

Considering their specific characteristics (social aim, hybrid business models, specific governance), social enterprises are facing difficulties in accessing finance from the mainstream financial sector. Moreover, social enterprises do not only find it difficult, but are sometimes excluded from access to mainstream public support schemes aimed at SMEs in general. Finally, social investment markets, specialist investors and intermediaries are not yet well developed in the Czech Republic, in comparison to Western Europe. To this end, governments can play a key role in designing dedicated financial instruments for social enterprises. Considering the Cyprus situation, the aim of the law seems pretty much the same, including the access to finance.

### **3.4 Usage of European Structural funds**

The wide European experience has proven that the use of Structural Funds to promote and support a specific field usually falls under the responsibility of different public actors. We made the same experience in the past years in the Czech Republic. There are a significant number of stakeholders, including public, regional and private authorities,

who are directly or indirectly involved in promoting the development of social enterprises in the Czech Republic.

**In previous programming period**, the idea to set up a grant scheme for establishing social enterprises appeared in 2005 in the NGO sector and more formally in 2006 in the National Thematic Network for Social Economy that was established under the EQUAL initiative. In 2009, MoLSA announced two calls for proposals, in the form of global grants to support the social economy. Each call was from another OP - the Human Resources and Employment Operational Programme (ESF) and the Integrated Operational Programme (ERDF) – it was the first time that a combination of two funds was approved in the Czech Republic. Similar projects were submitted simultaneously to both calls. These two calls were linked so that applicants could gain support for both: the investment and the non-investment part (such as salaries, marketing costs, etc) of their business plans. The aim was as the following: the inclusion of disadvantaged people into the labour market, the establishment and development (growth) of social enterprises and finding a suitable social enterprise model for the Czech Republic. These were the only calls for proposals in the Czech Republic focusing exclusively on social enterprises and their existence and it was with no doubt a major boost for social entrepreneurship in the Czech Republic. It helped to move forward with the establishment of the sector, ensured a learning process for all stakeholders, mostly for MoLSA, raised awareness of the government to social entrepreneurship and created new partnerships between stakeholders. All the actions brought growing number of existing examples of a good practice.

Table 1. Budget of global grants to support the social economy from 2009 to 2013

	Original allocation	Changed allocation	Used
ESF	9.952.079 EUR	16.731.432 EUR	15.783.939 EUR
ERDF	8.811.346 EUR	2.937.766 EUR	5.560.000 EUR

On the other hand, we slowly made social enterprises dependant on grant support and also the implementation of the joint grant schemes did not work well, ESF and ERDF global grants worked in discrepancy (there were two sets of complicated administrative rules for each global grant, ERDF being more difficult than ESF). The main failure was connected to the Support Structure Project. It is proven that a support structure providing help to both applicants and beneficiaries would have been extremely useful in facilitating the uptake of grants. This was especially relevant in the Czech context where there was a low level of understanding of the social entrepreneurship notion and limited experience. However, the Support Structure Project came too late, even though its aim was fairly good; to support the development of social entrepreneurship by establishing a network of local consultants and experts/coaches to help existing and future employers who want to set up a social enterprise. As well as consultations, study visits to social enterprises and a piloting of two sets of indicators for general social enterprises and WISEs were also offered.

We tried to take the lessons learned seriously **in the current programming period**, but it happened just partially. Support is now provided by several calls for proposals and a Support Structure Project is there from the beginning. Calls are from two OPs (20 million EUR each) – the Employment Operational Programme (ESF) and the Integrated Regional Operational programme (ERDF) – Managing authorities of Operational Programmes (MA OPs) are from different ministries (MoLSA and Ministry of Regional Development, MRD). There was a close link between OPs planned. The original idea of

a flexible coordination between the ERDF and ESF schemes faded and MRD no longer plans any further call to support the social economy.

**We are now at the beginning of the process to pilot the financial instruments to support social enterprises.** Historically, support came largely from public sources, using relatively unsophisticated financial instruments. This has led to a low capacity of social enterprises in accessing private finance, and a low level of interest from financial institutions in developing tailor-made products. We learnt that grant funding is crucial in the start-up phases of social enterprise. However, it is not a reliable source of long-term funding, and might be even a barrier to the sustainability and growth of the sector. A transition towards commercial finance requires the parallel development of dedicated instruments and tools that are able to face difficulties that social enterprises have in securing risk-taking growth/expansion capital. The managing authorities may use EU funds (ESIF and EaSI) to design the appropriate mix of financial tools. These include early stage funding (grants), repayable financial instruments (loans and guarantees), as well as more sophisticated ones (revolving funds, equity and quasi-equity support etc.).

We finished the ex-ante analysis of the possibility to support social enterprises through financial instruments under ESF, which showed that the regular financial market is not ready to support social entrepreneurship and recommended preferential loans as a best tool to start with. We are now awaiting the new OMNIBUS regulation<sup>3</sup>, where the question is related to the possibility of direct award of a public contract in the context of implementation of financial instruments to a publicly-owned bank or a financial institution subject directly without a call for tender. Wish us luck ☺

## **4 Assessment of success factors and transferability**

### **4.1 Dealing with non-developed sector**

Considering the legislation, in the Czech Republic, we are promoting the ongoing support to social economy (social enterprises as well as support structures and possible future entrepreneurs), despite the missing law. This might enlarge the variety of definitions of social economy, but the support, even from the various EU funds, is possible and eligible.

The combination of ESF and ERDF is considered to be useful for social enterprises in the early stage of development. But there might be difficulties to manage mirror calls effectively on the side of Managing Authorities and administrators – so do not underestimate agreements and strong political will! However, mirror calls are good tool for countries with a less developed social economy sector rather than the countries with a long social economy tradition.

Social enterprises in the Czech Republic focus on vulnerable people, not particularly on specific target groups. People with mental health disabilities are one of the most tough target group, as they need special care and ongoing support (sociotherapist, psychologist, tailored workflow etc.). Due to these specifics, we still have quite a limited number of projects with that target group. For example, Modrý domeček (provides catering services and operates its own café), Prádelna Dělníci (laundry services) or Green doors (several cafés, closely connected to Prague largest mental hospital).

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<sup>3</sup> The new OMNIBUS regulation on the use of EU budget should allow Member States to use its development bank to promote financial instruments. The Member State should do this (according to the regulation) directly, without need for a tender.

## 5 Questions

You should focus on the following in particular:

- Promote the concept of social enterprise widely – hopefully the upcoming law will help to fulfil that goal, but raise awareness about the specificities of social enterprise not only at the national, but also at regional and local levels
- Prepare and follow consistent policy strategies and do not underestimate relationship among public entities at different levels
- Create a consistent legal and regulatory environment – do not change it each and every year!
- Try to gradually improve the access to finance – different tools from different sources (public, private), do not forget the EU funds

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## **Annex 1 Summary table**

The main points covered by the paper are summarised below.

### **Situation in the peer country**

- Independent state
- GDP
- Unemployment in the Czech Republic
- Entrepreneurial activity

### **Assessment of the policy measure**

- Situation in the field
- Legal forms
- Law making
- Access to financial markets
- Usage of the EU funds

### **Assessment of success factors and transferability**

- Legislation
- Combination of funds
- People with mental health problems

### **Questions**

- Clear concept
- Specific law and consistent strategy
- Financial instruments and support

## Annex 2 Example of relevant practice

Name of the practice:	Fair & Bio Cooperative Coffee Roastery
Year of implementation:	2013 – 2015
Coordinating authority:	Ministry of Labour and Social Affairs (co-financed from ESF and ERDF)
Objectives:	Integration people with mental health problems into the labour market in the social enterprise of WISE type.
Main activities:	Roasting fair trade and organic coffee and integration of people with mental health problems and disabilities into the society through employment.
Results so far:	<p>The Fair &amp; Bio Cooperative Coffee Roastery was launched in 2013 as a unique social enterprise combining principles of social sustainability (integration of the handicapped into the job market and raising awareness on the issues) and environmental sustainability (organic coffee) together with the principles of decent work (fair trade in the countries of the Global South with the support of the local economy in the Czech Republic).</p> <p>In general the practice of employing people with mental health problems has proven to be better than it had been predicted. In fact, there has been more difficulties with employees without any mental health problems. People with mental health problems, provided the work place and atmosphere is adequately adjusted, have the tendency to be stable and are able to build their capacities within their limits to become loyal, long-term workers. Among the limits are emotional, physical and other relevant aspects that have to be taken into the account. There is also a tendency to be more often on sick leave, especially in the times of more stress and pressure at work.</p> <p>Luckily, there was a partner from the beginning, a former mental health institution, Vyšší Hrádek, that was integrating their clients into a community-based form of housing. It provided a lot of support with the specifics of the forms of disabilities Fair &amp; Bio employees were dealing with.</p> <p>In 2013, there were 4 handicapped (with part time job of 0,4 or 0,75) and 3 other employees. Nowadays in 2018 there are 2 managers, 2 cooperative members collaborating as experts and 7 people with mental health problems.</p> <p>Since 2016 Fair &amp; Bio is in black numbers, however there are still some (friendly – i.e. the cooperative member provided the money without interest) loans to be paid off by the end of the year 2018.</p>

	<p>There has been a financial support for employing people with mental health problems from the Ministry of Labour and Social Affairs, however Fair &amp; Bio doesn't aim for another ESF fund support yet as its goal is to be a socially, environmentally and economically sustainable good practice example of social solidarity economy.</p> <p>The prospects of Fair &amp; Bio Cooperative is to continue promoting the principles of social entrepreneurship in the Czech Republic, combining them with environmental sustainability and democratic way of doing business (cooperative principles).</p>
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